
U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. 1

Post-Effective Amendment No.

SARATOGA INVESTMENT CORP.

(Exact Name of Registrant as Specified in Charter)

535 Madison Avenue
New York, New York 10022
(Address of Principal Executive Offices)

(212) 906-7800
(Registrant's Telephone Number, Including Area Code)

Christian L. Oberbeck
Chief Executive Officer
Saratoga Investment Corp.
535 Madison Avenue
New York, New York 10022
(Name and Address of Agent for Service)

COPIES TO:
Steven B. Boehm, Esq.
Harry S. Pangas, Esq.
Sutherland Asbill & Brennan LLP
700 Sixth Street, NW, Suite 700
Washington, DC 20001
Tel: (202) 383-0100
Fax: (202) 637-3593

Approximate date of proposed public offering:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee(1)
Common Stock, \$0.001 par value per share(2)(3)		
Preferred Stock, \$0.001 par value per share(2)		
Subscription Rights(2)		
Debt Securities(4)		
Warrants(5)		
Total(6)	\$50,000,000	\$6,440(7)

- (1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this Registration Statement.
- (2) Subject to Note 6 below, there is being registered hereunder an indeterminate number of shares of common stock, preferred stock, subscription rights to purchase shares of common stock or warrants to purchase shares of our common stock, as may be sold, from time to time.
- (3) Subject to Note 6 below, includes such indeterminate number of shares of common stock as may, from time to time, be issued upon conversion or exchange of other securities registered hereunder, to the extent any such securities are, by their terms, convertible or exchangeable for common stock.
- (4) Subject to Note 6 below, there is being registered hereunder an indeterminate number of debt securities as may be sold, from time to time. If any debt securities are issued at an original issue discount, then the offering price shall be in such greater principal amount as shall result in an aggregate price to investors not to exceed \$50,000,000.
- (5) Subject to Note 6 below, there is being registered hereunder an indeterminate number of warrants as may be sold, from time to time.
- (6) In no event will the aggregate offering price of all securities issued from time to time pursuant to this Registration Statement exceed \$50,000,000.
- (7) Previously paid.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. The securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED DECEMBER 5, 2014



**Common Stock
Preferred Stock
Subscription Rights
Debt Securities
Warrants**

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

We may offer, from time to time, in one or more offerings or series, up to \$50,000,000 of our common stock, preferred stock, subscription rights to purchase shares of our common stock, debt securities, and warrants representing rights to purchase shares of our common stock, preferred stock or debt securities, which we refer to, collectively, as our "securities." The preferred stock, subscription rights, warrants and debt securities offered hereby may be convertible or exchangeable into shares of our common stock. The securities may be offered at prices and on terms to be described in one or more supplements to this prospectus.

Absent approval by the majority of our common stockholders, the offering price per share of our common stock less any underwriting commissions or discounts will not be less than the net asset value per share of our common stock at the time we make the offering unless we issue shares in connection with a rights offering to our existing stockholders or under such other circumstances as the SEC may permit. On September 30, 2014, our common stockholders voted to allow us to sell or otherwise issue the Company's common stock at an offering price per share to investors that is not less than 85% of the Company's then current net asset value per share for a period ending on the earlier of our next annual meeting of shareholders or September 30, 2015. In addition, we cannot issue shares of our common stock below net asset value unless our Board of Directors determines that it would be in our and our stockholders' best interests to do so. Sales of common stock at prices below net asset value per share dilute the interests of existing stockholders, have the effect of reducing our net asset value per share and may reduce our market price per share. In addition, continuous sales of common stock below net asset value may have a negative impact on total returns and could have a negative impact on the market price of our shares of common stock. See "Sales of Common Stock Below Net Asset Value."

Our securities may be offered directly to one or more purchasers, or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to an offering will identify any agents or underwriters involved in the sale of our securities, and will disclose any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See "Plan of Distribution." We may not sell any of our securities through agents, underwriters or dealers without delivery of this prospectus and a prospectus supplement describing the method and terms of the offering of such securities.

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "SAR." On December 4, 2014, the last reported sales price on the NYSE for our common stock was \$15.05 per share. We are required to determine the net asset value per share of our common stock on a quarterly basis. Our net asset value per share of our common stock as of August 31, 2014 was \$22.27.

[Table of Contents](#)

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

This prospectus and any accompanying prospectus supplement contain important information about us that a prospective investor should know before investing in our securities, and will collectively constitute the prospectus for each offering of our securities hereunder. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The information on our website is not incorporated by reference into this prospectus or any accompanying prospectus supplement, and you should not consider that information to be part of either. The SEC also maintains a website at www.sec.gov that contains such information.

As of June 3, 2014, the aggregate market value of our outstanding common stock held by non-affiliates, or the public float, was approximately \$40 million which was calculated based on 2,653,227 shares of outstanding common stock held by non-affiliates and on a price per share of \$15.16, the closing price of our common stock on June 3, 2014. Pursuant to certain SEC rules, in no event will we sell our securities in a public primary offering with a value exceeding more than one-third of our public float in any 12-month period so long as our public float remains below \$75.0 million. We have not offered any securities pursuant to the SEC rules noted above during the 12 calendar months prior to and including the date of this prospectus.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “[Risk Factors](#)” beginning on page 22 of this prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is _____, 2014

[Table of Contents](#)

You should rely only on the information contained in this prospectus. We have not authorized any dealer, salesperson or other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus is not an offer to sell, or a solicitation of an offer to buy, any securities by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information in this prospectus is accurate only as of the date of this prospectus, and under no circumstances should the delivery of this prospectus or the sale of any securities imply that the information in this prospectus is accurate as of any later date or that the affairs of Saratoga Investment Corp., have not changed since the date hereof or thereof. Our business, financial condition, results of operations and prospectus may have changed since then. We will update the information in this prospectus to reflect material changes only as required by law.

Table of Contents

	Page
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	22
Use of Proceeds	43
Ratio of Earnings to Fixed Charges	43
Note about Forward-Looking Statements	44
Price Range of Common Stock and Distributions	45
Dividend Reinvestment Plan	49
Management's Discussion and Analysis of Financial Condition and Results of Operations	51
Senior Securities	80
Business	81
Our Portfolio Companies	93
Management Agreements	97
Management	105
Portfolio Management	113
Certain Relationships and Related Transactions	114
Control Persons and Principal Stockholders	114
Regulation	117
Material U.S. Federal Income Tax Considerations	123
Determination of Net Asset Value	128
Sales of Common Stock Below Net Asset Value	131
Description of Our Capital Stock	137
Description of Our Subscription Rights	143
Description of Our Debt Securities	145
Description of Our Warrants	159
Plan of Distribution	161
Brokerage Allocation and Other Practices	163
Custodian, Transfer and Dividend Paying Agent and Registrar	163
Legal Matters	163
Independent Registered Public Accounting Firm	163
Available Information	163
Privacy Notice	164
Index to Consolidated Financial Statements	F-1

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that is important to you. You should read carefully the more detailed information set forth under “Risk Factors” and the other information included in this prospectus. Unless otherwise noted, the terms “we,” “us,” “our,” the “Company” and “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries, Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are issued by companies with below investment grade or “junk” ratings or, if not rated, would be rated below investment grade or “junk” and, as a result, carry a higher risk of default. Leveraged loans also have the benefit of first or second lien security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. As of August 31, 2014, 41.9% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. In addition, 62.2% of our debt investments at August 31, 2014 had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of August 31, 2014, we had total assets of \$247.2 million and investments in 39 portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of \$20.1 million as of August 31, 2014. Our overall portfolio composition as of August 31, 2014 consisted of 11.3% of syndicated loans, 48.9% of first lien term loans, 12.4% of second lien term loans, 10.6% of senior secured notes, 2.5% of

unsecured notes, 8.5% of subordinated notes of Saratoga CLO and 5.8% of common equity. As of August 31, 2014, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately 12.2%. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders and, among other things, is calculated before the payment of our fees and expenses. As of August 31, 2014, approximately 99% of our first lien debt investments, which comprises 48.9% of our portfolio, were fully collateralized in the sense that the portfolio companies in which we held such investments had an asset coverage equal to or greater than the principal amount of the related debt investment. Even though these loans are fully collateralized as is the case with all of the liens on our debt investments, there can be no assurance that the value of collateral will be sufficient to allow the portfolio company repay our first lien debt investments in the event of its default on our investment.

Saratoga CLO is an exempted company with limited liability incorporated under the laws of the Cayman Islands, which was established to acquire or participate in U.S. dollar-denominated corporate debt obligations. Saratoga CLO has issued various tranches of senior notes, held by numerous investors, and one tranche of subordinated notes, held entirely by us. As we own 100% of the subordinated notes issued by Saratoga CLO, which is junior to all of its other outstanding indebtedness, we are deemed to hold 100% of the equity interests in Saratoga CLO for tax purposes. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at August 31, 2014, was composed of \$304.4 million in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO or losses otherwise incurred by Saratoga CLO, including its incurrence of operating expenses in excess of its operating income. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility” for information regarding the general risks related to our investment in Saratoga CLO. Although we believe that we have observed and will observe certain formalities and operating procedures that are generally recognized requirements for maintaining our separate existence and that our assets and liabilities can be readily identified as distinct from those of Saratoga CLO, there can be no assurance that a bankruptcy court, in the exercise of its broad equitable powers, would not order that our assets and liabilities be substantively consolidated with those of Saratoga CLO in connection with a bankruptcy proceeding involving us or Saratoga CLO, including for the purposes of making distributions under a plan of reorganization or liquidation. Substantive consolidation means that our assets are placed in a single bankruptcy estate with those of Saratoga CLO, rather than kept separate, and that the creditors of Saratoga CLO have a claim against that single estate (including our assets), as opposed to retaining their claims against only Saratoga CLO. See “Risk Factors—In the event that a bankruptcy court orders the substantive consolidation of us with Saratoga CLO, the creditors of Saratoga CLO, including the holders of \$304.4 million aggregate principal amount of debt, as of August 31, 2014, issued by Saratoga CLO, would have claims against the consolidated bankruptcy estate.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

Saratoga Investment Advisors

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with 26, 24, 27 and 17 years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a 28-year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are issued by companies with below investment grade or “junk” ratings or, if not rated, would be rated below investment grade or “junk” and, as a result, carry a higher risk of default. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

In general, at least 70% of a BDC’s assets must be comprised of the type of assets that are listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets. Qualifying assets are generally securities of U.S. private operating companies, or listed operating companies with an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million. As of August 31, 2014, with the exception of our investment in the subordinated notes of Saratoga CLO, all of our equity and debt investments constituted qualifying assets under the 1940 Act. While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors’ investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser’s investment process generally includes the following steps:

- **Initial screening.** A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed.

- Comprehensive analysis. A comprehensive analysis includes:
 - Business and Industry analysis—a review of the company’s business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
 - Company analysis—a review of the company’s historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects. The Company considers the ability of each portfolio company to continue to make payments in an atmosphere of rising interest rates as a component of its overall diligence and monitoring process. In this regard, the Company regularly receives projections from its portfolio companies and models future performance for them in connection with its valuation process, taking into account changes in interest rates on the portfolio companies. Notwithstanding the foregoing, there can be no assurances that the portfolio companies will be able to meet their contractual obligations at any or all levels of increases in interest rates.
 - Structural/security analysis—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- Approval of the investment committee. The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company’s ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Risk Factors

Investing in us involves significant risks. The following is a summary of certain risks that you should carefully consider before investing in us. For a further discussion of these risk factors, please see “Risk Factors” beginning on page 21.

Risks Related to Our Business and Structure

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.
- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.
- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of our securities.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in our securities.
- Saratoga Investment Advisors’ liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level federal income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.
- Our ability to enter into transactions with our affiliates is restricted.
- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.

- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.
- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.

Risks Related to Our Common Stock

- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- The issuance of subscription rights, warrants or convertible debt that are exchangeable for our common stock will cause your economic interest and voting power in us to be diluted as a result of our offering of any such securities.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.

Recent Developments

On September 17, 2014, we entered into a second amendment to our senior secured revolving credit facility with Madison Capital Funding LLC to, among other things, (1) extend the commitment termination date from February 24, 2015 to September 17, 2017; (2) extend the maturity date of the credit facility from February 24, 2020 to September 17, 2022 (unless terminated sooner upon certain events); (3) reduce the applicable margin rate on base rate borrowings from 4.50% to 3.75%; (4) reduce the applicable margin rate on LIBOR borrowings from 5.50% to 4.75%; (5) reduce the floor on base rate borrowings from 3.0% to 2.25%; and (6) reduce the floor on LIBOR borrowings from 2.0% to 1.25%.

On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which the Company would begin to pay a regular quarterly cash dividend to shareholders. We declared our first dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

Also on September 24, 2014, we adopted a new dividend reinvestment plan (“DRIP”) that provides for the reinvestment of dividends on behalf of our stockholders, unless a stockholder has elected to receive dividends in cash. As a result, if we declare a dividend, stockholders who have not “opted out” of the DRIP by the dividend record date will have their dividend automatically reinvested into additional shares of our common stock. We have the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator. Newly-issued shares will be issued at a price equal to 95% of the average of the market prices of our common stock at the close of trading on the 10 trading days immediately preceding and ending on the date fixed by our board of directors for the payment of the dividend. If shares are purchased in the open market to satisfy the DRIP requirements, they will be issued at a price based upon the average price of the applicable shares purchased by the DRIP plan administrator, before any associated brokerage or other costs. Stockholders who receive distributions in the form of our common stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash, and will need to pay any such taxes from other sources in light of the fact that their distributions will be reinvested in additional shares of the Company’s common stock. See “Dividend Reinvestment Plan” for a description of the plan and information on how to “opt out” of the plan.

In addition, on September 24, 2014, our board of directors approved an open market share repurchase plan that allows us to repurchase up to 200,000 shares of our common stock at prices below net asset value per share as reported in our most recently filed financial statements. Shares may be purchased in the open market, including through block purchases, at the discretion of our management. The share repurchase plan does not obligate us to acquire any specific number of shares. Unless extended by our board of directors, the share repurchase plan will expire on October 15, 2015, and may be limited or terminated at any time without prior notice.

Corporate History and Information

We commenced operations on March 23, 2007 as GSC Investment Corp. and completed an initial public offering (“IPO”) of shares of our common stock on March 28, 2007. From the date we commenced operations until July 30, 2010, we were 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 to replace GSCP (NJ), L.P. as our investment adviser and changed our name to Saratoga Investment Corp.

The recapitalization transaction consisted of (i) the private sale of 986,842 shares of our common stock for \$15 million in aggregate purchase price to Saratoga Investment Advisors and certain of its affiliates and (ii) the

entry into a senior secured revolving credit facility with Madison Capital Funding LLC (“Madison Capital Funding”). We used the net proceeds from the private sale of shares of our common stock and a portion of the funds available to us under the 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 AG, New York Branch. Specifically, in July 2009, we had exceeded permissible borrowing limits under the revolving securitized credit facility with Deutsche Bank, which resulted in an event of default under the revolving securitized credit facility. As a result of the event of default, Deutsche Bank had the right to accelerate repayment of the outstanding indebtedness under the revolving securitized credit facility and to foreclose and liquidate the collateral pledged under the revolving securitized credit facility. The revolving securitized credit facility with Deutsche Bank was terminated in connection with our payment of all amounts outstanding thereunder on July 30, 2010. In January 2011, we registered for public resale by Saratoga Investment Advisors and certain of its affiliates the 986,842 shares of our common stock issued to them in the recapitalization.

On March 28, 2012, our wholly-owned subsidiary, Saratoga Investment Corp SBIC, LP, received an SBIC license from the SBA.

Our corporate offices are located at 535 Madison Avenue, New York, New York 10022. Our telephone number is (212) 906-7800. We maintain a website on the Internet at www.saratogainvestmentcorp.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

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 the Management Agreement with us, and that the termination of the 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.

THE OFFERING

We may offer, from time to time, up to \$50,000,000 of our securities, on terms to be determined at the time of the offering. Our securities may be offered at prices and on terms to be disclosed in one or more prospectus supplements.

Our securities may be offered directly to one or more purchasers by us or through agents designated from time to time by us, or to or through underwriters or dealers. The prospectus supplement relating to the offering will disclose the terms of the offering, including the name or names of any agents or underwriters involved in the sale of our securities by us, the purchase price, and any fee, commission or discount arrangement between us and our agents or underwriters or among our underwriters or the basis upon which such amount may be calculated. See “Plan of Distribution.” We may not sell any of our securities directly or through agents, underwriters or dealers without delivery of a prospectus supplement describing the method and terms of the offering of our securities.

Set forth below is additional information regarding the offering of our securities:

Use of proceeds

We intend to use substantially all of the net proceeds from the sale of our securities to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. Reducing our borrowings may include the repurchase of certain debt instruments that could provide us with a net gain on extinguishment of debt, and increase certain fees payable to our investment adviser. See “Use of Proceeds.”

Investment Advisory and Management Agreement

Saratoga Investment Advisors serves as our investment adviser. Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment advisor in July 2010. Subject to the overall supervision of our board of directors, Saratoga Investment Advisors manages our day-to-day operations and provides investment advisory and management services to us. Under the terms of an investment advisory and management agreement, Saratoga Investment Advisors:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- determines the securities and other assets that we purchase, retain or sell.

Pursuant to the investment advisory and management agreement with Saratoga Investment Advisors, we pay Saratoga Investment Advisors a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee.

The base management fee is paid quarterly in arrears, and equals 1.75% per annum of our gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and calculated at the end of each fiscal quarter based on the average value of our gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) as of the end of such fiscal quarter and the end of the immediate prior fiscal quarter. Base management fees for any partial month or quarter are appropriately pro-rated.

The incentive fee has the following two parts:

The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding fiscal quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock or debt security, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less liabilities) at the end of the immediately preceding fiscal quarter, is compared to a “hurdle rate” of 1.875% per quarter (7.5% annualized), subject to a “catch up” provision. The base management fee is calculated prior to giving effect to the payment of any incentive fees.

We pay Saratoga Investment Advisors an incentive fee with respect to our pre-incentive fee net investment income in each fiscal quarter as follows: (A) no incentive fee in any fiscal quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (B) 100.0% of our pre-incentive fee net investment income with respect to that portion of such 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) is payable to Saratoga Investment Advisors; and (C) 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized). We refer to the amount specified in clause (B) as the “catch-up.” The “catch-up” provision is intended to provide Saratoga Investment Advisors with an incentive fee of 20.0% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 2.344% in any fiscal quarter. Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, Saratoga Investment Advisors was only entitled to 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeded 1.875% in any fiscal quarter (7.5% annualized) without any catch-up provision. These calculations are appropriately pro-rated when such calculations are applicable for any period of less than three months. See “Management Agreements”.

Administration Agreement

Pursuant to a separate administration agreement, Saratoga Investment Advisors, who also serves as our administrator, furnishes us with office facilities, equipment and clerical, book-keeping and record keeping services. Under the administration agreement, our administrator also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain, preparing reports for our stockholders and reports required to be filed with the SEC. In addition, our administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement equal an amount based upon our allocable portion of our administrator’s overhead in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs relating to the performance of services under this agreement (including travel expenses). Our allocable portion is based on the proportion that our total assets bears to the total assets administered or managed by our administrator. Under the administration agreement, our administrator also provides managerial assistance, on our behalf, to those portfolio companies who accept our offer of assistance. The administration agreement may be terminated by either party without penalty upon 60 days’ written notice to the other party. The amount payable by us under the administration agreement is currently capped at \$1.0 million for each annual term of the agreement. On July 10, 2014, our board of directors approved the renewal of the administration agreement for an additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by us thereunder to \$1.0 million for the additional one-year term. See “Management Agreements”.

Distributions

Our distributions, if any, will be determined by our board of directors and paid out of assets legally available for distribution. Prior to January 2009, we paid quarterly dividends to our stockholders. However, in January 2009, we suspended the practice of paying quarterly dividends to our stockholders and only paid five dividend distributions (December 2013, 2012, 2011, 2010 and 2009) to our stockholders through December 2013, which distributions were made with a combination of cash and the issuance of shares of our common stock. On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash dividend to our shareholders. In this regard, our board of directors declared a dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

Taxation

We elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or realized net capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. See “Material U.S. Federal Income Tax Considerations.”

Dividend reinvestment plan

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders’ cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash dividends. Stockholders who receive distributions in the form of our common stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash, and will need to pay any such taxes from other sources in light of the fact that their distributions will be reinvested in additional shares of the Company’s common stock. See “Dividend Reinvestment Plan” for a description of the plan and information on how to “opt out” of the plan.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that an investor in this offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Moreover, the information set forth below does not include any transaction costs and expenses that investors will incur in connection with each offering of our securities pursuant to this prospectus. As a result, investors are urged to read the “Fees and Expenses” table contained in any corresponding prospectus supplement to fully understanding the actual transaction costs and expenses they will incur in connection with each such offering. Except where the context suggests otherwise, whenever this prospectus contains a reference to fees or expenses paid by “you,” “us” or “Saratoga Investment Corp.,” or that “we” will pay fees or expenses, stockholders will indirectly bear such fees or expenses as investors in Saratoga Investment Corp.

Stockholder transaction expenses (as a percentage of offering price):

Sales load paid	— %(1)
Offering expenses borne by us	— %(2)
Dividend reinvestment plan expenses	None(3)
Total stockholder transaction expenses paid	— %

Annual estimated expenses (as a percentage of average net assets attributable to common stock):

Management fees	3.2%(4)
Incentive fees payable under the investment advisory and management agreement	1.4%(5)
Interest payments on borrowed funds	6.0%(6)
Other expenses	3.3%(7)
Total annual expenses	13.9%(8)

- (1) In the event that the shares of common stock to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load.
- (2) The prospectus supplement corresponding to each offering will disclose the applicable offering expenses and total stockholder transaction expenses.
- (3) The expenses associated with the administration of our dividend reinvestment plan are included in “Other expenses.” The participants in the dividend reinvestment plan will pay a pro rata share of brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see “Dividend Reinvestment Plan.”
- (4) Our base management fee under the investment advisory and management agreement with Saratoga Investment Advisors is based on our gross assets, which is defined as our total assets, including those acquired using borrowings for investment purposes, but excluding cash and cash equivalents. See “Investment Advisory and Management Agreement.” The fact that our base management fee is payable based upon our gross assets, rather than our net assets (i.e., total assets after deduction of any liabilities, including borrowings) means that our base management fee as a percentage of net assets attributable to common stock will increase when we utilize leverage.
- (5) The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our “pre-incentive fee net investment income” for the immediately preceding quarter, subject to a preferred return, or “hurdle,” and a “catch up” feature. For this purpose, “pre-incentive fee net investment income” means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued by us during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee).

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 investment advisory and management agreement) and equals 20% 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. Under the investment advisory and management agreement, 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 Saratoga Investment Advisors will be entitled to 20% of incentive fee capital gains that arise after May 31, 2010. In addition, 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. We estimate this as zero for purposes of this table as these fees are hard to predict, as they are based on capital gains and losses. See “Investment Advisory and Management Agreement.”

- (6) We may borrow funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. The 6.0% figure in the table includes all expected borrowing costs in connection with the secured revolving credit facility we have with Madison Capital Funding LLC. The costs associated with our outstanding borrowings are indirectly borne by our stockholders. We do not expect to issue any preferred stock during the next twelve months and, therefore, have not included the cost of issuing and servicing preferred stock in the table. In addition, all of the commitment fees, interest expense, amortized financing costs of our Credit Facility, SBA debentures, and the 7.50% Notes due 2020 issued by us in May 2013, and the fees and expenses of issuing and servicing any other borrowings or leverage that we expect to incur during the next twelve months are included in the table and expense example presentation below.
- (7) “Other expenses” are based on estimated amounts for the current fiscal year and include our overhead expenses, including payments under our administration agreement based on our allocable portion of overhead and other expenses incurred by Saratoga Investment Advisors in performing its obligations under the administration agreement. See “Administration Agreement.”
- (8) This figure includes all of the fees and expenses of our wholly-owned subsidiaries, Saratoga Investment Corp SBIC, LP and Saratoga Investment Funding LLC.

Example

The following example demonstrates the projected dollar amount of total cumulative expenses over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that we would have no additional leverage and our annual operating expenses would remain at the levels set forth in the table above. In the event that shares to which this prospectus relates are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load and offering expenses.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return on portfolio	\$ 130	\$ 390	\$ 650	\$ 1,300

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

The foregoing table is to assist you in understanding the various costs and expenses that an investor in our common stock will bear directly or indirectly. While the example assumes, as required by the SEC, a 5% annual

return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the investment advisory and management agreement, which, assuming a 5% annual return, would either not be payable or have an insignificant impact on the expense amounts shown above, is not included in the example. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher.

While the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by either (i) the greater of (x) the net asset value of our common stock or (y) 95% of the market price per share of our common stock at the close of trading on the payment date fixed by our board of directors in the event that we use newly issued shares to satisfy the share requirements of the dividend reinvestment plan or (ii) the average purchase price, including any brokerage charges or other charges, of all shares of common stock purchased by the administrator of the dividend reinvestment plan in the event that shares are purchased in the open market to satisfy the share requirements of the dividend reinvestment plan, which may be at, above or below net asset value. See “Dividend Reinvestment Plan” for additional information regarding our dividend reinvestment plan.

SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data reflects the consolidated financial condition and the consolidated statement of operations of Saratoga as of and for the years ended February 28, 2014, February 28, 2013, February 29, 2012, February 28, 2011, and February 28, 2010. The selected financial and other data have been derived from our consolidated financial statements which have been audited by Ernst & Young LLP, an independent registered public accounting firm, whose report thereon is included in this registration statement. The financial information as of and for the six months ended August 31, 2014 and 2013 was derived from our unaudited financial statements and related notes. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The data should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in this prospectus. The historical data is not necessarily indicative of results to be expected for any future period.

	Six Months Ended August 31, 2014	Six Months Ended August 31, 2013	Year Ended February 28, 2014	Year Ended February 28, 2013	Year Ended February 29, 2012	Year Ended February 28, 2011	Year Ended February 28, 2010
	(dollar amounts in thousands, except share and per share numbers)						
Income Statement Data:							
Interest and related portfolio income:							
Interest	\$ 11,639	\$ 9,963	\$ 20,187	\$ 14,450	\$ 11,262	\$ 12,050	\$ 13,324
Management fee and other income	980	1,443	2,706	2,557	2,250	2,123	2,293
Total interest and related portfolio income	<u>12,619</u>	<u>11,406</u>	<u>22,893</u>	<u>17,007</u>	<u>13,512</u>	<u>14,173</u>	<u>15,617</u>
Expenses:							
Interest and debt financing expenses	3,597	2,731	6,084	2,540	1,298	2,612	4,096
Base management and incentive management fees(1)	3,176	2,329	4,018	4,152	2,875	3,514	2,278
Administrator expenses	500	500	1,000	1,000	1,000	810	671
Administrative and other	1,213	1,104	2,670	2,287	2,638	4,882	3,502
Expense reimbursement	—	—	—	—	—	(2,894)	(671)
Total operating expenses after reimbursements	<u>8,486</u>	<u>6,664</u>	<u>13,772</u>	<u>9,979</u>	<u>7,811</u>	<u>8,924</u>	<u>9,876</u>
Net investment income before income taxes	4,133	4,742	9,121	7,028	5,701	5,249	5,741
Income tax expenses, including excise tax	—	—	—	—	—	—	(27)
Net investment income	<u>\$ 4,133</u>	<u>\$ 4,742</u>	<u>\$ 9,121</u>	<u>\$ 7,028</u>	<u>\$ 5,701</u>	<u>\$ 5,249</u>	<u>\$ 5,714</u>

[Table of Contents](#)

	Six Months Ended August 31, 2014	Six Months Ended August 31, 2013	Year Ended February 28, 2014	Year Ended February 28, 2013	Year Ended February 29, 2012	Year Ended February 28, 2011	Year Ended February 28, 2010
(dollar amounts in thousands, except share and per share numbers)							
Realized and unrealized gain (loss) on investments and derivatives:							
Net realized gain (loss)	\$ 442	\$ 1,074	\$ 1,271	\$ 431	\$ (12,186)	\$ (24,684)	\$ (6,654)
Net change in unrealized gain (loss)	319	(2,057)	(1,648)	7,143	19,760	36,393	(9,523)
Total net gain (loss)	<u>761</u>	<u>(983)</u>	<u>(377)</u>	<u>7,574</u>	<u>7,574</u>	<u>11,709</u>	<u>(16,177)</u>
Net increase (decrease) in net assets resulting from operations	<u>\$ 4,894</u>	<u>\$ 3,759</u>	<u>\$ 8,744</u>	<u>\$ 14,602</u>	<u>\$ 13,275</u>	<u>\$ 16,958</u>	<u>\$ (10,463)</u>
Per Share:							
Earnings (loss) per common share—basic and diluted(2)(5)	\$ 0.91	\$ 0.79	\$ 1.78	\$ 3.55	\$ 3.87	\$ 6.96	\$ (9.86)
Net investment income per share—basic and diluted(2)(5)	\$ 0.77	\$ 1.00	\$ 1.85	\$ 1.71	\$ 1.66	\$ 2.15	\$ 5.38
Net realized and unrealized gain (loss) per share—basic and diluted(2)(5)	\$ 0.14	\$ (0.21)	\$ (0.07)	\$ 1.84	\$ 2.21	\$ 4.81	\$ (15.24)
Dividends declared per common share(3)(5)	\$ —	\$ —	\$ 2.65	\$ 4.25	\$ 3.00	\$ 4.40	\$ 18.25
Dilutive impact of dividends paid in stock on net asset value per share(4)	\$ —	\$ —	\$ (0.75)	\$ (1.44)	\$ (2.01)	\$ (9.05)	\$ (21.10)
Net asset value per share	\$ 22.27	\$ 23.77	\$ 21.36	\$ 22.98	\$ 25.12	\$ 26.26	\$ 32.75
Statement of Assets and Liabilities Data:							
Investment assets at fair value	\$ 236,320	\$ 187,800	\$ 205,845	\$ 155,080	\$ 95,360	\$ 80,025	\$ 89,373
Total assets	247,230	224,057	219,177	174,411	125,491	98,769	96,935
Total debt outstanding	121,200	88,300	98,300	60,300	20,000	4,500	36,992
Stockholders' equity	119,818	112,445	114,924	108,687	97,380	86,071	55,478
Net asset value per common share(5)	\$ 22.27	\$ 23.77	\$ 21.36	\$ 22.98	\$ 25.12	\$ 26.26	\$ 32.75
Common shares outstanding at end of period	5,379,616	4,730,116	5,379,616	4,730,116	3,876,661	3,277,077	1,694,010
Other Data:							
Investments funded	\$ 53,348	\$ 87,854	\$ 121,074	\$ 71,596	\$ 38,679	\$ 9,014	\$ —
Principal collections related to investment repayments or sales	\$ 24,387	\$ 54,850	\$ 71,607	\$ 21,488	\$ 33,568	\$ 31,975	\$ 15,185
Number of investments at end of period	65	55	60	47	33	37	41
Weighted average yield of income producing debt investments—Non-control/non-affiliate	11.02%	10.38%	10.62%	11.26%	11.88%	11.1%	9.6%
Weighted average yield on income producing debt investments—Control	23.91%	27.20%	18.55%	27.11%	20.17%	15.8%	8.3%

[Table of Contents](#)

- (1) See note 6 in consolidated financial statements contained elsewhere herein.
- (2) For the six months ended August 31, 2014 and August 31, 2013, amounts are calculated using weighted average common shares outstanding of 5,379,616 and 4,730,116, respectively. For the years ended February 28, 2014, February 28, 2013, February 29, 2012, February 28, 2011 and February 28, 2010 amounts are calculated using weighted average common shares outstanding of 4,920,517, 4,110,484, 3,434,345, 2,437,577, and 1,061,351, respectively.
- (3) Calculated using the shares outstanding at ex-dividend date.
- (4) Dilutive effect of the issuance of shares of common stock below net asset value per share in connection with the satisfaction of the Company's annual RIC distribution requirement. See "Price Range of Common Stock and Distributions—Dividend Policy."
- (5) Earnings per share, dividend per share and net asset value per share figures for February 28, 2010 were updated and do not reflect historical figures.

RISK FACTORS

Investing in our securities involves a high degree of risk. Before you invest in our securities, you should be aware of various significant risks, including those described below. You should carefully consider these risks, together with all of the other information included in this prospectus, before you decide whether to make an investment in our securities. The risks set forth below are the principal risks with respect to an investment in our securities generally and with respect to a business development company with investment objectives, investment policies, capital structures or trading markets similar to ours. However, they may not be the only risks we face. If any of the following risks occur, our business, financial condition and results of our operations could be materially adversely affected. In such case, you could lose all or part of your investment.

Risks Related to Our Business and Structure

The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.

The broader economic fundamentals of the United States economy remain uncertain. Unemployment levels remain elevated and other economic fundamentals remain depressed. In the event that the United States economic performance contracts, it is likely that the financial results of middle market companies, like those in which we invest, could experience deterioration or limited growth, which could ultimately lead to difficulty in meeting their debt service requirements and an increase in defaults. Consequently, we can provide no assurance that the performance of certain of our portfolio companies will not be negatively impacted by economic or other conditions, which could also have a negative impact on our future results.

The current worldwide financial market situation, as well as various social and political tensions in the United States and around the world, may continue to contribute to increased market volatility, may have long-term effects on the United States and worldwide financial markets, and may cause further economic uncertainties or deterioration in the United States and worldwide. Since 2010, several European Union (“EU”) countries, including Greece, Ireland, Italy, Spain, and Portugal, have faced budget issues, some of which may have negative long-term effects for the economies of those countries and other EU countries. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal policy of foreign nations, such as China, may have a severe impact on the worldwide and United States financial markets. Moreover, there are concerns that the recent economic slowdown in China could have a negative impact on markets throughout the world. We do not know how long the financial markets will continue to be affected by these events and cannot predict the effects of these or similar events in the future on the United States economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

Although we have been able to secure access to additional liquidity, the potential for volatility in the debt and in the equity capital markets provides no assurance that debt or equity capital will be available to us in the future on favorable terms, or at all.

We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss, or there is a decline in the value of our portfolio.

Saratoga Investment Advisors is entitled to incentive fees for each fiscal quarter in an amount equal to a percentage of the excess of our investment income for that quarter (before deducting incentive compensation, but net of operating expenses and certain other items) above a threshold return for that quarter. Our pre-incentive fee net investment income, for incentive compensation purposes, excludes realized and unrealized capital gains or losses that we may incur in the fiscal quarter, even if such capital gains or losses result in a net gain or loss on

[Table of Contents](#)

our statement of operations for that quarter. Thus, we may be required to pay Saratoga Investment Advisors incentive fees for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

Under the terms of the Management Agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.

Incentive fees on capital gains paid to Saratoga Investment Advisors under the Management Agreement 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. Under the Management Agreement, 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 Saratoga Investment Advisors will be entitled to 20.0% of the incentive fee capital gains that arise after May 31, 2010. In addition, 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. See our Form 10-Q for the quarter ended May 31, 2010 that was filed with the SEC on July 15, 2010 for the fair value and other information related to our investments as of such date. As a result, we may be required to pay incentive fees to Saratoga Investment Advisors on the sale of an investment even if we incur a realized loss on such investment, so long as the investment is sold for an amount greater than its fair value as of May 31, 2010.

The way in which the base management and incentive fees under the Management Agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in our best interests.

The incentive fee payable by us to our investment adviser may create an incentive for it to make investments on our behalf that are risky or more speculative than would be the case in the absence of such compensation arrangement, which could result in higher investment losses, particularly during cyclical economic downturns. The way in which the incentive fee payable to our investment adviser is determined, which is calculated separately in two components as a percentage of the income (subject to a hurdle rate) and as a percentage of the realized gain on invested capital, may encourage our investment adviser to use leverage to increase the return on our investments or otherwise manipulate our income so as to recognize income in quarters where the hurdle rate is exceeded. Moreover, we pay Saratoga Investment Advisors a base management fee based on our total assets, including any investments made with borrowings, which may create an incentive for it to cause us to incur more leverage than is prudent, or not to repay our outstanding indebtedness when it may be advantageous for us to do so, in order to maximize its compensation. Under certain circumstances, the use of leverage may increase the likelihood of default, which would disfavor the holders of our securities.

The incentive fee payable by us to our investment adviser also may create an incentive for our investment adviser to invest on our behalf in instruments that have a deferred interest feature. Under these investments, we would accrue the interest over the life of the investment but would not receive the cash income from the investment until the end of the investment’s term, if at all. Our net investment income used to calculate the income portion of our incentive fee, however, includes accrued interest. Thus, a portion of the incentive fee would be based on income that we have not yet received in cash and may never receive in cash if the portfolio company is unable to satisfy such interest payment obligation to us. Consequently, while we may make incentive fee payments on income accruals that we may not collect in the future and with respect to which we do not have a “claw back” right against our investment adviser per se, the amount of accrued income written off in any period will reduce the income in the period in which such write-off was taken and may thereby reduce such period’s incentive fee payment.

In addition, Saratoga Investment Advisors receives a quarterly income incentive fee based, in part, on our pre-incentive fee net investment income, if any, for the immediately preceding calendar quarter. This income

[Table of Contents](#)

incentive fee is subject to a fixed quarterly hurdle rate before providing an income incentive fee return to Saratoga Investment Advisors. This fixed hurdle rate was determined when then current interest rates were relatively low on a historical basis. Thus, if interest rates rise, it would become easier for our investment income to exceed the hurdle rate and, as a result, more likely that Saratoga Investment Advisors will receive an income incentive fee than if interest rates on our investments remained constant or decreased. In addition, if we repurchase our outstanding debt securities, including our 7.50% Notes due 2020 (the "Notes") and such repurchase results in our recording a net gain on the extinguishment of debt for financial reporting and tax purposes, such net gain will be included in our pre-incentive fee net investment income for purposes of determining the income incentive fee payable to our investment adviser under the Management Agreement.

Moreover, our investment adviser receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike the portion of the incentive fee based on income, there is no performance threshold applicable to the portion of the incentive fee based on net capital gains. As a result, our investment adviser may have a tendency to invest more in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

Our board of directors will seek to ensure that Saratoga Investment Advisors is acting in our best interests and that any conflict of interest faced by Saratoga Investment Advisors in its capacity as our investment adviser does not negatively impact us.

The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.

We pay Saratoga Investment Advisors a quarterly base management fee based on the value of our total assets (including any assets acquired with leverage). Accordingly, Saratoga Investment Advisors has an economic incentive to increase our leverage. Our board of directors monitors the conflicts presented by this compensation structure by approving the amount of leverage that we incur. If our leverage is increased, we will be exposed to increased risk of loss, bear the increase cost of issuing and servicing such senior indebtedness, and will be subject to any additional covenant restrictions imposed on us in an indenture or other instrument or by the applicable lender.

We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Borrowings, also known as leverage, magnify the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in us. We borrow from and issue senior debt securities to banks and other lenders that is secured by a lien on our assets. Holders of these senior securities have fixed dollar claims on our assets that are superior to the claims of the holders of our securities, including the holders of our securities. Leverage is generally considered a speculative investment technique. Any increase in our income in excess of interest payable on our outstanding indebtedness would cause our net income to increase more than it would have had we not incurred leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not incurred leverage. Such a decline could negatively affect our ability to make common stock distributions or scheduled debt payments, including with respect to the Notes. There can be no assurance that our leveraging strategy will be successful.

Our outstanding indebtedness imposes, and additional debt we may incur in the future will likely impose, financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC. A failure to add new debt facilities or issue additional debt securities or other evidences of indebtedness in lieu of or in addition to existing indebtedness could have a material adverse effect on our business, financial condition or results of operations.

[Table of Contents](#)

As of August 31, 2014, we had \$64.0 million outstanding indebtedness guaranteed by the SBA and \$48.3 million of outstanding Notes. This debt requires periodic payments of interest. The weighted average interest rate charged on our borrowings as of August 31, 2014 was 5.14% per annum (exclusive of deferred financing costs). We will need to generate sufficient cash flow to make these required interest payments. In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our August 31, 2014 total assets of at least 2.4%.

Illustration. The following table illustrates the effect of leverage on returns from an investment in our common stock assuming various annual returns, net of expenses. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing below:

Assumed Return on Our Portfolio(1) (net of expenses)

	<u>-10.0%</u>	<u>-5.0%</u>	<u>0.0%</u>	<u>5.0%</u>	<u>10.0%</u>
Corresponding net return to common stockholder	-26.4%	-16.2%	-5.9%	4.3%	14.5%

(1) Assumes \$239.2 million in average total assets, \$112.3 million in average debt outstanding, \$117.0 million in average net assets and an average interest rate of 5.32%. Actual interest payments may be different.

Saratoga Investment Advisors' liability is limited under the Management Agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.

Saratoga Investment Advisors has not assumed any responsibility to us other than to render the services described in the Management Agreement. Pursuant to the Management Agreement, Saratoga Investment Advisors and its officers and employees are not liable to us for their acts under the Management Agreement absent willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties. We have agreed to indemnify, defend and protect Saratoga Investment Advisors and its officers and employees with respect to all damages, liabilities, costs and expenses resulting from acts of Saratoga Investment Advisors not arising out of willful misfeasance, bad faith, gross negligence or reckless disregard in the performance of their duties under the Management Agreement. These protections may lead Saratoga Investment Advisors to act in a riskier manner when acting on our behalf than it would when acting for its own account.

Substantially all of our assets are subject to security interests under our Credit Facility or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including the foreclosure on our assets.

Substantially all of our assets are pledged as collateral under the Credit Facility or are subject to a superior claim over the holders of our common stock or the Notes by the SBA pursuant to the SBA-guaranteed debentures. If we default on our obligations under the Credit Facility or the SBA-guaranteed debentures, Madison Capital Funding and/or the SBA may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests or superior claim. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated.

In addition, if Madison Capital Funding exercises its right to sell the assets pledged under the Credit Facility, such sales may be completed at distressed sale prices, thereby diminishing or potentially eliminating the amount of cash available to us after repayment of the amounts outstanding under the Credit Facility.

We are exposed to risks associated with changes in interest rates including potential effects on our cost of capital and net investment income.

General interest rate fluctuations and changes in credit spreads on floating rate loans may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our rate of return on invested capital. In addition, an increase in interest rates would make it more expensive to use debt to finance our investments. Decreases in credit spreads on debt that pays a floating rate of return would have an impact on the income generation of our floating rate assets. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed rate securities that have longer maturities. Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to ten years. This means that we will be subject to greater risk (other things being equal) than an entity investing solely in shorter-term securities.

Because we may borrow to fund our investments, a portion of our net investment income may be dependent upon the difference between the interest rate at which we borrow funds and the interest rate at which we invest these funds. A portion of our investments will have fixed interest rates, while a portion of our borrowings will likely have floating interest rates. As a result, a significant change in market interest rates could have a material adverse effect on our net investment income. In periods of rising interest rates, our cost of funds could increase, which would reduce our net investment income. We may hedge against such interest rate fluctuations by using standard hedging instruments such as futures, options and forward contracts, subject to applicable legal requirements, including without limitation, all necessary registrations (or exemptions from registration) with the Commodity Futures Trading Commission. These activities may limit our ability to participate in the benefits of lower interest rates with respect to the hedged borrowings. Adverse developments resulting from changes in interest rates or hedging transactions could have a material adverse effect on our business, financial condition and results of operations.

There are significant potential conflicts of interest which could adversely impact our investment returns.

Our executive officers and directors, and the members of our investment adviser, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do or of investment funds managed by our affiliates. Accordingly, they may have obligations to investors in those entities, the fulfillment of which might not be in the best interests of us or our stockholders. For example, Christian L. Oberbeck, our chief executive officer and managing member of our investment adviser, is the managing partner of Saratoga Partners, a middle market private equity investment firm. In addition, the principals of our investment adviser may manage other funds which may from time to time have overlapping investment objectives with those of us and accordingly invest in, whether principally or secondarily, asset classes similar to those targeted by us. If this should occur, the principals of our investment adviser will face conflicts of interest in the allocation of investment opportunities to us and such other funds. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected in the event investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and investment adviser, and the members of our investment adviser.

Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.

We are subject to regulation at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Any change in these laws or regulations, or their interpretation, or any failure by us to comply with these laws or regulations may adversely affect our business.

Regulations governing our operation as a BDC will affect our ability to raise additional capital.

Our business requires a substantial amount of additional capital. We may acquire additional capital from the issuance of senior securities or other indebtedness or the issuance of additional shares of our common stock.

[Table of Contents](#)

However, we may not be able to raise additional capital in the future on favorable terms or at all. We may issue debt securities or preferred securities, which we refer to collectively as “senior securities,” and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act.

Under the provisions of the 1940 Act, we are permitted, as a BDC, to incur indebtedness or issue senior securities only in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after such incurrence or issuance. Our ability to issue different types of securities is also limited. Compliance with these requirements may unfavorably limit our investment opportunities and reduce our ability in comparison to other companies to profit from favorable spreads between the rates at which we can borrow and the rates at which we can lend. As a business development company, therefore, we may need to issue equity more frequently than our privately owned competitors, which may lead to greater stockholder dilution. With respect to certain types of senior securities, we must make provisions to prohibit any dividend distribution to our stockholders or the repurchase of certain of our securities, unless we meet the applicable asset coverage ratios at the time of the dividend distribution or repurchase. If the value of our assets declines, we may be unable to satisfy the asset coverage test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous in order to make dividend distributions or repurchase certain of our securities.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. At our 2014 annual meeting of stockholders, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock at an offering price per share that is not less than 85% of the then current net asset value per share in one or more offerings for a period of one year ending on the earlier of our next annual meeting of shareholders or September 30, 2015. Continued access to this exception will require approval of similar proposals at future stockholder meetings. If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital.

Pending legislation may allow us to incur additional leverage.

As a business development company, we are generally not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). We have agreed in the covenant in the indenture governing the Notes not to violate this section of the 1940 Act, whether or not we continue to be subject to such provision, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Recent legislation introduced in the U.S. House of Representatives, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in our securities may increase.

The agreement governing our Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.

The agreement governing the Credit Facility contains customary default provisions such as the termination or departure of certain “key persons” of Saratoga Investment Advisors, a material adverse change in our business and the failure to maintain certain minimum loan quality and performance standards. An event of default under

[Table of Contents](#)

the facility would result, among other things, in termination of the availability of further funds under the facility and an accelerated maturity date for all amounts outstanding under the facility, which would likely disrupt our business and, potentially, the portfolio companies whose loans we financed through the facility. This could reduce our revenues and, by delaying any cash payment allowed to us under the facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

Each loan origination under the facility is subject to the satisfaction of certain conditions. We cannot assure you that we will be able to borrow funds under the facility at any particular time or at all.

A failure on our part to maintain our qualification as a business development company would significantly reduce our operating flexibility.

If we fail to continuously qualify as a business development company, we might be subject to regulation as a registered closed-end investment company under the 1940 Act, which would significantly decrease our operating flexibility. In addition, failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us. For additional information on the qualification requirements of a business development company, see the disclosure under the caption “Regulation—Business Development Company Regulations.”

We will be subject to corporate-level federal income tax if we fail to continue to qualify as a RIC.

We seek to maintain our qualification as a RIC under the Code, which requires us to qualify continuously as a BDC and meet certain source of income, distribution and asset diversification requirements.

The source of income requirement is satisfied if we derive at least 90.0% of our annual gross income from interest, dividends, payments with respect to certain securities loans, gains from the sale or other disposition of securities or options thereon or foreign currencies, or other income derived with respect to our business of investing in such securities or currencies, and net income from interests in “qualified publicly traded partnerships,” as defined in the Code.

The annual distribution requirement is satisfied if we distribute to our stockholders on an annual basis an amount equal to at least 90.0% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses. We are subject to certain asset coverage ratio requirements under the 1940 Act and covenants under our borrowing agreements that could, under certain circumstances, restrict us from making distributions necessary to qualify as a RIC. In such case, if we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level federal income tax.

The diversification requirements will be satisfied if we diversify our holdings so that at the end of each quarter of the taxable year: (i) at least 50.0% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other regulated investment companies, and other securities if such other securities of any one issuer do not represent more than 5.0% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and (ii) no more than 25.0% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other regulated investment companies, of one issuer or of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or in certain publicly traded partnerships.

Failure to meet these tests may result in our having to (i) dispose of certain investments quickly or (ii) raise additional capital to prevent the loss of our RIC qualification. Because most of our investments will be in private companies, any such dispositions could be made at disadvantageous prices and may result in substantial losses. If we raise additional capital to satisfy the asset diversification requirements, it could take us time to invest such

[Table of Contents](#)

capital. During this period, we will invest the additional capital in temporary investments, such as cash and cash equivalents, which we expect will earn yields substantially lower than the interest income that we anticipate receiving in respect of investments in leveraged loans and mezzanine debt.

If we fail to qualify as a RIC for any reason, all of our taxable income will be subject to U.S. federal income tax at regular corporate rates. The resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution to our common stockholders or payment of our outstanding indebtedness including the Notes. Such a failure would have a material adverse effect on us and the holders of our securities.

Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

In order to qualify for the tax benefits available to RICs and to minimize corporate-level federal income tax, we intend to distribute to our stockholders between 90% and 100% of our annual taxable income, except that we may retain certain net capital gains for investment, and treat such amounts as deemed distributions to our stockholders. If we elect to treat any amounts as deemed distributions, we must pay income taxes at the corporate rate on such deemed distributions on behalf of our stockholders. As a result of these requirements, we will likely need to raise capital from other sources to grow our business. 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 includes all of our borrowings and any outstanding preferred stock, of at least 200%. These requirements limit the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, these limitations may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so.

While we expect to be able to borrow and to issue additional debt and equity securities, we cannot assure you that debt and equity financing will be available to us on favorable terms, or at all. Also, as a BDC, we generally are not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new investment activities, and our net asset value and share price could decline.

We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.

For federal income tax purposes, we may be required to recognize taxable income in circumstances in which we do not receive a corresponding payment in cash. For example, we may on occasion hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind interest (“PIK”) or, in certain cases, increasing interest rates or issued with warrants) and we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. In addition, we may be required to accrue for federal income tax purposes amounts attributable to our investment in Saratoga CLO, a collateralized loan obligation fund, that may differ from the distributions paid in respect of our investment in the subordinated notes of such collateralized loan obligation fund because of the factors set forth above or because distributions on the subordinated notes are contractually required to be diverted for reinvestment or to pay down outstanding indebtedness.

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the annual distribution requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and

[Table of Contents](#)

maintain RIC tax treatment under the Code. We may have to sell some of our investments at times and/or at prices we would not consider advantageous, raise additional debt or equity capital or forgo new investment opportunities for this purpose. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus become subject to corporate-level federal income tax.

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of the members of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5.0% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act and we are generally prohibited from buying or selling any securities (other than our securities) from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company, without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25.0% of our voting securities, we are prohibited from buying or selling any security (other than any security of which we are the issuer) from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such person, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers, directors or investment adviser or their affiliates. As a result of these restrictions, we may be prohibited from buying or selling any security (other than any security of which we are the issuer) from or to any portfolio company of a private equity fund managed by our investment adviser without the prior approval of the SEC, which may limit the scope of investment opportunities that would otherwise be available to us.

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we make in private middle market companies. We compete with other BDCs, public and private funds (including SBICs), commercial and investment banks, commercial financing companies, insurance companies, high-yield investors, hedge funds, and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than us. Some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments that could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we cannot assure you that we will be able to identify and make investments that meet our investment objective.

We do not seek to compete primarily based on the interest rates we offer and we believe that some of our competitors may make loans with interest rates that are comparable to or lower than the rates we offer.

We may lose investment opportunities if we do not match our competitors’ pricing, terms and structure. If we match our competitors’ pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss. As a result of operating in such a competitive environment, we may make investments that are on better terms to our portfolio companies than we originally anticipated, which may impact our return on these investments.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our debt investments during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions

[Table of Contents](#)

also may decrease the value of collateral securing some of our debt investments and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.

We are classified as a non-diversified investment company within the meaning of the 1940 Act, which means that we are not limited by the 1940 Act with respect to the proportion of our assets that we may invest in securities of a single issuer. Although we seek to maintain a diversified portfolio in accordance with our business strategies, to the extent that we assume large positions in the securities of a small number of issuers, our net asset value may fluctuate to a greater extent than that of a diversified investment company as a result of changes in the financial condition or the market's assessment of the issuer. We may also be more susceptible to any single economic or regulatory occurrence than a diversified investment company. Beyond our RIC asset diversification requirements, we do not have fixed guidelines for diversification, and our investments could be concentrated in relatively few portfolio companies.

Our financial condition and results of operation depend on our ability to manage future investments effectively.

Our ability to achieve our investment objective depends on our ability to acquire suitable investments and monitor and administer those investments, which depends, in turn, on Saratoga Investment Advisors' ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Saratoga Investment Advisors' structuring of the investment process and its ability to provide competent, attentive and efficient service to us. Our executive officers and the officers and employees of Saratoga Investment Advisors have substantial responsibilities in connection with their roles at Saratoga Partners as well as responsibilities under the Management Agreement. They may also be called upon to provide managerial assistance to our portfolio companies. These demands on their time, which will increase as the number of investments grow, may distract them or slow the rate of investment. In order to grow, Saratoga Investment Advisors may need to hire, train, supervise and manage new employees. However, we cannot assure you that any such employees will contribute to the work of Saratoga Investment Advisors. Any failure to manage our future growth effectively could have a material adverse effect on our business and financial condition.

We may experience fluctuations in our quarterly results.

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt investments we make, the default rate on such investments, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

Substantially all of our portfolio is, and we expect will continue to be, comprised of investments that are not publicly traded. The value of investments that are not publicly traded may not be readily determinable. We value these investments quarterly at fair value as approved in good faith by our board of directors. Where appropriate,

[Table of Contents](#)

Saratoga Investment Advisors may utilize the services of an independent valuation firm to aid it in determining fair value. The types of factors that may be considered in valuing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations 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.

If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.

We make unsecured debt investments in portfolio companies. Unsecured debt investments are unsecured and junior to other indebtedness of the portfolio company. As a consequence, the holder of an unsecured debt investment may lack adequate protection in the event the portfolio company becomes distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event the portfolio company defaults on its indebtedness. In addition, unsecured debt investments of middle-market companies are often highly illiquid and in adverse market conditions may experience steep declines in valuation even if they are fully performing.

If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.

We are authorized to invest in the securities and other obligations of distressed or bankrupt companies. At times, distressed debt obligations may not produce income and may require us to bear certain extraordinary expenses (including legal, accounting, valuation and transaction expenses) in order to protect and recover our investment. Therefore, to the extent we invest in distressed debt, our ability to achieve current income may be diminished which may affect our ability to make distributions on our common stock or make interest and principal payments of the Notes.

We also will be subject to significant uncertainty as to when and in what manner and for what value the distressed debt we invest in will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed debt securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or plan of reorganization is adopted with respect to distressed debt held by us, there can be no assurance that the securities or other assets received by us in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made.

Moreover, any securities received by us upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of our participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed debt, we may be restricted from disposing of such securities if we are in possession of material non-public information relating to the issuer.

Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.

Certain loans that we make to portfolio companies will be secured on a second priority basis by the same collateral securing senior secured debt of such companies. The first priority liens on the collateral will secure the

[Table of Contents](#)

portfolio company's obligations under any outstanding senior debt and may secure certain other future debt that may be permitted to be incurred by the company under the agreements governing the loans. The holders of obligations secured by the first priority liens on the collateral will generally control the liquidation of and be entitled to receive proceeds from any realization of the collateral to repay their obligations in full before us. In addition, the value of the collateral in the event of liquidation will depend on market and economic conditions, the availability of buyers and other factors. There can be no assurance that the proceeds, if any, from the sale or sales of all of the collateral would be sufficient to satisfy the loan obligations secured by the second priority liens after payment in full of all obligations secured by the first priority liens on the collateral. If such proceeds are not sufficient to repay amounts outstanding under the loan obligations secured by the second priority liens, then we, to the extent not repaid from the proceeds of the sale of the collateral, will only have an unsecured claim against the company's remaining assets, if any.

The rights we may have with respect to the collateral securing the loans we make to our portfolio companies with senior debt outstanding may also be limited pursuant to the terms of one or more intercreditor agreements that we enter into with the holders of senior debt. Under such an intercreditor agreement, at any time that obligations that have the benefit of the first priority liens are outstanding, any of the following actions that may be taken with respect to the collateral will be at the direction of the holders of the obligations secured by the first priority liens: the ability to cause the commencement of enforcement proceedings against the collateral; the ability to control the conduct of such proceedings; the approval of amendments to collateral documents; releases of liens on the collateral; and waivers of past defaults under collateral documents. We may not have the ability to control or direct such actions, even if our rights are adversely affected.

The lack of liquidity in our investments may adversely affect our business.

We primarily make investments in private companies. A portion of these securities may be subject to legal and other restrictions on resale, transfer, pledge or other disposition or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a business entity to the extent that we or our investment adviser has or could be deemed to have material non-public information regarding such business entity.

The debt securities in which we invest are subject to credit risk and prepayment risk.

An issuer of a debt security may be unable to make interest payments and repay principal. We could lose money if the issuer of a debt obligation is, or is perceived to be, unable or unwilling to make timely principal and/or interest payments, or to otherwise honor its obligations. The downgrade of a security by rating agencies may further decrease its value.

Certain debt instruments may contain call or redemption provisions which would allow the issuer thereof to prepay principal prior to the debt instrument's stated maturity. This is known as prepayment risk. Prepayment risk is greater during a falling interest rate environment as issuers can reduce their cost of capital by refinancing higher interest debt instruments with lower interest debt instruments. An issuer may also elect to refinance their debt instruments with lower interest debt instruments if the credit standing of the issuer improves. To the extent debt securities in our portfolio are called or redeemed, we may receive less than we paid for such security and we may be forced to reinvest in lower yielding securities or debt securities of issuers of lower credit quality.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order

[Table of Contents](#)

to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.

At February 28, 2014, our investment in the subordinated notes of Saratoga CLO, a collateralized loan obligation fund, had a fair value of \$19.6 million and constituted 9.5% of our portfolio. This investment constitutes a first loss position in a portfolio that, as of February 28, 2014, was composed of \$301.3 million in aggregate principal amount of primarily senior secured first lien term loans and \$8.0 million in uninvested cash. A first loss position means that we will suffer the first economic losses if the value of Saratoga CLO decreases. First loss positions typically carry a higher risk and earn a higher yield. Interest payments generated from this portfolio will be used to pay the administrative expenses of Saratoga CLO and interest on the debt issued by Saratoga CLO before paying a return on the subordinated notes. Principal payments will be similarly applied to pay administrative expenses of Saratoga CLO and for reinvestment or repayment of Saratoga CLO debt before paying a return on, or repayment of, the subordinated notes. In addition, 80.0% of our fixed management fee and 100.0% our incentive management fee for acting as the collateral manager of Saratoga CLO is subordinated to the payment of interest and principal on Saratoga CLO debt. Any losses on the portfolio will accordingly reduce the cash flow available to pay these management fees and provide a return on, or repayment of, our investment. Depending on the amount and timing of such losses, we may experience smaller than expected returns and, potentially, the loss of our entire investment.

As the manager of the portfolio of Saratoga CLO we will have some ability to direct the composition of the portfolio, but our discretion is limited by the terms of the debt issued by Saratoga CLO which may limit our ability to make investments that we feel are in the best interests of the subordinated notes, and the availability of suitable investments. The performance of Saratoga CLO's portfolio is also subject to many of the same risks sets forth in this prospectus with respect to portfolio investments in leveraged loans.

In the event that a bankruptcy court orders the substantive consolidation of us with Saratoga CLO, the creditors of Saratoga CLO, including the holders of \$304.4 million aggregate principal amount of debt, as of August 31, 2014 issued by Saratoga CLO, would have claims against the consolidated bankruptcy estate, which would include our assets.

We believe that we have observed and will observe certain formalities and operating procedures that are generally recognized requirements for maintaining our separate existence and that our assets and liabilities can be readily identified as distinct from those of Saratoga CLO. However, we cannot assure you that a bankruptcy court would agree in the event that we or Saratoga CLO became a debtor in connection with a bankruptcy proceeding. If a bankruptcy court concludes that substantive consolidation of us with Saratoga CLO is warranted, the creditors of Saratoga CLO, including the holders of \$304.4 million aggregate principal amount of debt, as of August 31, 2014 issued by Saratoga CLO, would have claims against the consolidated bankruptcy estate. Substantive consolidation means that our assets are placed in a single bankruptcy estate with those of Saratoga CLO, rather than kept separate, and that the creditors of Saratoga CLO have a claim against that single estate (including our assets), as opposed to retaining their claims against only Saratoga CLO.

Available information about privately held companies is limited.

We invest primarily in privately-held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of our investment adviser's investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. These companies and their financial information are not subject to the Sarbanes-Oxley Act of 2002 and other rules that govern public companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments.

When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.

We make both debt and minority equity investments; therefore, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and the stockholders and management of such company may take risks or otherwise act in ways that do not serve our interests. As a result, a portfolio company may make decisions that could decrease the value of our portfolio holdings.

Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.

Our portfolio companies usually will have, or may be permitted to incur, other debt, or issue other equity securities that rank equally with, or senior to, our investments. By their terms, such instruments may provide that the holders are entitled to receive payment of dividends, interest or principal on or before the dates on which we are entitled to receive payments in respect of our investments. These debt instruments will usually prohibit the portfolio companies from paying interest on or repaying our investments in the event and during the continuance of a default under such debt. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of securities ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such holders, the portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debtor ranking equally with our investments, we would have to share on an equal basis any distributions with other holders in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

If one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors. In addition, lenders can be subject to lender liability claims for actions taken by them where they become too involved in the borrower's business or exercise control over the borrower. It is possible that we could become subject to a lender's liability claim, including as a result of actions taken if we actually render significant managerial assistance.

Investments in equity securities involve a substantial degree of risk.

We purchase common stock and other equity securities. Although equity securities have historically generated higher average total returns than fixed-income securities over the long-term, equity securities also have experienced significantly more volatility in those returns and in recent years have significantly underperformed relative to fixed-income securities. The equity securities we acquire may fail to appreciate and may decline in value or become worthless and our ability to recover our investment will depend on our portfolio company's success. Investments in equity securities involve a number of significant risks, including:

- any equity investment we make in a portfolio company could be subject to further dilution as a result of the issuance of additional equity interests and to serious risks as a junior security that will be

[Table of Contents](#)

subordinate to all indebtedness or senior securities in the event that the issuer is unable to meet its obligations or becomes subject to a bankruptcy process;

- to the extent that the portfolio company requires additional capital and is unable to obtain it, we may not recover our investment in equity securities; and
- in some cases, equity securities in which we invest will not pay current dividends, and our ability to realize a return on our investment, as well as to recover our investment, will be dependent on the success of our portfolio companies. Even if the portfolio companies are successful, our ability to realize the value of our investment may be dependent on the occurrence of a liquidity event, such as a public offering or the sale of the portfolio company. It is likely to take a significant amount of time before a liquidity event occurs or we can sell our equity investments. In addition, the equity securities we receive or invest in may be subject to restrictions on resale during periods in which it could be advantageous to sell.

There are special risks associated with investing in preferred securities, including:

- preferred securities may include provisions that permit the issuer, at its discretion, to defer distributions for a stated period without any adverse consequences to the issuer. If we own a preferred security that is deferring its distributions, we may be required to report income for tax purposes even though we have not received any cash payments in respect of such income;
- preferred securities are subordinated with respect to corporate income and liquidation payments, and are therefore subject to greater risk than debt;
- preferred securities may be substantially less liquid than many other securities, such as common securities or U.S. government securities; and
- preferred security holders generally have no voting rights with respect to the issuing company, subject to limited exceptions.

Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.

Although there are limitations on our ability to invest in foreign debt, we may, from time to time, invest in debt of foreign companies, including the debt of emerging market issuers. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility. Investments in the debt of emerging market issuers may subject us to additional risks such as inflation, wage and price controls, and the imposition of trade barriers. Furthermore, economic conditions in emerging market countries are, to some extent, influenced by economic and securities market conditions in other emerging market countries. Although economic conditions are different in each country, investors' reaction to developments in one country can have effects on the debt of issuers in other countries.

Although most of our investments will be U.S. dollar-denominated, our investments that are denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we cannot assure you that we will fully hedge against these risks or that such strategies will be effective.

We may expose ourselves to risks if we engage in hedging transactions.

We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Use of these hedging instruments may expose us to counter-party credit risk. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is generally anticipated at an acceptable price.

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.

Our board of directors has the authority to modify or waive our current investment objective, operating policies and strategies without prior notice and without stockholder approval. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, financial condition, and value of our common stock. However, the effects might be adverse, which could negatively impact our ability to pay dividends and cause you to lose all or part of your investment.

We have limited experience in managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.

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 and is regulated by the SBA.

The SBA places certain limitations on the financing terms of investments by SBICs in portfolio companies and prohibits SBICs from providing funds for certain purposes or to businesses in a few prohibited industries. Compliance with SBIC requirements may cause our SBIC subsidiary to forego attractive investment opportunities that are not permitted under SBA regulations.

Further, SBA regulations require that an SBIC be periodically examined and audited by the SBA to determine its compliance with the relevant SBA regulations. The SBA prohibits, without prior SBA approval, a “change of control” of an SBIC or transfers that would result in any person (or a group of persons acting in concert) owning 10% or more of a class of capital stock of an SBIC. If our SBIC subsidiary fails to comply with applicable SBA regulations, the SBA could, depending on the severity of the violation, limit or prohibit its use of debentures, declare outstanding debentures immediately due and payable, and/or limit it from making new investments. In addition, the SBA can revoke or suspend a license for willful or repeated violation of, or willful or repeated failure to observe, any provision of the Small Business Investment Act of 1958 or any rule or regulation promulgated thereunder. These actions by the SBA would, in turn, negatively affect us because our SBIC subsidiary is our wholly-owned subsidiary. We do not have any prior experience managing an SBIC. Our lack of experience in complying with SBA regulations may hinder our ability to take advantage of our SBIC subsidiary’s access to SBA-guaranteed debentures.

Any failure to comply with SBA regulations could have an adverse effect on our operations.

Our investments may be risky, and you could lose all or part of your investment.

Substantially all of our debt investments hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, where not rated by any rating agency, would be below investment grade or “junk”, if rated. A below investment grade or “junk”

[Table of Contents](#)

rating means that, in the rating agency's view, there is an increased risk that the obligor on such debt will be unable to pay interest and repay principal on its debt in full. We also invest in debt that defers or pays PIK interest. To the extent interest payments associated with such debt are deferred, such debt will be subject to greater fluctuations in value based on changes in interest rates, such debt could produce taxable income without a corresponding cash payment to us, and since we generally do not receive any cash prior to maturity of the debt, the investment will be of greater risk.

In addition, private middle market companies in which we invest are exposed to a number of significant risks, including:

- limited financial resources and an inability to meet their obligations, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- dependence on the management talents and efforts of a small group of persons; the death, disability, resignation or termination of one or more of which could have a material adverse impact on the company and, in turn, on us;
- less predictable operating results and, possibly, substantial additional capital requirements to support their operations, finance expansion or maintain their competitive position; and
- difficulty accessing the capital markets to meet future capital needs.

In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies.

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, 2014 (the last date 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.

Risks Related to Our Common Stock

Investing in our common stock may involve an above average degree of risk.

The investments we make in accordance with our investment objective may result in a higher amount of risk than alternative investment options and volatility or loss of principal. Our investments in portfolio companies may be highly speculative and aggressive, and therefore, an investment in our common stock may not be suitable for someone with lower risk tolerance.

We may choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.

We have in the past, and may in the future, distribute taxable dividends that are payable to our stockholders in part through the issuance of shares of our stock. For example, on October 30, 2013, our board of directors declared a dividend of \$2.65 per share to shareholders payable in cash or shares of our common stock. Under certain applicable provisions of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20.0% of the total distribution. Under these rulings, if too many stockholders elect to receive their distributions in cash, each such stockholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend no matter how paid (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

The market price of our common stock may fluctuate significantly.

The market price and liquidity of the market for our common stock may be significantly affected by numerous factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include:

- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- changes in regulatory policies, accounting pronouncements or tax rules, particularly with respect to RICs, BDCs or SBICs;
- loss of RIC qualification;
- changes in the value of our portfolio of investments;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- departure of any of Saratoga Investment Advisors' key personnel;
- operating performance of companies comparable to us;
- general economic trends and other external factors; and
- loss of a major funding source.

There is a risk that you may not receive distributions or that our distributions may not grow over time.

As a BDC for 1940 Act purposes and a RIC for U.S. federal income tax purposes, we intend to make distributions out of assets legally available for distribution to our stockholders once such distributions are authorized by our board of directors and declared by us. We cannot assure you that we will achieve investment

[Table of Contents](#)

results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test that is applicable to us as a BDC, and provisions contained in the agreements governing our borrowings, we may be limited in our ability to make distributions. Further, if we invest a greater amount of assets in equity securities that do not pay current dividends, it could reduce the amount available for distribution.

Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.

We are governed by our charter and bylaws, which we refer to as our “governing documents.”

Our governing documents and the Maryland General Corporation Law contain provisions that may have the effect of delaying, deferring or preventing a future transaction or change in control of us that might involve a premium price for our stockholders or otherwise be in their best interest.

Our charter provides for the classification of our board of directors into three classes of directors, serving staggered three-year terms, which may render a change of control of us or removal of our incumbent management more difficult. Furthermore, any and all vacancies on our board of directors will be filled generally only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term until a successor is elected and qualifies.

Our board of directors is authorized to create and issue new series of shares, to classify or reclassify any unissued shares of stock into one or more classes or series, including preferred stock and, without stockholder approval, to amend our charter to increase or decrease the number of shares of stock that we have authority to issue, which could have the effect of diluting a stockholder’s ownership interest. Prior to the issuance of shares of stock of each class or series, including any reclassified series, our board of directors is required by our governing documents to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock.

Our governing documents also provide that our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws, and to make new bylaws. The Maryland General Corporation Law also contains certain provisions that may limit the ability of a third party to acquire control of us, such as:

- The Maryland Business Combination Act, which, subject to certain limitations, prohibits certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of the common stock or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder and, thereafter, imposes special minimum price provisions and special stockholder voting requirements on these combinations; and
- The Maryland Control Share Acquisition Act, which provides that “control shares” of a Maryland corporation (defined as shares of common stock which, when aggregated with other shares of common stock controlled by the stockholder, entitles the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares of common stock.

In addition, the provisions of the Maryland Business Combination Act will not apply, however, if our board of directors adopts a resolution that any business combination between us and any other person will be exempt from the provisions of the Maryland Business Combination Act. Although our board of directors has adopted

[Table of Contents](#)

such a resolution, there can be no assurance that this resolution will not be altered or repealed in whole or in part at any time. If the resolution is altered or repealed, the provisions of the Maryland Business Combination Act may discourage others from trying to acquire control of us.

As permitted by Maryland law, our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of our common stock. Although our bylaws include such a provision, such a provision may also be amended or eliminated by our board of directors at any time in the future, subject to obtaining confirmation from the SEC that it does not object to us being subject to the Maryland Control Share Acquisition Act.

Our common stock may trade at a discount to our net asset value per share.

Common stock of BDCs, as closed-end investment companies, frequently trade at a discount to net asset value. Our common stock has traded at a discount to our net asset value since shortly after our initial public offering. The risk that our common stock may continue to trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline.

Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.

The 1940 Act prohibits us from selling shares of our common stock at a price below the current net asset value per share of such stock, with certain exceptions. One such exception is prior stockholder approval of issuances below net asset value provided that our board of directors makes certain determinations. At our 2014 annual meeting of stockholders, our stockholders approved a proposal that authorizes us to sell shares of our common stock below the then current net asset value per share of our common stock at an offering price per share that is not less than 85% of the then current net asset value per share in one or more offerings for a period of one year ending on the earlier of our next annual meeting of shareholders or September 30, 2015. Continued access to this exception will require approval of similar proposals at future stockholder meetings.

If we were to sell shares of our common stock below net asset value per share, such sales would result in an immediate dilution to the net asset value per share. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance.

Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted.

The issuance of subscription rights, warrants or convertible debt that are exchangeable for our common stock, will cause your economic interest and voting power in us to be diluted as a result of our offering of any such securities.

Stockholders who do not fully exercise rights, warrants or convertible debt issued to them in any offering of subscription rights, warrants or convertible debt to purchase our common stock should expect that they will, at the completion of the offering, own a smaller proportional economic interest and have diminished voting power in us than would otherwise be the case if they fully exercised their rights, warrants or convertible debt. We cannot state precisely the amount of any such dilution in share ownership or voting power because we do not know what proportion of the common stock would be purchased as a result of any such offering.

In addition, if the subscription price, warrant price or convertible debt price is less than our net asset value per share of common stock at the time of such offering, then our stockholders would experience an immediate

[Table of Contents](#)

dilution of the aggregate net asset value of their shares as a result of the offering. The amount of any such decrease in net asset value is not predictable because it is not known at this time what the subscription price, warrant price, convertible debt price or net asset value per share will be on the expiration date of such offering or what proportion of our common stock will be purchased as a result of any such offering. The risk of dilution is greater if there are multiple rights offerings. However, our board of directors will make a good faith determination that any offering of subscription rights, warrants or convertible debt would result in a net benefit to existing stockholders.

Finally, our common stockholders will bear will all costs and expenses incurred by us in connection with any proposed offering of subscription rights, warrants or convertible debt that are exchangeable for our common stock, whether or not such offering is actually completed by us.

We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.

Delays in investing the net proceeds raised in this offering may cause our performance to be worse than that of other fully invested business development companies or other lenders or investors pursuing comparable investment strategies. We cannot assure you that we will be able to identify any investments that meet our investment objective or that any investment that we make will produce a positive return. We may be unable to invest the net proceeds of this offering on acceptable terms within the time period that we anticipate or at all, which could harm our financial condition and operating results. We anticipate that, depending on market conditions and the amount of the capital, it may take us a substantial period of time to invest substantially all of the net proceeds from this offering in investments meeting our investment objective. During this period, we will invest the capital primarily in cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment. These securities may earn yields substantially lower than the income that we anticipate receiving once we are fully invested in accordance with our investment objective.

USE OF PROCEEDS

We intend to use substantially all of the net proceeds from the sale of our securities to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Reducing our borrowings may include the repurchase of certain debt instruments that could provide us with a net gain on extinguishment of debt, and increase certain fees payable to our investment adviser.

We anticipate that substantially all of the net proceeds from any offering of our securities will be used as described above within six to twelve months. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure—We may be unable to invest a significant portion of the net proceeds from an offering of our securities on acceptable terms within an attractive timeframe” for additional information regarding this matter. The supplement to this prospectus relating to an offering will more fully identify the use of proceeds from such an offering.

RATIOS OF EARNINGS TO FIXED CHARGES

For the fiscal years ended February 28, 2014 and 2013, February 29, 2012 and February 28, 2011 and 2010 and the six months ended August 31, 2014, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	Six months ended August 31, 2014	Year ended February 28, 2014	Year ended February 28, 2013	Year ended February 29, 2012	Year ended February 28, 2011	Year ended February 28, 2010
Earnings to Fixed Charges	2.36	2.44	6.75	11.23	7.49	(1.55)

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax provision (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and credit facility fees and amortization of deferred financing fees.

NOTE ABOUT FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed in the section entitled “Risk Factors.”

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 prospectus 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 regulated investment company and a small business investment company;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies; and
- the ability of our investment adviser to locate suitable investments for us and to monitor and effectively administer our investments.

You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus 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 prospectus.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus.

[Table of Contents](#)

Dividend Policy

The following table summarizes our dividends or distributions declared during fiscal 2009, 2010, 2011, 2012, 2013, 2014 and 2015:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount per Share</u>
May 22, 2008	May 30, 2008	June 13, 2008	\$ 3.90
August 19, 2008	August 29, 2008	September 15, 2008	\$ 3.90
December 8, 2008	December 18, 2008	December 29, 2008	\$ 2.50
Total Dividends Declared for Fiscal 2009			<u>\$ 10.30</u>
November 13, 2009	November 25, 2009	December 31, 2009	\$ 18.25(1)
Total Dividends Declared for Fiscal 2010			<u>\$ 18.25</u>
November 12, 2010	November 19, 2010	December 29, 2010	\$ 4.40(1)
Total Dividends Declared for Fiscal 2011			<u>\$ 4.40</u>
November 15, 2011	November 25, 2011	December 30, 2011	\$ 3.00(1)
Total Dividends Declared for Fiscal 2012			<u>\$ 3.00</u>
November 9, 2012	November 20, 2012	December 31, 2012	\$ 4.25(1)
Total Dividends Declared for Fiscal 2013			<u>\$ 4.25</u>
October 30, 2013	November 13, 2013	December 27, 2013	\$ 2.65(1)
Total Dividends Declared for Fiscal 2014			<u>\$ 2.65</u>
September 24, 2014	November 3, 2014	November 28, 2014	\$ 0.18(1)
September 24, 2014	February 2, 2015	February 27, 2015	\$ 0.22
Total Dividends Declared for Fiscal 2015			<u>\$ 0.40</u>

- (1) This dividend was paid by combination of shares of common stock and cash. Please see the discussion immediately following this table for more detail about the composition of this dividend.

Our distributions, if any, will be determined by our board of directors and paid out of assets legally available for distribution. Any such distributions will be taxable to our stockholders, including to those stockholders who receive additional shares of our common stock pursuant to our dividend reinvestment plan. The reinvested dividends under our dividend reinvestment plan increase our gross assets, which will result in higher management fees, and potentially income incentive fees and capital gains incentive fees payable to Saratoga Investment Advisors. Prior to January 2009, we paid quarterly dividends to our stockholders. However, in January 2009, we suspended the practice of paying quarterly dividends to our stockholders and made five dividend distributions (in December 2013, 2012, 2011, 2010 and 2009) to our stockholders in the form of a combination of cash and the issuance of shares of our common stock as discussed more fully below. On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash dividend to our shareholders. In this regard, our board of directors declared a dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

We are prohibited from making distributions that cause us to fail to maintain the asset coverage ratios stipulated by the 1940 Act, subject to certain exceptions, or that violate our debt covenants.

[Table of Contents](#)

Prior to the adoption of our new dividend policy described above, our board of directors believed that using our capital resources to build and diversify our portfolio served our stockholders' interests best by better positioning us to generate current income and capital appreciation on an increasing scale. Therefore, our board of directors determined to pay a 20.0% cash and 80.0% stock dividend with respect to a significant portion of our taxable income for our 2014, 2013, 2012, 2011 and 2010 fiscal years in accordance with an IRS revenue procedure or certain IRS private letter rulings. For more detailed information about these dividends, please see the discussion below.

In order to maintain our qualification as a RIC, we must for each fiscal year distribute an amount equal to at least 90.0% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses. In addition, we will be subject to federal excise taxes to the extent we do not distribute during the calendar year at least (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax. For the 2013 calendar year, the Company made distributions sufficient such that we did not incur any federal excise taxes. We may elect to withhold from distribution a portion of our ordinary income for the 2014 calendar year and/or portion of the capital gains in excess of capital losses realized during the one year period ending October 31, 2014, if any, and, if we do so, we would expect to incur federal excise taxes as a result.

We maintain an "opt out" dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders' cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically "opt out" of the dividend reinvestment plan so as to receive cash dividends.

Pursuant to a revenue procedure (Revenue Procedure 2010-12), or the Revenue Procedure, issued by the Internal Revenue Service, or IRS, the IRS indicated that it would treat distributions from certain publicly traded RICs (including BDCs) that were paid part in cash and part in stock as dividends that would satisfy the RIC's annual distribution requirements and qualify for the dividends paid deduction for federal income tax purposes. In order to qualify for such treatment, the Revenue Procedure required that at least 10.0% of the total distribution be payable in cash and that each stockholder have a right to elect to receive its entire distribution in cash. If too many stockholders elected to receive cash, each stockholder electing to receive cash must receive a proportionate share of the cash to be distributed (although no stockholder electing to receive cash may receive less than 10.0% of such stockholder's distribution in cash). This Revenue Procedure applied to distributions declared on or before December 31, 2012 with respect to taxable years ending on or before December 31, 2011.

Although this Revenue Procedure is no longer available and did not apply to our distributions for our fiscal year ended February 28, 2014, the revenue procedure was based upon certain applicable provisions of the Code and the Treasury regulations pursuant to which distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. Consistent with these provisions, the IRS has 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 20.0% of the aggregate declared distribution.

On October 30, 2013, our board of directors declared a dividend of \$2.65 per share payable on December 27, 2013, to common stockholders of record on November 13, 2013. 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 \$2.5 million or \$0.53 per share.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock, or 13.7% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.439 per share, which equaled the volume weighted average trading price per share of the common stock on December 11, 13, and 16, 2013.

[Table of Contents](#)

On November 9, 2012, our board of directors declared a dividend of \$4.25 per share payable on December 31, 2012, to common stockholders of record on November 20, 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 \$3.3 million in cash and 853,455 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.444 per share, which equaled the volume weighted average trading price per share of the common stock on December 14, 17 and 19, 2012.

On November 15, 2011, our board of directors declared a dividend of \$3.00 per share payable on December 30, 2011, to common stockholders of record on November 25, 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 \$2.0 million or \$0.60 per share.

Based on shareholder elections, the dividend consisted of \$2.0 million in cash and 599,584 shares of common stock, or 18.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$13.12 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2011.

On November 12, 2010, we declared a dividend of \$4.40 per share which was paid on December 29, 2010. Stockholders 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 \$1.2 million or \$0.44 per share.

Based on shareholder elections, the dividend consisted of \$1.2 million in cash and 596,235 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 10.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$17.8049 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2010.

On November 13, 2009, we declared a dividend of \$18.25 per share payable on December 31, 2009. Stockholders 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 stockholders was limited to \$2.1 million or \$0.25 per share.

Based on stockholder elections, the dividend consisted of \$2.1 million in cash and 8,648,725 shares of common stock, or 104.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 13.7% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to stockholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$1.5099 per share, which equaled the volume weighted average trading price per share of the common stock on December 24 and 28, 2009.

DIVIDEND REINVESTMENT PLAN

We have adopted a dividend reinvestment plan (the “Plan”) that provides that, unless you elect to receive your dividends or other distributions in cash, they will be automatically reinvested by the Plan Administrator, American Stock Transfer & Trust Company LLC, in additional shares of our common stock. If you elect to receive your dividends or other distributions in cash, you will receive them in cash paid by check mailed directly to you by the Plan Administrator. The reinvestment of our distributions does not relieve stockholders of any tax that may be payable on such distributions. For U.S. federal income tax purposes, stockholders will be treated as receiving the amount of the distributions made by us, which amount generally will be either equal to the amount of the cash distribution the stockholder would have received if the stockholder had elected to receive cash or, for shares issued by us, the fair market value of the shares issued to the stockholder.

No action is required on the part of a registered stockholder to have their cash dividend reinvested in shares of our common stock. When the share price of our common stock is trading above net asset value, we intend to primarily use newly issued shares to implement the plan. However, we reserve the right to purchase shares in the open market in connection with our implementation of the plan even if the share price of our common stock is trading below net asset value. Unless you or your brokerage firm decides to opt out of the Plan, the number of shares of common stock you will receive will be determined as follows:

(1) If we use newly issued shares under the Plan, we will issue the new shares at a price equal to 95% of the average of the market prices of our common stock at the close of trading on the ten trading days immediately preceding and ending on the date fixed by our board of directors for the payment of the dividend.

(2) If we use shares purchased in the open market under the Plan, the Plan Administrator will receive the dividend or distribution in cash and will purchase common stock in the open market, on the New York Stock Exchange or elsewhere, for the participants’ accounts. Shares purchased in the open market will be allocated to a participant based on the average purchase price, excluding any brokerage charges or other charges, of all shares purchased with respect to the dividend.

You may withdraw from the Plan at any time by giving written notice to the Plan Administrator, or by telephone in accordance with such reasonable requirements as we and the Plan Administrator may agree upon. If you withdraw or the Plan is terminated, you will receive a certificate for each whole share in your account under the Plan and you will receive a cash payment for any fraction of a share in your account. If you wish, the Plan Administrator will sell your shares and send you the proceeds, minus brokerage commissions.

The Plan Administrator maintains all common stockholders’ accounts in the Plan and gives written confirmation of all transactions in the accounts, including information you may need for tax records. Common stock in your account will be held by the Plan Administrator in non-certificated form. The Plan Administrator will forward to each participant any proxy solicitation material and will vote any shares so held only in accordance with proxies returned to us. Any proxy you receive will include all common stock you have received under the Plan.

There is no brokerage charge for reinvestment of your dividends or distributions in common stock.

Automatically reinvesting dividends and distributions does not mean that you do not have to pay income taxes due upon the reinvestment of such dividends and distributions. See “Material United States Federal Income Tax Considerations”.

If you hold your common stock with a brokerage firm that does not participate in the Plan, you will not be able to participate in the Plan and any dividend reinvestment may be effected on different terms than those described above. Consult your financial advisory for more information.

[Table of Contents](#)

Neither us nor the Plan Administrator nor its nominee or nominees shall be liable for any act done in good faith, or for any good faith omission to act, including without limitation, any claims of liability arising out of failure to terminate a participant's account upon the participant's death prior to receipt of notice in writing of such death, and with respect to the price at which shares are purchased or sold for the participant's account.

The Plan Administrator's fees under the Plan will be borne by us. There is no direct service charge to participants in the Plan; however, we reserve the right to amend or terminate the Plan, including amending the Plan to include a service charge payable by the participants, if in the judgment of the board of directors the change is warranted. Any amendment to the Plan, except amendments necessary or appropriate to comply with applicable law or the rules and policies of the SEC or any other regulatory authority, require us to provide at least 30 days written notice to each participant. Additional information about the Plan may be obtained from American Stock Transfer & Trust Company LLC, 59 Maiden Lane, New York, New York 10038.

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 prospectus. In addition to historical information, the following discussion and other parts of this prospectus 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 "Risk Factors" and "Note about Forward-Looking Statements" appearing elsewhere in this prospectus.

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

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, as described below 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, GSC Investment Corp. 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 GSC Investment Corp. assumed certain rights and obligations of Saratoga Investment Advisors under a debt commitment letter Saratoga Investment Advisors received from Madison Capital Funding LLC, which indicated Madison Capital Funding's willingness to provide GSC Investment Corp. with a \$40.0 million senior secured revolving credit facility, subject to the satisfaction of certain terms and conditions. In addition, GSC Investment Corp. 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, 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 closed, the Company entered into the Credit Facility, and the Company began doing business as Saratoga Investment Corp.

[Table of Contents](#)

We used the net proceeds from the private sale transaction and a portion of the funds available to us under the Credit Facility 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.

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”).

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 overallocation option. Interest on these notes is paid quarterly in arrears on February 15, May 15, August 15 and November 15, at a rate of 7.50% 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. The notes are listed on the NYSE under the trading symbol “SAQ” with a par value of \$25.00 per share.

Critical Accounting Policies

Basis of Presentation

The preparation of financial statements in accordance with U.S. generally accepted accounting principles (“U.S. 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.

[Table of Contents](#)

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 Advisers 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 Advisers 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 Advisers, independent valuation firm (to the extent applicable) and the audit committee of our board of directors.

Our investment in Saratoga Investment Corp. CLO 2013-1, 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.

[Table of Contents](#)

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 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. The Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. The Saratoga CLO remains 100% owned and managed by Saratoga Investment Corp. We receive a senior collateral management fee of 0.25% and a subordinate collateral management fee of 0.25% 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%.

[Table of Contents](#)

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;
- 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)).

Table of Contents

Pursuant to the investment advisory and management agreement that we had with GSCP (NJ), L.P., our former investment adviser and administrator, we had agreed to pay GSCP (NJ), L.P. as investment adviser a quarterly base management fee of 1.75% of the average value of our total assets (other than cash or cash equivalents but including assets purchased with borrowed funds) at the end of the two most recently completed fiscal quarters, and appropriately adjusted for any share issuances or repurchases during the applicable fiscal quarter, and an incentive fee.

The incentive fee had two parts:

- A fee, payable quarterly in arrears, equal to 20.0% of our pre-incentive fee net investment income, expressed as a rate of return on the value of the net assets at the end of the immediately preceding quarter, that exceeded a 1.875% quarterly (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter. Under this provision, in any fiscal quarter, our investment adviser received no incentive fee unless our pre-incentive fee net investment income exceeded the hurdle rate of 1.875%. Amounts received as a return of capital were not included in calculating this portion of the incentive fee. Since the hurdle rate was based on net assets, a return of less than the hurdle rate on total assets could still have resulted in an incentive fee.
- A fee, payable at the end of each fiscal year, equal to 20.0% of our net realized capital gains, if any, computed net of all realized capital losses and unrealized capital depreciation, in each case on a cumulative basis, less the aggregate amount of capital gains incentive fees paid to the investment adviser through such date.

We deferred cash payment of any incentive fee otherwise earned by our former investment adviser if, during the then most recent four full fiscal quarters ending on or prior to the date such payment was to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less liabilities) (before taking into account any incentive fees payable during that period) was less than 7.5% of our net assets at the beginning of such period. These calculations were appropriately pro-rated for the first three fiscal quarters of operation and adjusted for any share issuances or repurchases during the applicable period. Such incentive fee would become payable on the next date on which such test had been satisfied for the most recent four full fiscal quarters or upon certain terminations of the investment advisory and management agreement. We commenced deferring cash payment of incentive fees during the quarterly period ended August 31, 2007, and continued to defer such payments through the quarterly period ended May 31, 2010. As of July 30, 2010, the date on which GSCP (NJ), L.P. ceased to be our investment adviser and administrator, we owed GSCP (NJ), L.P. \$2.9 million in fees for services previously provided to us; of which \$0.3 million has been paid by us. GSCP (NJ), L.P. agreed to waive payment by us of the remaining \$2.6 million in connection with the consummation of the stock purchase transaction with Saratoga Investment Advisors and certain of its affiliates described elsewhere in this Annual Report.

The terms of the investment advisory and management agreement with Saratoga Investment Advisors, our current investment adviser, are substantially similar to the terms of the investment advisory and management agreement we had entered into with GSCP (NJ), L.P., our former investment adviser, except for the following material distinctions in the fee terms:

- The capital gains portion of the incentive fee was reset with respect to gains and losses from May 31, 2010, and therefore losses and gains incurred prior to such time will not be taken into account when calculating the capital gains fee payable to Saratoga Investment Advisors and, as a result, Saratoga Investment Advisors will be entitled to 20.0% of net gains that arise after May 31, 2010. In addition, the cost basis for computing realized gains and losses on investments held by us as of May 31, 2010 equal the fair value of such investment as of such date. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P., the capital gains fee was calculated from March 21, 2007, and the gains were substantially outweighed by losses.

[Table of Contents](#)

- Under the “catch up” provision, 100.0% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income that exceeds 1.875% (7.5% annualized) but is less than or equal to 2.344% in any fiscal quarter is payable to Saratoga Investment Advisors. This will enable Saratoga Investment Advisors to receive 20.0% of all net investment income as such amount approaches 2.344% in any quarter, and Saratoga Investment Advisors will receive 20.0% of any additional net investment income. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P. only received 20.0% of the excess net investment income over 1.875%.
- We will no longer have deferral rights regarding incentive fees in the event that the distributions to stockholders and change in net assets is less than 7.5% for the preceding four fiscal quarters.

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, 2014 (\$ in millions)	At February 28, 2014 (\$ in millions)	At February 28, 2013 (\$ in millions)	At February 29, 2012 (\$ in millions)
Number of investments(1)	64	59	44	30
Number of portfolio companies(1)	39	37	28	21
Average investment size(1)	\$ 3.4	\$ 3.2	\$ 2.9	\$ 2.3
Weighted average maturity(1)	3.9yrs	4.3yrs	3.7yrs	3.0yrs
Number of industries(1)	18	16	15	15
Average investment per portfolio company(1)	\$ 5.5	\$ 5.0	\$ 4.6	\$ 3.3
Non-performing or delinquent investments(1)	\$ 0.4	\$ 0.3	\$ 6.7	\$ 0.0
Fixed rate debt (% of interest bearing portfolio)(2)	\$ 76.6(37.8)%	\$ 70.6(40.1)%	\$ 53.4(43.9)%	\$ 18.7(29.3)%
Weighted average current coupon(2)	13.0%	12.5%	12.6%	13.0%
Floating rate debt (% of interest bearing portfolio)(2)	\$126.0(62.2)%	\$ 105.4(59.9)%	\$ 68.2(56.1)%	\$ 45.1(70.7)%
Weighted average current spread over LIBOR(2)	8.5%	7.3%	7.5%	7.4%

(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, 2014, we made \$31.8 million investments in new or existing portfolio companies and had \$15.7 million in aggregate amount of exits and repayments resulting in net investments of \$16.1 million for the period. During the three months ended August 31, 2013, we made \$54.9 million investments in the 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 six months ended August 31, 2014, we made \$53.3 million investments in new or existing portfolio companies and had \$24.4 million in aggregate amount of exits and repayments resulting in net

[Table of Contents](#)

investments of \$28.9 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 fiscal year ended February 28, 2014, we invested \$121.1 million in new or existing portfolio companies and had \$71.6 million in aggregate amount of exits and repayments resulting in net investments of \$49.5 million for the year.

During the fiscal year ended February 28, 2013, we invested \$71.6 million in new or existing portfolio companies and had \$21.5 million in aggregate amount of exits and repayments resulting in net investments of \$50.1 million for the year.

During the fiscal year ended February 29, 2012, we invested \$38.7 million in new or existing portfolio companies and had \$33.6 million in aggregate amount of exits and repayments resulting in net investments of \$5.1 million for the year.

Our portfolio composition at August 31, 2014, February 28, 2014, February 28, 2013, and February 29, 2012 at fair value was as follows:

Portfolio composition

	At August 31, 2014		At February 28, 2014		At February 28, 2013		At February 29, 2012	
	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield
Syndicated loans*	11.3%	6.5%	15.7%	6.2%	— %	— %	— %	— %
First lien term loans*	48.9	11.0	39.0	10.7	54.0	10.0	38.0	10.1
Second lien term loans	12.4	11.5	13.5	11.1	6.2	11.1	9.3	10.3
Senior secured notes*	10.6	14.7	14.6	13.8	15.0	14.8	11.2	16.0
Senior unsecured loans	—	—	—	—	—	—	6.3	15.0
Unsecured notes	2.5	14.2	2.7	15.2	3.1	16.4	2.1	19.3
Saratoga CLO subordinated notes	8.5	23.9	9.5	18.6	16.5	27.1	27.1	20.2
Equity interests	5.8	N/A	5.0	N/A	5.2	N/A	6.0	N/A
Total	100.0%	12.2%	100.0%	11.8%	100.0%	14.0%	100.0%	13.4%

* Syndicated loans, first lien term loans and senior secured debt instruments are all securities in which we hold a first lien position. The distinction between the two categories is that senior secured notes are bonds that are issued by investment banks and purchased by us, while all other debt instruments we hold are term loans.

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.

[Table of Contents](#)

The CMR distribution of our investments at August 31, 2014, February 28, 2014 and February 28, 2013 was as follows:

Portfolio CMR distribution

Color Score	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Green	\$ 179,293	75.9%	\$ 159,207	77.4%	\$ 100,170	64.6%
Yellow	15,531	6.6	8,466	4.1	8,143	5.3
Red	7,785	3.3	8,270	4.0	13,229	8.5
N/A(1)	33,711	14.2	29,902	14.5	33,538	21.6
Total	\$ 236,320	100.0%	\$ 205,845	100.0%	\$ 155,080	100.0%

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

The CMR distribution of Saratoga CLO investments at August 31, 2014, February 28, 2014 and February 28, 2013 was as follows:

Portfolio CMR distribution

Color Score	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Green	\$ 289,563	96.2%	\$ 284,796	94.8%	\$ 318,181	85.0%
Yellow	8,068	2.7	14,106	4.7	50,677	13.5
Red	3,389	1.1	1,589	0.5	5,562	1.5
N/A(1)						
Total	\$ 301,020	100.0%	\$ 300,491	100.0%	\$ 374,420	100.0%

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

Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at August 31, 2014 at February 28, 2014, February 28, 2013, and February 29, 2012, was composed of \$304.4 million, \$301.3 million, \$383.3 million, and \$380.2 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 Saratoga CLO 2013-1 LTD. constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility”). We do not consolidate the Saratoga CLO portfolio in our financial statements. Accordingly, the metrics above do not include the underlying Saratoga CLO portfolio investments. However, at August 31, 2014, \$297.6 million or 98.9% of the Saratoga CLO portfolio investments in terms of market value had a CMR color rating of green or yellow and \$7.8 million or 3.3% had a color rating of red. At February 28, 2014, \$298.9 million or 99.5% of the Saratoga CLO portfolio investments in terms of market value had a CMR (as defined below) color rating of green or yellow and \$8.3 million or 4.0% had a color rating of red. 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 \$13.2 million or 8.5% had a color rating of red.

Portfolio composition by industry grouping at fair value

The following table shows our portfolio composition by industry grouping at fair value at August 31, 2014, February 28, 2014 and February 28, 2013:

	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Business Services	\$ 47,700	20.2%	\$ 57,330	27.9%	\$ 22,155	14.3%
Healthcare Services	42,227	17.9	23,810	11.6	12,400	8.0
Consumer Services	16,963	7.2	21,897	10.6	10,654	6.9
Software	24,011	10.2	21,738	10.5	—	—
Structured Finance Securities(1)	20,090	8.5	19,570	9.5	25,517	16.5
Food and Beverage	12,913	5.4	17,286	8.4	18,199	11.7
Automotive	10,672	4.5	10,621	5.2	14,805	9.5
Electronics	6,554	2.8	6,741	3.3	6,721	4.3
Metals	5,785	2.4	6,645	3.2	6,724	4.3
Consumer Products	5,378	2.3	6,118	3.0	13,727	8.9
Manufacturing	5,940	2.5	5,970	2.9	—	—
Environmental	5,812	2.5	5,249	2.5	2,992	1.9
Publishing	1,489	0.6	1,191	0.6	5,631	3.6
Building Products	1,956	0.8	901	0.4	267	0.2
Aerospace	—	—	344	0.2	3,500	2.3
Homebuilding	411	0.2	344	0.2	315	0.2
Education	101	0.0	90	0.0	292	0.2
Logistics	—	—	—	—	11,181	7.2
Technology	12,759	5.4				
Media	9,454	4.0				
Utilities	6,105	2.6				
Total	\$ 236,320	100.0%	\$ 205,845	100.0%	\$ 155,080	100.0%

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

The following table shows Saratoga CLO's portfolio composition by industry grouping at fair value at August 31, 2014, February 28, 2014 and February 28, 2013:

	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Healthcare	\$ 34,718	11.5%	\$ 37,896	12.6%	\$ 40,502	10.8%
Business Equipment and Services	31,543	10.5	28,386	9.4	28,300	7.6
Chemicals/Plastics	27,214	9.0	26,345	8.8	28,817	7.7
Conglomerate	19,946	6.6	24,285	8.1	29,888	8.0
Industrial Equipment	19,160	6.4	24,143	8.0	21,864	5.8
Aerospace and Defense	10,491	3.5	20,465	6.8	20,914	5.6
Retailers (Except Food and Drugs)	17,670	5.9	15,314	5.1	19,050	5.1
Food Products	9,956	3.3	12,450	4.1	21,016	5.6
Drugs	13,260	4.4	11,873	4.0	18,226	4.9
Electronics/Electric	12,013	4.0	11,861	4.0	26,321	7.0

[Table of Contents](#)

	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Automotive	\$ 6,424	2.1%	\$ 10,279	3.4%	\$ 10,625	2.8%
Leisure Goods/Activities/Movies	16,271	5.4	8,990	3.0	8,879	2.4
Financial Intermediaries	8,731	2.9	8,138	2.7	20,199	5.4
Telecommunications	6,163	2.0	6,627	2.2	10,951	2.9
Utilities	5,754	1.9	5,830	1.9	9,932	2.6
Food Services	8,502	2.8	5,612	1.9	5,491	1.5
Insurance	5,482	1.8	5,517	1.8	6,648	1.8
Food/Drug Retailers	5,840	1.9	5,012	1.7	4,329	1.1
Nonferrous Metals/Minerals	1,973	0.7	4,328	1.4	5,187	1.4
Brokers/Dealers/Investment Houses	4,920	1.6	3,740	1.2	3,311	0.9
Building and Development	494	0.2	3,246	1.1	2,124	0.6
Publishing	5,185	1.7	2,913	1.0	5,657	1.5
Containers/Glass Products	6,387	2.1	2,906	1.0	2,009	0.5
Cable and Satellite Television	2,582	0.9	2,666	0.9	4,058	1.1
Oil & Gas	5,714	1.9	2,488	0.8	—	—
Telecommunications/Cellular	2,423	0.8	2,460	0.8	3,076	0.8
Broadcast Radio and Television	489	0.2	1,505	0.5	1,010	0.3
Computers & Electronics	—	—	1,479	0.5	—	—
Ecological Services and Equipment	826	0.3	1,241	0.4	753	0.2
Media	2,007	0.7	1,000	0.3	—	—
Gaming And Hotels	—	—	500	0.2	—	—
Lodging and Casinos	5,438	1.8	499	0.2	7,400	2.0
Leasing	—	—	497	0.2	—	—
Beverage and Tobacco	—	—	—	—	3,037	0.8
Home Furnishings	—	—	—	—	2,984	0.8
Steel	—	—	—	—	1,001	0.3
Clothing/Textiles	—	—	—	—	861	0.2
Health Insurance	483	0.2	—	—	—	—
Healthcare and Pharmaceuticals	2,961	1.0	—	—	—	—
Total	<u>\$ 301,020</u>	<u>100.0%</u>	<u>\$ 300,491</u>	<u>100.0%</u>	<u>\$ 374,420</u>	<u>100.0%</u>

Portfolio composition by geographic location at fair value

The following table shows our portfolio composition by geographic location at fair value at August 31, 2014, February 28, 2014 and February 28, 2013. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Southeast	\$ 94,390	39.9%	\$ 83,161	40.4%	\$ 70,476	45.4%
West	35,943	15.2	44,470	21.6	26,573	17.1
Midwest	45,119	19.1	41,453	20.1	18,469	11.9
Other(1)	20,090	8.5	19,570	9.5	25,517	16.5
Northeast	40,778	17.3	17,191	8.4	14,045	9.1
Total	<u>\$ 236,320</u>	<u>100.0%</u>	<u>\$ 205,845</u>	<u>100.0%</u>	<u>\$ 155,080</u>	<u>100.0%</u>

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

Results of operations

Operating results for the three and six months ended August 31, 2014 and 2013 are as follows:

	For the three months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Total investment income	\$ 6,475	\$ 5,388
Total expenses, net	4,403	3,116
Net investment income	2,072	2,272
Net realized gains	360	546
Net unrealized gains (losses)	704	(2,859)
Net increase/(decrease) in net assets resulting from operations	\$ 3,136	\$ (41)

	For the six months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Total investment income	\$ 12,619	\$ 11,406
Total expenses, net	8,486	6,664
Net investment income	4,133	4,742
Net realized gains	442	1,074
Net unrealized gains (losses)	319	(2,057)
Net increase in net assets resulting from operations	\$ 4,894	\$ 3,759

Investment income

The composition of our investment income for the three and six months ended August 31, 2014 and 2013 was as follows:

	For the three months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Interest from investments	\$ 6,037	\$ 4,792
Management fee income from Saratoga CLO	375	481
Interest from cash and cash equivalents and other income	63	115
Total	\$ 6,475	\$ 5,388

	For the six months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Interest from investments	\$ 11,639	\$ 9,963
Management fee income from Saratoga CLO	767	979
Interest from cash and cash equivalents and other income	213	464
Total	\$ 12,619	\$ 11,406

[Table of Contents](#)

For the three months ended August 31, 2014, total investment income increased \$1.1 million, or 20.2% compared to the three months ended August 31, 2013. Interest income from investments increased \$1.2 million, or 26.0%, to \$6.0 million for the three months ended August 31, 2014, from \$4.8 million for the three months ended August 31, 2013. This reflects an increase of 25.8% in total investments to \$236.3 million at August 31, 2014 from \$187.8 million at August 31, 2013, with the weighted average yield also decreasing to 12.2% from 13.2%.

For the six months ended August 31, 2014, total investment income increased \$1.2 million, or 10.6%, compared to the six months ended August 31, 2013. Interest income from investments increased \$1.6 million, or 16.8%, to \$11.6 million for the six months ended August 31, 2014, from \$10.0 million for the six months ended August 31, 2013. This reflects an increase of 25.8% in total investments to \$236.3 million at August 31, 2014 from \$187.8 million at August 31, 2013, with the weighted average yield also decreasing to 12.2% from 13.2%.

For the three and six months ended August 31, 2014 and 2013, total PIK income was \$0.3 million and \$0.6 million, and \$0.3 million and \$0.5 million, respectively.

The Saratoga CLO was refinanced in October 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 receive from Saratoga CLO has declined from historical periods decreasing \$0.1 million, or 21.9%, to \$0.4 million and \$0.2 million, or 21.6%, to \$0.8 million, respectively, for the three and six months ended August 31, 2014 from \$0.5 million and \$1.0 million for the three and six months ended August 31, 2013, respectively.

Operating expenses

The composition of our expenses for the three and six months ended August 31, 2014 and 2013 was as follows:

Operating Expenses

	For the three months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Interest and debt financing expenses	\$ 1,809	\$ 1,604
Base management fees	1,037	811
Professional fees	276	235
Incentive management fees	790	(40)
Administrator expenses	250	250
Insurance	84	119
Directors fees and expenses	56	45
General and administrative and other expenses	101	92
Total expenses	\$ 4,403	\$ 3,116

[Table of Contents](#)

	For the six months ended	
	August 31, 2014	August 31, 2013
	(\$ in thousands)	
Interest and debt financing expenses	\$ 3,597	\$ 2,731
Base management fees	2,006	1,548
Professional fees	711	566
Incentive management fees	1,171	781
Administrator expenses	500	500
Insurance	168	239
Directors fees and expenses	109	96
General and administrative and other expenses	224	203
Total expenses	\$ 8,486	\$ 6,664

For the three months ended August 31, 2014, total operating expenses increased \$1.3 million, or 41.3% compared to the three months ended August 31, 2013. For the six months ended August 31, 2014, total operating expenses increased \$1.8 million or 27.3% compared to the six months ended August 31, 2013.

For the three months ended August 31, 2014 and 2013, the increase in interest and credit facility expense is primarily attributable to an increase in the amount of outstanding debt as compared to the prior periods, with higher levels of both the SBA debentures and the revolving credit facility outstanding. For the three months ended August 31, 2014, the weighted average interest rate on our outstanding indebtedness was 5.14% compared to 5.53% for the three months ended August 31, 2013. This decrease was primarily driven by an increase in SBA debentures that carry a lower interest rate.

For the six months ended August 31, 2014 and 2013, the increase in interest and credit facility expense is primarily attributable to an increase in the amount of outstanding debt as compared to the prior periods, with higher levels of both the SBA debentures and the revolving credit facility outstanding. For the six months ended August 31, 2014, the weighted average interest rate on our outstanding indebtedness was 5.22% compared to 4.85% for the six months ended August 31, 2013. This increase was primarily driven by the interest rate on the note issuance.

For the three months ended August 31, 2014, base management fees increased \$0.2 million, or 27.9% compared to the three months ended August 31, 2013. For the six months ended August 31, 2014, base management fees increased \$0.5 million, or 29.6% compared to the six months ended August 31, 2013. The increase in base management fees results from the increase in the average value of our total assets, less cash and cash equivalents, from \$183.9 million to \$235.1 million as of August 31, 2013 and 2014, respectively.

For the three and six months ended August 31, 2014, professional fees increased \$0.04 million or 17.4%, and \$0.1 million, or 25.6%, respectively, compared to the three and six months ended August 31, 2013.

For the three months ended August 31, 2014, incentive management fees increased \$0.8 million to \$0.8 million, compared to a reduction of \$0.04 million for the three months ended August 31, 2013. For the six months ended August 31, 2014, incentive management fees increased \$0.4 million or 49.9% compared to the six months ended August 31, 2013. The increase in incentive management fees is primarily attributable to an increase in accrued incentive fees related to higher net investment income and incentive fee capital gains.

As discussed above, the increase in interest and credit facility expense for the three and six months ended August 31, 2014 and 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, 2014, the weighted average interest rate on the outstanding borrowings under the Credit Facility and notes payable was 7.50%, however the notes were only issued and outstanding from May 10, 2013, while they were outstanding for the full six months ended August 31, 2014. For the three months ended August 31, 2014 and 2013, the weighted average interest rate on the

[Table of Contents](#)

outstanding borrowings of the SBA debentures was 3.16% and 3.16%, respectively. For the six months ended August 31, 2014 and 2013, the weighted average interest rate on the outstanding borrowings of the SBA debentures was 3.16% and 2.90%, respectively.

Net realized gains/losses on sales of investments

For the three months ended August 31, 2014, the Company had \$15.7 million of sales, repayments, exits or restructurings resulting in \$0.4 million of net realized gains.

For the six months ended August 31, 2014, the Company had \$24.4 million of sales, repayments, exits or restructurings resulting in \$0.4 million of net realized gains.

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 \$1.1 million of net realized gains.

Net unrealized appreciation/depreciation on investments

For the three months ended August 31, 2014, our investments had net unrealized appreciation of \$0.7 million versus net unrealized depreciation of \$2.9 million for the three months ended August 31, 2013. For the six months ended August 31, 2014, our investments had net unrealized appreciation of \$0.3 million versus net unrealized depreciation of \$2.1 million for the six months ended August 31, 2013. The most significant cumulative changes in unrealized appreciation and depreciation for the six months ended August 31, 2014, were the following:

Six Months ended August 31, 2014

<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	\$ 5,785	\$ (3,075)	\$ (859)
Saratoga CLO	Other/Structured Finance Securities	16,556	20,090	3,534	520
USS Parent Holding Corp.	Voting Common Stock	3,026	5,567	2,541	539

The \$0.9 million of unrealized depreciation in our investment in Elyria Foundry Company, LLC was due to a decline in the company's performance as a result of volume declines from key energy customers.

The \$0.5 million of unrealized appreciation in our investment in the Saratoga CLO subordinated notes was due to a decrease in the discount rate from the previous year end.

The \$0.5 million of unrealized appreciation in our investment in the common stock of USS Parent Holding Corp. was due to the sale of the company to a private equity firm.

[Table of Contents](#)

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.

Changes in net assets resulting from operations

For the three months ended August 31, 2014, we recorded a net increase in net assets resulting from operations of \$3.1 million versus a net decrease in net assets resulting from operations of \$0.04 million for the three months ended August 31, 2013. Based on 5,379,616 and 4,730,116 weighted average common shares outstanding for the three months ended August 31, 2014 and August 31, 2013, respectively, our per share net increase in net assets resulting from operations was \$0.58 for the three months ended August 31, 2014 versus a per share net decrease in net assets from operations of \$(0.01) for the three months ended August 31, 2013.

For the six months ended August 31, 2014, we recorded a net increase in net assets resulting from operations of \$4.9 million versus a net increase in net assets resulting from operations of \$3.8 million for the six months ended August 31, 2013. Based on 5,379,616 and 4,730,116 weighted average common shares outstanding for the six months ended August 31, 2014 and August 31, 2013, respectively, our per share net increase in net assets resulting from operations was \$0.91 for the six months ended August 31, 2014 versus a per share net increase in net assets from operations of \$0.79 for the six months ended August 31, 2013.

[Table of Contents](#)

Operating results for the fiscal years ended February 28, 2014, February 28, 2013 and February 29, 2012 are as follows:

	For the Year Ended		
	February 28, 2014	February 28, 2013	February 29, 2012
	(\$ in thousands)		
Total investment income	\$ 22,893	\$ 17,007	\$ 13,512
Total expenses, net	13,772	9,979	7,811
Net investment income	9,121	7,028	5,701
Net realized gains (losses)	1,271	431	(12,186)
Net unrealized gains	(1,648)	7,143	19,760
Net increase in net assets resulting from operations	\$ 8,744	\$ 14,602	\$ 13,275

Investment income

The composition of our investment income for the fiscal years ended February 28, 2014, February 28, 2013 and February 29, 2012 are as follows:

	February 28, 2014	February 28, 2013	February 29, 2012
		(\$ in thousands)	
Interest from investments	\$ 20,179	\$ 14,444	\$ 11,254
Management fees from Saratoga CLO	1,775	2,000	2,012
Interest from cash and cash equivalents and other income	939	563	246
Total	\$ 22,893	\$ 17,007	\$ 13,512

For the fiscal year ended February 28, 2014, total investment income increased \$5.9 million, or 34.6% compared to the fiscal year ended February 28, 2013. Interest income from investments increased \$5.7 million, or 39.7%, to \$20.2 million for the year ended February 28, 2014 from \$14.4 million for the fiscal year ended February 28, 2013. This reflects an increase of 32.7% in total investments to \$205.8 million at February 28, 2014 from \$155.1 million at February 28, 2013, while the weighted average current coupon remained relatively unchanged at 12.5%.

For the fiscal year ended February 28, 2013, total investment income increased \$3.5 million, or 25.9% compared to the fiscal year ended February 29, 2012. Interest income from investments increased \$3.2 million, or 28.4%, to \$14.4 million for the year ended February 28, 2013 from \$11.2 million for the fiscal year ended February 29, 2012.

For the fiscal year ended February 29, 2012, total investment income decreased \$0.6 million, or 4.7% compared to the fiscal year ended February 28, 2011. Interest income from our investment in the subordinated notes of Saratoga CLO increased \$0.9 million, or 27.4%, to \$4.2 million for the year ended February 29, 2012 from \$3.3 million for the fiscal year ended February 28, 2011.

For the fiscal years ended February 28, 2014, February 28, 2013, and February 29, 2012, total PIK income was \$0.9 million, \$1.1 million, and \$1.4 million, respectively.

The Saratoga CLO was refinanced in October 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.

Operating expenses

The composition of our operating expenses for the years ended February 28, 2014, February 28, 2013 and February 29, 2012 are as follows:

Operating Expenses

	February 28, 2014	February 28, 2013	February 29, 2012
		(\$ in thousands)	
Interest and credit facility expense	\$ 6,084	\$ 2,540	\$ 1,298
Base management fees	3,327	2,107	1,618
Professional fees	1,212	1,191	1,455
Incentive management fees	691	2,045	1,257
Administrator expenses	1,000	1,000	1,000
Insurance expenses	443	516	579
Directors fees	205	207	209
General and administrative and other expenses	810	373	395
Total expenses	<u>\$ 13,772</u>	<u>\$ 9,979</u>	<u>\$ 7,811</u>

For the year ended February 28, 2014, total operating expenses before manager expense waiver and reimbursement increased \$3.8 million, or 38.0% compared to the fiscal year ended February 28, 2013. For the year ended February 28, 2013, total operating expenses before manager expense waiver and reimbursement increased \$2.2 million, or 27.8% compared to the fiscal year ended February 29, 2012.

For the years ended February 28, 2014 and 2013, the increase in interest and credit facility expense is primarily attributable to an increase in outstanding debt during the year from the issuance of \$48.3 million notes during the year ended February 28, 2013, and the increase of our SBA debentures during both years, respectively. For the year ended February 28, 2014, the weighted average interest rate on our outstanding indebtedness was 5.35% compared to 6.35% for the fiscal year ended February 28, 2013 and 7.50% for the fiscal year ended February 29, 2012. This decrease was primarily driven by increased SBA debentures that have a lower interest rate.

For the year ended February 28, 2014, base management fees increased \$1.2 million, or 57.9% compared to the fiscal year ended February 28, 2013. The increase in base management fees results from the increase in the average value of our total net assets from \$108.7 million to \$114.9 million as of February 28, 2013 and 2014, respectively. For the year ended February 28, 2013, base management fees increased \$0.5 million, or 30.3% compared to the fiscal year ended February 29, 2012. The increase in base management fees results from the increase in the average value of our total net assets.

For the year ended February 28, 2014, professional fees increased \$0.02 million, or 1.8% compared to the fiscal year ended February 28, 2013. For the year ended February 28, 2013, professional fees decreased \$0.3 million, or 18.2% compared to the fiscal year ended February 29, 2012.

For the year ended February 28, 2014, incentive management fees decreased \$1.4 million, or 66.2% compared to the fiscal year ended February 28, 2013. The decrease in incentive management fees is primarily attributable to the second part of the incentive fee accrual, with the year ending February 28, 2013 being an accrual of \$1.0 million as compared to the year ending February 28, 2014 being a reversal of the accrual of \$0.3 million. For the year ended February 28, 2013, incentive management fees increased \$0.8 million, or 62.7% compared to the fiscal year ended February 29, 2012. The increase in incentive management fees is primarily attributable to an increase in accrued incentive fees related to net investment income.

As discussed above, the increase in interest and credit facility expense for the years ended February 28, 2014, February 28, 2013 and February 29, 2012 is primarily attributable to an increase in the amount of

[Table of Contents](#)

outstanding debt as compared to the prior periods. For the years ended February 28, 2014, February 28, 2013 and February 29, 2012, the weighted average interest rate on the outstanding borrowings under the Credit Facility was 7.50%, 7.50% and 7.50%, respectively. For the years ended February 28, 2014 and February 28, 2013, the weighted average interest rate on the outstanding borrowings of the SBA debentures was 3.03% and 1.42%, respectively. There were no outstanding borrowings for the year ended February 29, 2012.

Net realized gains/losses on sales of investments

For the fiscal year ended February 28, 2014, the Company had \$71.6 million of sales, repayments, exits or restructurings resulting in \$1.3 million of net realized gains. The most significant realized gains and losses during the year ended February 28, 2014 were as follows:

Fiscal year ended February 28, 2014

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
			(\$ in thousands)	
Penton Media, Inc.	First Lien Term Loan	\$ 4,887	\$4,681	\$ 206
Sourcehov, LLC.	Second Lien Term Loan	3,030	2,659	371
Worldwide Express Operations, LLC	Warrants	128	—	128

For the fiscal year ended February 28, 2013, the Company had \$21.5 million of sales, repayments, exits or restructurings resulting in \$0.6 million of net realized gains. The most significant realized gains and losses during the year ended February 28, 2013 were as follows:

Fiscal year ended February 28, 2013

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
			(\$ in thousands)	
Grant US Holdings LLP	Second Lien Term Loan	\$ 183	\$—	\$ 183
Energy Alloys LLC	Warrants	146	—	146

For the fiscal year ended February 29, 2012, the Company had \$33.6 million of sales, repayments, exits or restructurings resulting in \$12.2 million of net realized losses. The most significant realized gains and losses during the year ended February 29, 2012 were as follows:

Fiscal year ended February 29, 2012

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
			(\$ in thousands)	
Grant US Holdings LLP	Second Lien Term Loan	\$ —	\$(6,348)	\$ (6,348)
Pracs Institute Ltd.	Second Lien Term Loan	—	(4,078)	(4,078)
Bankruptcy Management Solutions, Inc.	Second Lien Term Loan	223	(2,645)	(2,422)

Net unrealized appreciation/depreciation on investments

For the year ended February 28, 2014, our investments had a decrease in net unrealized depreciation of \$1.6 million versus an increase in net unrealized appreciation of \$7.0 million for the year ended February 28, 2013. The most significant cumulative changes in unrealized appreciation and depreciation for the year ended February 28, 2014, were the following:

Fiscal year ended February 28, 2014

<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)	
Saratoga CLO	Other/Structured Finance Securities	\$16,556	\$19,570	\$ 3,014	\$ (3,558)
Targus Holdings, Inc.	Common Stock	567	730	163	(2,595)
USS Parent Holding Corp.	Voting Common Stock	3,026	5,028	2,002	2,162
Group Dekko, Inc.	Second Lien Term Loan	6,902	6,741	(161)	(56)
Elyria Foundry Company, LLC	Senior Secured Notes	9,037	6,777	(2,260)	(2,259)

For the year ended February 28, 2013, our investments had an increase in net unrealized appreciation of \$7.0 million versus an increase in net unrealized appreciation of \$19.8 million for the year ended February 29, 2012. The most significant cumulative changes in unrealized appreciation and depreciation for the year ended February 28, 2013, were the following:

Fiscal year ended February 28, 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)	
Saratoga CLO	Other/Structured Finance Securities	\$18,945	\$25,517	\$ 6,572	\$ 4,266
Targus Holdings, Inc.	Common Stock	567	3,325	2,758	649
USS Parent Holding Corp.	Voting Common Stock	3,026	2,866	(160)	641
Group Dekko, Inc.	Second Lien Term Loan	6,825	6,721	(104)	464
Worldwide Express Operations, LLC	First Lien Term Loan	6,461	6,504	43	352
Penton Media, Inc.	First Lien Term Loan	4,497	4,670	173	798

For the year ended February 29, 2012, our investments had an increase in net unrealized appreciation of \$19.8 million versus an increase in net unrealized appreciation of \$36.4 million for the year ended February 28, 2011. The most significant cumulative changes in unrealized appreciation and depreciation for the year ended February 29, 2012, were the following:

Fiscal year ended February 29, 2012

<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)	
Saratoga CLO	Other/Structured Finance Securities	\$23,541	\$25,846	\$ 2,305	\$ 6,938
Targus Holdings, Inc.	Common Stock	567	2,676	2,109	206
USS Parent Holding Corp.	Voting Common Stock	3,026	2,225	(801)	603
Penton Media, Inc.	First Lien Term Loan	4,281	3,655	(626)	(534)

[Table of Contents](#)

The \$6.9 million net unrealized appreciation in our investment in the Saratoga CLO subordinated notes was due to higher cash flow projections based on an increase in principal balance and an improvement in the overcollateralization ratios, a decrease in the assumed portfolio default rate (based on better than forecast actual default rates and improved default forecasts) and an improvement in reinvestment assumptions based on current market conditions and projections. In addition, for the year ended February 29, 2012 we had approximately \$15.7 million of unrealized appreciation due to the reversal of prior period unrealized depreciation recorded upon the exit of certain investments including approximately \$6.1 million related to Energy Alloys, L.L.C., \$6.3 million related to Grant U.S. Holdings LLP, \$2.3 million related to Bankruptcy Management Solutions and \$1.1 million related to Pracs Institute, LTD.

Changes in net assets resulting from operations

For the fiscal years ended February 28, 2014, February 28, 2013 and February 29, 2012 we recorded a net increase in net assets resulting from operations of \$8.7 million, \$14.6 million, and \$13.3 million, respectively. Based on 4,920,517 weighted average common shares outstanding as of February 28, 2014, our per share net increase in net assets resulting from operations was \$1.78 for the fiscal year ended February 28, 2014. This compares to a per share net increase in net assets resulting from operations of \$3.55 for the fiscal year ended February 28, 2013 (based on 4,110,484 weighted average common shares outstanding as of February 28, 2013), and a per share net increase in net assets resulting from operations of \$3.87 for the fiscal year ended February 29, 2012 (based on 3,434,345 weighted average common shares outstanding as of February 29, 2012). These increases do not reflect the impact of the payment of any dividends.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We intend to continue to generate cash primarily from cash flows from operations, including interest earned from our investments in debt in middle market companies, 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 SBA debenture drawdowns and 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 30, 2014 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 30, 2015 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 30, 2015 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

[Table of Contents](#)

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 309.5% as of August 31, 2014, 338.1% as of February 28, 2014 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.

Madison revolving credit facility

Below is a summary of the terms of the senior secured revolving credit facility we entered into with Madison Capital Funding (the "Credit 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 Credit 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 Credit 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.

The Credit 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 Credit 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 Credit 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 Credit 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 Credit Facility.

Revolving Period and Maturity Date. The Company may make and repay borrowings under the Credit Facility for a period of three years following the closing of the Credit Facility (the "Revolving Period"). The

[Table of Contents](#)

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 Credit 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 Credit Facility that the principal amount outstanding under the Credit 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 Credit Facility, to accrued interest and commitment fees and any breakage costs payable to the lenders under the Credit 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 Credit 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 Credit 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 Credit 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.

Reserve Account. The Credit 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

Table of Contents

Company acquires a revolver or delayed draw loan asset and requests a related borrowing under the Credit 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 Credit 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 Credit 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 Credit Facility contains certain negative covenants, customary representations and warranties and affirmative covenants and events of default. The Credit 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 Credit 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 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 Credit Facility imposes certain additional conditions to the acquisition and pledge of additional loan assets. Among other things, the Company may not

[Table of Contents](#)

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 Credit 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.

On September 17, 2014, we entered into a second amendment to the Revolving Facility with Madison Capital Funding LLC to, among other things:

- extend the commitment termination date from February 24, 2015 to September 17, 2017;
- extend the maturity date of the Revolving Facility from February 24, 2020 to September 17, 2022 (unless terminated sooner upon certain events);
- reduce the applicable margin rate on base rate borrowings from 4.50% to 3.75%, and on LIBOR borrowings from 5.50% to 4.75%; and
- reduce the floor on base rate borrowings from 3.00% to 2.25%; and on LIBOR borrowings from 2.00% to 1.25%.

As of August 31, 2014, we had \$8.9 million outstanding under the Credit Facility and \$64.0 million SBA-guaranteed debentures outstanding (which are discussed below). As of February 28, 2014 we had no outstanding balance under the Credit Facility and \$50.0 million SBA-guaranteed debentures outstanding. Our borrowing base under the Credit Facility at August 31, 2014 and February 28, 2014 was \$42.2 million, and \$44.6 million, respectively.

Our asset coverage ratio, as defined in the 1940 Act, was 338.1% and 547.3% for the years ended February 28, 2014 and February 28, 2013, respectively.

SBA-guaranteed debentures

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.

[Table of Contents](#)

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, 2014, our SBIC subsidiary had \$45.5 million in regulatory capital and \$64.0 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.

Unsecured notes

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 7.50% 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.

[Table of Contents](#)

At August 31, 2014, February 28, 2014 and February 28, 2013, the fair value of investments, cash and cash equivalents and cash and cash equivalents, securitization accounts were as follows:

	At August 31, 2014		At February 28, 2014		At February 28, 2013	
	Fair Value	Percent of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
	(\$ in thousands)					
Cash and cash equivalents	\$ 271	0.1%	\$ 3,294	1.6%	\$ 149	0.1%
Cash and cash equivalents, securitization accounts	3,216	1.3	3,293	1.6	12,086	7.2
Syndicated loans	26,814	11.2	32,390	15.2	—	—
First lien term loans	115,589	48.2	80,246	37.8	83,792	50.1
Second lien term loans	29,262	12.2	27,804	13.1	9,571	5.7
Senior secured notes	25,035	10.4	30,032	14.1	23,305	13.9
Unsecured notes	5,909	2.5	5,471	2.6	4,874	2.9
Structured finance securities	20,090	8.4	19,570	9.2	25,517	15.3
Equity Interest	13,621	5.7	10,332	4.8	8,021	4.8
Total	<u>\$239,807</u>	<u>100.0%</u>	<u>\$212,432</u>	<u>100.0%</u>	<u>\$167,315</u>	<u>100.0%</u>

On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash dividend to our shareholders. In this regard, our board of directors declared a dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

On October 30, 2013, our board of directors declared a dividend of \$2.65 per share payable on December 27, 2013, to common stockholders of record on November 13, 2013. 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 \$2.5 million or \$0.53 per share.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock, or 13.7% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.439 per share, which equaled the volume weighted average trading price per share of the common stock on December 11, 13, and 16, 2013.

On November 9, 2012, our board of directors declared a dividend of \$4.25 per share payable on December 31, 2012, to common stockholders of record on November 20, 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 \$3.3 million in cash and 853,455 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.444 per share, which equaled the volume weighted average trading price per share of the common stock on December 14, 17 and 19, 2012.

[Table of Contents](#)

On November 15, 2011, our board of directors declared a dividend of \$3.00 per share payable on December 30, 2011, to common stockholders of record on November 25, 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 \$2.0 million or \$0.60 per share.

Based on shareholder elections, the dividend consisted of \$2.0 million in cash and 599,584 shares of common stock, or 18.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$13.117067 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2011.

On November 12, 2010, our board of directors declared a dividend of \$4.40 per share to shareholders payable in cash or shares of our common stock, in accordance with the provisions of the IRS Revenue Procedure 2010-12, which allows a publicly-traded regulated investment company to satisfy its distribution requirements with a distribution paid partly in common stock provided that at least 10.0% of the distribution is payable in cash. The dividend was paid on December 29, 2010 to common shareholders of record on November 19, 2010.

Based on shareholder elections, the dividend consisted of \$1.2 million in cash and 596,235 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 10.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$17.8049 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2010.

On November 13, 2009, our board of directors declared a dividend of \$18.25 per share payable on December 31, 2009, to common stockholders of record on November 25, 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 \$0.25 per share.

Based on shareholder elections, the dividend consisted of \$2.1 million in cash and 8,648,725 shares of common stock, or 104.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 13.7% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$1.5099 per share, which equaled the volume weighted average trading price per share of the common stock on December 24 and 28, 2009.

We cannot provide any assurance that these measures will provide sufficient sources of liquidity to support our operations and growth.

Contractual obligations

The following table shows our payment obligations for repayment of debt and other contractual obligations at August 31, 2014:

	<u>Total</u> <u>(\$ in thousands)</u>	<u>Payment Due by Period</u>			
		<u>Less Than</u> <u>1 Year</u>	<u>1 - 3</u> <u>Years</u>	<u>3 - 5</u> <u>Years</u>	<u>More Than</u> <u>5 Years</u>
Long-Term Debt Obligations	\$ 121,200	\$ 8,900	\$ —	\$ —	\$ 112,300

Off-balance sheet arrangements

The Company's off-balance sheet arrangements consisted of \$13.1 million, \$12.2 million and \$0.0 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of August 31, 2014, February 28, 2014 and 2013, respectively. Such commitments are generally up to the Company's discretion to approve, or the satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company's Consolidated Statement of Assets and Liabilities and are not reflected in the Company's Consolidated Statements of Assets and Liabilities.

Recent Developments

On July 10, 2014, our board of directors appointed Henri J. Steenkamp to serve as our Chief Financial Officer and Chief Compliance Officer. As previously disclosed, Mr. Steenkamp was previously appointed to serve as our Interim Chief Financial Officer and Interim Chief Compliance Officer on March 4, 2014.

On July 10, 2014, our board of directors, including a majority of the independent directors, approved the annual continuation of our investment advisory and management agreement with Saratoga Investment Advisors, LLC. Our board of directors also approved the renewal of the administration agreement with Saratoga Investment Advisors, LLC for an additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by us thereunder to \$1.0 million for the additional one-year term.

On September 17, 2014, we entered into a second amendment to the Revolving Facility with Madison Capital Funding LLC to, among other things, (1) extend the commitment termination date from February 24, 2015 to September 17, 2017; (2) extend the maturity date of the Revolving Facility from February 24, 2020 to September 17, 2022 (unless terminated sooner upon certain events); (3) reduce the applicable margin rate on base rate borrowings from 4.50% to 3.75%; (4) reduce the applicable margin rate on LIBOR borrowings from 5.50% to 4.75%; (5) reduce the floor on base rate borrowings from 3.00% to 2.25%; and (6) reduce the floor on LIBOR borrowings from 2.00% to 1.25%.

On September 24, 2014, the Company announced that its Board of Directors adopted a new dividend policy to pay a regular quarterly cash dividend to shareholders. The Company will pay a quarterly dividend of \$0.18 per share for the quarter ended August 31, 2014, which will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014. The second dividend of \$0.22 per share for the quarter ended November 30, 2014, will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

On September 24, 2014, the Company also adopted a new dividend reinvestment plan ("DRIP") that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. If the Company declares a dividend, its stockholders who have not "opted out" of the DRIP by the dividend record date will have their dividend automatically reinvested into additional shares of the Company's common stock.

On the same day, the Company also announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of its common stock at prices below its NAV as reported in its then most recently published financial statements. Shares may be purchased in the open market, including through block purchases, at the discretion of our management. The share repurchase plan does not obligate us to acquire any specific number of shares. Unless extended by our board of directors, the share repurchase plan will expire on October 15, 2015, and may be limited or terminated at any time without prior notice.

SENIOR SECURITIES

Information about our senior securities is shown in the following table as of February 28/29 for the fiscal years indicated in the table, unless otherwise noted. Ernst & Young LLP’s report on the table, as of February 28, 2014, is attached as an exhibit to the registration statement of which this prospectus is a part. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial condition, liquidity and capital resources” for more detailed information regarding the senior securities.

<u>Class and Year(1)(2)</u>	<u>Total Amount Outstanding Exclusive of Treasury Securities(3)</u>	<u>Asset Coverage per Unit(4)</u>	<u>Involuntary Liquidating Preference per Share(5)</u>	<u>Average Market Value per Share(6)</u>
	(in thousands)			
Credit Facility with Madison Capital Funding				
Fiscal year 2014(7)	\$ —	\$ —	—	N/A
Fiscal year 2013	\$ 24,300	\$ 5,473	—	N/A
Fiscal year 2012 (as of February 29, 2012)	\$ 20,000	\$ 5,869	—	N/A
Fiscal year 2011 (as of February 28, 2011)	\$ 4,500	\$ 20,127	—	N/A
Fiscal year 2010 (as of February 28, 2010)	\$ —	\$ —	—	N/A
Fiscal year 2009 (as of February 28, 2009)	\$ —	\$ —	—	N/A
Fiscal year 2008 (as of February 29, 2008)	\$ —	\$ —	—	N/A
Fiscal year 2007 (as of February 28, 2007)	\$ —	\$ —	—	—
7.50% Notes due 2020				
Fiscal year 2014(7)	\$ 48,300	\$ 3,379	—	\$ 25.18
Fiscal year 2013	\$ —	\$ —	—	N/A
Fiscal year 2012 (as of February 29, 2012)	\$ —	\$ —	—	N/A
Fiscal year 2011 (as of February 28, 2011)	\$ —	\$ —	—	N/A
Fiscal year 2010 (as of February 28, 2010)	\$ —	\$ —	—	N/A
Fiscal year 2009 (as of February 28, 2009)	\$ —	\$ —	—	N/A
Fiscal year 2008 (as of February 29, 2008)	\$ —	\$ —	—	N/A
Fiscal year 2007 (as of February 28, 2007)	\$ —	\$ —	—	—

- (1) We have excluded our SBA-guaranteed debentures from this table because the SEC has granted us exemptive relief that permits us to exclude such debentures from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources.”
- (2) This table does not include the senior securities of our predecessor entity, GSC Investment Corp., relating to a revolving securitized credit facility with Deutsche Bank, in light of the fact that the Company was under different management during the time that such credit facility was outstanding.
- (3) Total amount of senior securities outstanding at the end of the period presented.
- (4) Asset coverage per unit is the ratio of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness, calculated on a total basis.
- (5) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The “—” indicates information which the Securities and Exchange Commission expressly does not require to be disclosed for certain types of senior securities.
- (6) Not applicable for credit facility because not registered for public trading.
- (7) (Unaudited) Total amount outstanding as of August 31, 2014, including our Notes and SBA-guaranteed debentures, was \$121.2 million.

BUSINESS

General

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are issued by companies with below investment grade or “junk” ratings or, if not rated, would be rated below investment grade or “junk” and, as a result, carry a higher risk of default. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. As of August 31, 2014, 41.9% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. In addition, 62.2% of our debt investments at August 31, 2014, had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30.0% of our portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of August 31, 2014, we had total assets of \$247.2 million and investments in 39 portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of \$20.1 million as of August 31, 2014. Our overall portfolio composition as of August 31, 2014 consisted of 11.3% of syndicated loans, 48.9% of first lien term loans, 12.4% of second lien term loans, 10.6% of senior secured notes, 2.5% of unsecured notes, 8.5% of subordinated notes of Saratoga CLO and 5.8% of common equity. As of August 31, 2014 the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately 12.2%. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders and, among other things, is calculated before the payment of our fees and expenses. As of August 31, 2014, approximately 99% of our first lien debt investments, which comprises 48.9% of our portfolio, were fully collateralized in the sense that the portfolio companies in which we held such investments had an asset coverage equal to or greater than the principal amount of the related debt investment. Even though these loans are fully collateralized as is the case with the liens on our debt investments, there can be no assurance that the value of collateral will be sufficient to allow the portfolio company repay our

[Table of Contents](#)

first lien debt investments in the event of its default on our investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at August 31, 2014, was composed of \$304.4 million in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See Part I, Item 1A. “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after such borrowing. Pursuant to the 200.0% asset coverage ratio limitation, we are permitted to borrow one dollar to make investments for every dollar we have in assets less all liabilities and indebtedness not represented by preferred stock or debt securities issued by us or loans obtained by us so that for every one dollar of outstanding indebtedness we have two dollars of assets.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Item 1. Business—Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. We received exemptive relief from the Securities and Exchange Commission (“SEC”) to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the 200.0% asset coverage ratio we are required to maintain under the 1940 Act. This allows us increased flexibility under the 200.0% asset coverage test by permitting us to borrow up to \$150.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

Corporate History and Information

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.

The recapitalization transaction consisted of (i) 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 and (ii) the entry into a \$40.0 million senior secured revolving credit facility with Madison Capital Funding LLC (the “Credit Facility”). We used the net proceeds from the private sale of shares of our common stock and a portion of the funds available to us under the Credit Facility to pay the full amount of principal and accrued interest, including default interest, outstanding under our revolving securitized credit facility with Deutsche Bank AG, New York Branch. Specifically, in July 2009, we had exceeded permissible borrowing limits under the revolving securitized credit facility with Deutsche Bank, which resulted in an event of default under the revolving securitized credit facility. As a result of the event of default, Deutsche Bank had the right to accelerate repayment of the outstanding indebtedness under the revolving securitized credit facility and to foreclose and liquidate the

[Table of Contents](#)

collateral pledged under the revolving securitized credit facility. The revolving securitized credit facility with Deutsche Bank was terminated in connection with our payment of all amounts outstanding thereunder on July 30, 2010. In January 2011, we registered for public resale by Saratoga Investment Advisors and certain of its affiliates the 986,842 shares of our common stock issued to them in the recapitalization.

On March 28, 2012, our wholly-owned subsidiary, Saratoga Investment Corp. SBIC, LP, received an SBIC license from the SBA.

Our corporate offices are located at 535 Madison Avenue, New York, New York 10022. Our telephone number is (212) 906-7800. We maintain a website on the Internet at www.saratogainvestmentcorp.com. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

Saratoga Investment Advisors

General

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with 26, 24, 27 and 17 years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a 28-year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

Our Relationship with Saratoga Investment Advisors

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement (the "Management Agreement") with Saratoga Investment Advisors. Pursuant to the 1940 Act, the initial term of the Management Agreement was for two years from its effective date of July 30, 2010, with automatic, one-year renewals, subject to approval by our board of directors, a majority of whom must be our independent directors. On July 10, 2014, our board of directors approved the renewal of the Management Agreement for an additional one-year term at an in-person meeting. Pursuant to the Management Agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1.0 million made by us. In addition, all sales of our investments must be approved by all four of our investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

We pay Saratoga Investment Advisors a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee. The base management fee is calculated at an

[Table of Contents](#)

annual rate of 1.75% of our gross assets which includes assets purchased with borrowed funds but excludes cash and cash equivalents. As a result, Saratoga Investment Advisors will benefit as we incur debt or use leverage to purchase assets. Our board of directors will monitor the conflicts presented by this compensation structure by approving the amount of leverage that we may incur.

In addition to the base management fee, we pay Saratoga Investment Advisors an incentive fee which consists of two parts. First, we pay Saratoga Investment Advisors an incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no incentive fee in any calendar quarter in which our pre-incentive fee income does not exceed a fixed “hurdle rate” of 1.875% per quarter (7.5% annualized); and
- 100.0% of our pre-incentive fee net investment income with respect to that portion of such 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) is payable to the investment adviser. We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle rate but is less than or equal to 2.344%) as the “catch-up.” The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20.0% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 2.344% in any fiscal quarter. Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, our investment adviser was only entitled to 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeded 1.875% in any fiscal quarter (7.5% annualized) without any catch-up provision; and
- 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized) is payable to the investment adviser (once the hurdle is reached and the catch-up is achieved, 20.0% of all pre-incentive fee net investment income thereafter is allocated to the investment adviser).

Pre-incentive fee net investment income means interest income, dividend income and other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) earned during the calendar quarter, minus our operating expenses for the quarter.

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 fiscal 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 Saratoga Investment Advisors 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.

We have also entered into a separate administration agreement with Saratoga Investment Advisors pursuant to which Saratoga Investment Advisors furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. The administration agreement has an initial term of two years from its effective date of July 30, 2010, with automatic one-year renewals, subject to approval by our board of directors, a majority of whom must be our independent directors. On July 15, 2013, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by us thereunder to \$1.0 million for the additional one-year term. Under the

[Table of Contents](#)

administration agreement, Saratoga Investment Advisors also performs, or oversees the performance of our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain, preparing reports for our stockholders and reports required to be filed with the SEC. Payments under the administration agreement will be equal to an amount based upon the allocable portion of Saratoga Investment Advisors' overhead in performing its obligations under the administration agreement, including rent and the allocable portion of the cost of our officers and their respective staffs relating to the performance of services under the administration agreement.

Investments

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are issued by companies with below investment grade or "junk" ratings or, if not rated, would be rated below investment grade or "junk" and, as a result, carry a higher risk of default. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion of the risks pertaining to our secured investments, see Part I, Item 1A. "Risk Factors—Our investments may be risky, and you could lose all or part of your investment."

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See Part I, Item 1A. "Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness."

As a BDC, we are required to comply with certain regulatory requirements. For instance, we have to invest at least 70.0% of our total assets in assets of the type listed in section 55(a) of the 1940 Act, including securities of U.S. operating companies whose securities are not listed on a national securities exchange (i.e., New York Stock Exchange, NYSE MKT and The NASDAQ Stock Market), U.S. operating companies with listed securities that have market capitalizations of less than \$250.0 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less, which we refer to as "qualifying assets."

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may 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, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Leveraged loans

Our leveraged loan portfolio is comprised primarily of first lien and second lien term loans. First lien term loans are secured by a first priority perfected security interest on all or substantially all of the assets of the borrower and typically include a first priority pledge of the capital stock of the borrower. First lien term loans hold a first priority with regard to right of payment. Generally, first lien term loans offer floating rate interest payments, have a stated maturity of five to seven years, and have a fixed amortization schedule. First lien term loans generally have restrictive financial and negative covenants. Second lien term loans are secured by a second priority perfected security interest on all or substantially all of the assets of the borrower and typically include a second priority pledge of the capital stock of the borrower. Second lien term loans hold a second priority with

regard to right of payment. Second lien term loans offer either floating rate or fixed rate interest payments, generally have a stated maturity of five to eight years, and may or may not have a fixed amortization schedule. Second lien term loans that do not have fixed amortization schedules require payment of the principal amount of the loan upon the maturity date of the loan. Second lien term loans have less restrictive financial and negative covenants than those that govern first lien term loans.

Mezzanine debt

Mezzanine debt usually ranks subordinate in priority of payment to senior debt and is often unsecured. However, mezzanine debt ranks senior to common and preferred equity in a borrower's capital structure. Mezzanine debt typically has fixed rate interest payments and a stated maturity of six to eight years and does not have fixed amortization schedules.

In some cases, our debt investments may provide for a portion of the interest payable to be paid-in-kind interest ("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.

Equity Investments

Equity investments may consist of preferred equity that is expected to pay dividends on a current basis or preferred equity that does not pay current dividends. Preferred equity generally has a preference over common equity as to distributions on liquidation and dividends. In some cases, we may acquire common equity. In general, our equity investments are not control-oriented investments and we expect that in many cases we will acquire equity securities as part of a group of private equity investors in which we are not the lead investor.

Opportunistic Investments

Opportunistic investments may include investments in distressed debt, which may include securities of companies in bankruptcy, debt and equity securities of public companies that are not thinly traded, emerging market debt, structured finance vehicles such as collateralized loan obligation funds and debt of middle market companies located outside the United States.

On January 22, 2008, GSC Group, Inc., as asset manager, with Lehman Brothers raising the financing, entered into a collateral management agreement with Saratoga CLO. Saratoga CLO was structured with five tranches of debt, plus residual notes. Saratoga CLO's five tranches of debt was purchased by a wide variety of CLO debt market participants. In addition, we purchased for \$30.0 million all of the outstanding subordinated notes of Saratoga CLO.

Pursuant to its terms, the investment period for Saratoga CLO ended in January 2013, and certain restrictions in such terms prevented portfolio reinvestment. As a result, the Company determined that it was in its best interest to refinance Saratoga CLO given the fee income it receives for managing Saratoga CLO. The Company did not originate any of the loan assets included in the formation of Saratoga CLO, nor has it done so since the subsequent refinancing transaction. Moreover, the Company does not expect to originate any of the loans in the Saratoga CLO portfolio prospectively. The Company has from time to time co-invested in loans with the Saratoga CLO. The Company currently has no co-investments between it and Saratoga CLO.

With respect to our advisory services to Saratoga CLO, and in particular the underwriting standards used when determining which investments qualify for inclusion in the Saratoga CLO, they are substantially similar to the process employed in selecting the Company's investments. All of the credit metrics for a Saratoga CLO investment are reviewed and documented in the same manner as they would be for an investment for the Company, with some minor differences. For example, the Saratoga CLO investment process also includes the

[Table of Contents](#)

Standard & Poors and Moody's review of the loan investment and the assigned corporate ratings, in addition to the Standard & Poors recovery rate analysis, which typically does not apply to a prospective investment of the Company. Lastly, a Saratoga CLO investment also considers the likely secondary liquidity of the loan in considering the investment, whereas the Company's investments are generally illiquid.

Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. After the reinvestment period ends in October 2016, the Company will consider refinancing the Saratoga CLO, subject to market conditions. A refinancing transaction entails finding existing and new investors that are willing to provide debt financing to Saratoga CLO on terms that are acceptable to it and in an amount sufficient to allow it to repay all of its existing debt holders. If Saratoga CLO is unable to refinance its indebtedness by October 2016, then Saratoga CLO will be required to use investment repayments by portfolio companies received thereafter to repay its outstanding indebtedness and ultimately liquidate Saratoga CLO.

The terms of the subordinated notes of Saratoga CLO entitles the Company to the residual net interest income in Saratoga CLO, which are paid on a quarterly basis after payment of all expenses, assuming that the Saratoga CLO remains in compliance with its various debt and rating agency compliance tests. The Company's investment in the subordinated notes of Saratoga CLO can be sold or transferred at any time. The Company has held 100% of the subordinated notes of Saratoga CLO since the inception of Saratoga CLO.

Generally, the interests of the holders of the various classes of securities issued by the Saratoga CLO are aligned with the interests of the Company as holder of the subordinated notes. The investors in the various debt tranches of the securities issued by the Saratoga CLO are interested in the regular payment of interest income from the Saratoga CLO and the overcollateralization of the underlying loan assets relative to the Saratoga CLO debt issued. On the other hand, the subordinated note holders might prefer purchasing higher yielding riskier assets that could increase returns while the returns of the holders of the debt securities remain unchanged.

With respect to the collateral management agreement that the Company has entered into with Saratoga CLO, while the agreement is similar to the investment advisory and management agreement between the Company and Saratoga Investment Advisors in that it is an asset management agreement, there are material differences between the two. For example, pursuant to Section 15 of the 1940 Act, the investment advisory and management agreement with Saratoga Investment Advisors has an initial term of two years, with annual renewals to be approved by the Company's Board of Directors. The contract can be terminated by the Company's Board of Directors or stockholders with 60 days' notice, with no penalty for termination. The collateral management agreement that the Company has entered into with Saratoga CLO, on the other hand, has no renewal requirement, and can be terminated without cause with the approval of two-thirds of each of the class of CLO securities, excluding votes from interested noteholders. Furthermore, the Saratoga CLO collateral management agreement cannot be terminated with cause without the approval of a majority of all of the CLO security holders voting collectively, excluding votes from interested noteholders. If the Saratoga CLO collateral management agreement is terminated, the manager remains in place until a new manager is appointed by the issuer at the direction of a majority of the noteholders, and so long as such replacement is not rejected within 20 days by the most senior class of the Saratoga CLO securities. We receive a senior collateral management fee of 0.25% and a subordinate collateral management fee of 0.25% 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%.

The securities issued by the Saratoga CLO do not have any external credit enhancement features that would minimize the potential losses to the subordinated notes. Saratoga CLO recognized a loss of approximately \$2.8 million in October 2013 upon the refinancing as a result of the legal and accounting costs associated with the refinancing and the divestiture of certain Saratoga CLO loans not eligible for the refinanced Saratoga CLO. The cost of the refinancing was effectively borne by the Company as the holder of the subordinated notes in Saratoga CLO. The indenture for the Saratoga CLO does not contemplate the issuance of additional securities while the existing Saratoga CLO securities remain outstanding. The indenture could be amended to allow the issuance of additional securities,

[Table of Contents](#)

which would require consents of the holders of the Saratoga CLO debt securities and the approval of the rating agencies. The Saratoga CLO could issue additional securities pursuant to a refinancing of the existing securities. The costs of any such future refinancing would effectively be borne by us as the holder of the subordinated notes in Saratoga CLO.

The Company does not believe that any representations or warranties made by the Company as manager of Saratoga CLO or investor in the subordinated notes could materially affect the Company. However, because the Company acts as the collateral manager to Saratoga CLO, it may be subject to claims by third-party investors in Saratoga CLO for alleged or actual negligent acts, errors or omissions or breach of fiduciary duties committed in the scope of performing its services as the collateral manager.

As of August 31, 2014, the Saratoga CLO portfolio consisted of \$304.4 million in aggregate principal amount of primarily senior secured first lien term loans, 98.3% of the Saratoga CLO portfolio consisted of such loans at August 31, 2014, to 177 borrowers with an average exposure to each borrower of \$1.7 million. The weighted average maturity of the portfolio is 4.8 years. In addition, Saratoga CLO held \$2.8 million in cash at August 31, 2014. Our investment in Saratoga CLO falls into our 30% “bucket” of non-qualifying assets under the 1940 Act and currently has a cost basis of approximately \$16.6 million, which is net of all principal payments made by Saratoga CLO on the Company’s initial \$30 million investment in Saratoga CLO.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors’ investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser’s investment process generally includes the following steps:

- Initial screening. A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed.

[Table of Contents](#)

- Full analysis. A full analysis includes:
 - Business and Industry analysis—a review of the company’s business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
 - Company analysis—a review of the company’s historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
 - Structural/security analysis—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- Approval of the investment committee. The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by all four of our investment committee members. The members of our investment committee are Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips.

Investment structure

In general, our Investment Adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company’s ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our 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”), as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations subject to any decision by our board of directors to approve a fair value determination to

[Table of Contents](#)

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 Advisors, our audit committee and an independent valuation firm engaged by our board of directors that independently values approximately one quarter of these valuations each quarter. 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The Intex cash flow models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors will closely monitor each investment we make and, when appropriate, will conduct a regular dialogue with both the management team and other debtholders and seek specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Distributions

Our distributions, if any, will be determined by our board of directors and paid out of assets legally available for distribution. Any such distributions generally will be taxable to our stockholders, including to those stockholders who receive additional shares of our common stock pursuant to our dividend reinvestment plan. Prior to January 2009, we paid quarterly dividends to our stockholders. However, in January 2009, we suspended the practice of paying quarterly dividends to our stockholders and only paid five dividend distributions (December 2013, 2012, 2011, 2010 and 2009) to our stockholders through December 2013, which distributions were made with a combination of cash and the issuance of shares of our common stock as discussed more fully below. On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash dividend to our shareholders. In this regard, our board of directors declared a dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

In order to maintain our qualification as a RIC, we must for each fiscal year distribute an amount equal to at least 90.0% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, reduced by deductible expenses. In addition, we will be subject to federal excise taxes to the extent we do not distribute during the calendar year at least (1) 98.0% of our ordinary income for the calendar year, (2) 98.2% of our capital gains in excess of capital losses for the one year period ending on October 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax. For the 2013 calendar year, we made distributions sufficient such that we did not incur any federal excise taxes. We may elect to withhold from distribution a portion of our ordinary income for the 2014 calendar year and/or portion of the capital gains in excess of capital losses realized during the one year period ending October 31, 2014, if any, and, if we do so, we would expect to incur federal excise taxes as a result.

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders’ cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash dividends.

We may distribute taxable dividends that are payable in cash or shares of our common stock at the election of each stockholder. Under certain applicable provisions of the Code and the Treasury regulations, distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20.0% of the total distribution. Under these rulings, if too many stockholders elect to receive their distributions in cash, each such stockholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable stockholders receiving such dividends will be required to include the full amount of the dividend (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain dividend) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of any cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on dividends, it may put downward pressure on the trading price of our stock.

Competition

Our primary competitors in providing financing to private middle market companies include public and private investment funds (including private equity funds, mezzanine funds, BDCs and SBICs), commercial and investment banks and commercial financing companies. Many of our competitors are substantially larger and have considerably greater financial and marketing resources than us. For example, some competitors may have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which may allow them to consider a wider variety of investments. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. For additional information concerning the competitive risks we face, please see Part I, Item 1A, “Risk Factors—We operate in a highly competitive market for investment opportunities.”

Staffing

We do not currently have any employees and do not expect to have any employees in the future. Services necessary for our business are provided by individuals who are employees of Saratoga Investment Advisors, pursuant to the terms of the Management Agreement and the administration agreement. For a discussion of the Management Agreement, see “Business—Investment Advisory and Management Agreement” below. We reimburse Saratoga Investment Advisors for our allocable portion of expenses incurred by it in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs, subject to certain limitations. For a discussion of the administration agreement, see “Business—Administration Agreement” below.

Derivatives

We may utilize hedging techniques such as interest rate swaps to mitigate potential interest rate risk on our indebtedness. Such interest rate swaps would principally be used to protect us against higher costs on our indebtedness resulting from increases in both short-term and long-term interest rates.

We also may use various hedging and other risk management strategies to seek to manage various risks, including changes in currency exchange rates and market interest rates. Such hedging strategies would be utilized to seek to protect the value of our portfolio investments, for example, against possible adverse changes in the market value of securities held in our portfolio.

OUR PORTFOLIO COMPANIES

The following table sets forth certain information as of August 31, 2014 for each portfolio company in which we had a debt or equity investment. Other than these investments, our only relationships with our portfolio companies are the managerial assistance we may separately provide to our portfolio companies, which services would be ancillary to our investments, and the board observer or participation rights we may receive.

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets	
Non-control/Non-affiliated investments—180.5% (b)							
National Truck Protection Co., Inc. (d), (g)	Automotive	Common Stock	1,116	\$ 1,000,000	\$ 1,473,053	1.2%	
National Truck Protection Co., Inc. (d)		First Lien Term Loan					
	Automotive	15.50% Cash, 9/13/2018	\$ 7,737,848	7,737,848	7,737,848	6.5%	
Take 5 Oil Change, L.L.C. (d), (g)	Automotive	Common Stock	7,128	712,800	1,460,954	1.2%	
		Total Automotive		9,450,648	10,671,855	8.9%	
Legacy Cabinets Holdings (d), (g)	Building Products	Common Stock Voting A-1	2,535	220,900	1,199,055	1.0%	
Legacy Cabinets Holdings (d), (g)	Building Products	Common Stock Voting B-1	1,600	139,424	756,800	0.6%	
		Total Building Products		360,324	1,955,855	1.6%	
BMC Software, Inc. (d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020		\$ 5,761,667	5,713,227	5,742,077	4.8%
Dispensing Dynamics International (d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018		\$ 7,000,000	6,897,469	7,560,000	6.3%
Easy Ice, LLC (d)	Business Services	First Lien Term Loan 14.00% (11.00% Cash/3.00% PIK), 3/29/2018		\$ 7,603,228	7,603,231	7,603,228	6.3%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 12.00% (11.00% Cash/1.00% PIK), 12/28/2017		\$ 5,792,538	5,709,596	5,792,538	4.8%
Emily Street Enterprises, L.L.C. (g)	Business Services	Warrant Membership Interests	49,318	400,000	385,174	0.3%	
Help/Systems Holdings, Inc.(Help/Systems, LLC) (d)	Business Services	First Lien Term Loan 5.50% Cash, 6/28/2019		\$ 3,970,000	3,936,883	3,930,300	3.3%
Help/Systems Holdings, Inc. (Help/Systems, LLC) (d)	Business Services	Second Lien Term Loan 9.50% Cash, 6/28/2020		\$ 2,000,000	1,973,818	2,000,000	1.7%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 11.00% Cash, 11/29/2017		\$ 5,259,171	5,215,608	5,259,171	4.4%
Vector Controls Holding Co., LLC (d)	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018		\$ 9,340,061	9,195,124	9,340,061	7.8%
Vector Controls Holding Co., LLC (d), (g)	Business Services	Warrants to Purchase Limited Liability Company Interests	101	—	87,600	0.1%	
		Total Business Services		46,644,956	47,700,149	39.8%	
Targus Group International, Inc. (d)	Consumer Products	First Lien Term Loan 11.00% Cash, 5/24/2016		\$ 3,661,247	3,612,910	3,503,447	2.9%
Targus Holdings, Inc. (d), (g)	Consumer Products	Common Stock	62,413	566,765	—	0.0%	
Targus Holdings, Inc. (d)	Consumer Products	Unsecured Note 10.00% PIK, 6/14/2019		\$ 2,054,158	2,054,158	1,499,104	1.3%
Targus Holdings, Inc. (d)	Consumer Products	Unsecured Note 16.00% Cash, 10/26/2018		\$ 399,152	394,283	375,489	0.3%
		Total Consumer Products		6,628,116	5,378,040	4.5%	

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Avionte Holdings, LLC (g)	Consumer Services	Common Stock	100,000	100,000	139,000	0.1%
Avionte Holdings, LLC	Consumer Services	First Lien Term Loan 8.25% Cash, 1/8/2019	\$ 3,000,000	2,946,920	3,000,000	2.5%
CFF Acquisition L.L.C. (d)	Consumer Services	First Lien Term Loan 7.50% Cash, 7/31/2015	\$ 996,679	990,974	996,679	0.9%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 9.00% Cash, 12/28/2017	\$ 3,830,000	3,768,632	3,830,000	3.2%
PrePaid Legal Services, Inc. (d)	Consumer Services	First Lien Term Loan 6.25% Cash, 7/1/2019	\$ 3,951,613	3,917,123	3,950,427	3.3%
PrePaid Legal Services, Inc. (d)	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2020	\$ 5,000,000	4,933,418	5,047,000	4.2%
		Total Consumer Services		16,657,067	16,963,106	14.2%
M/C Acquisition Corp., L.L.C. (d), (g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C. (d)	Education	First Lien Term Loan 1.00% Cash, 3/13/14	\$ 2,444,027	1,295,285	100,597	0.1%
		Total Education		1,325,526	100,597	0.1%
Group Dekko, Inc. (d)	Electronics	Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016	\$ 6,935,934	6,935,934	6,554,458	5.5%
		Total Electronics		6,935,934	6,554,458	5.5%
USS Parent Holding Corp. (d), (g)	Environmental	Non Voting Common Stock	765	133,002	244,698	0.2%
USS Parent Holding Corp. (d), (g)	Environmental	Voting Common Stock	17,396	3,025,798	5,566,864	4.7%
		Total Environmental		3,158,800	5,811,562	4.9%
DS Waters of America, Inc. (d)	Food and Beverage	First Lien Term Loan 5.25% Cash, 8/30/2020	\$ 2,481,250	2,459,770	2,487,453	2.2%
TB Corp. (d)	Food and Beverage	First Lien Term Loan 5.75% Cash, 6/19/2018	\$ 5,076,203	5,064,962	5,076,203	4.2%
TB Corp. (d)	Food and Beverage	Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018	\$ 2,546,121	2,517,122	2,546,121	2.1%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 7.75% Cash, 7/16/2017	\$ 2,808,190	2,808,190	2,802,855	2.3%
		Total Food and Beverage		12,850,044	12,912,632	10.8%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00% (10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,486,532	5,390,528	5,486,532	4.6%
IDOC, LLC	Healthcare Services	First Lien Term Loan 9.75% Cash, 8/2/2017	\$ 13,831,583	13,831,583	13,831,583	11.5%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term A Loan 10.75% Cash, 12/27/2017	\$ 6,246,226	6,154,475	6,121,301	5.1%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term B Loan 10.75% Cash, 12/27/2017	\$ 1,000,000	991,202	980,000	0.8%
Roscoe Medical, Inc. (d), (g)	Healthcare Services	Common Stock	5,000	500,000	446,800	0.4%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,123,141	4,160,100	3.5%
Smile Brands Group Inc. (d)	Healthcare Services	First Lien Term Loan 7.50% Cash, 8/16/2019	\$ 4,466,250	4,390,964	4,354,594	3.6%
Surgical Specialties Corporation (US), Inc. (d)	Healthcare Services	First Lien Term Loan 7.25% Cash, 8/22/2018	\$ 2,375,000	2,355,380	2,369,063	2.0%
Zest Holdings, LLC (d)	Healthcare Services	First Lien Term Loan 6.50% Cash, 8/16/2020	\$ 4,466,250	4,377,323	4,477,416	3.7%
		Total Healthcare Services		42,114,596	42,227,389	35.2%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
McMillin Companies L.L.C. (d), (g)	Homebuilding	Senior Secured Note 0% Cash, 12/31/2013	\$ 550,000	558,434	410,740	0.3%
		Total Homebuilding		558,434	410,740	0.3%
Distribution International, Inc. (d)	Manufacturing	First Lien Term Loan 7.50% Cash, 7/16/2019	\$ 5,940,000	5,888,342	5,940,000	5.0%
		Total Manufacturing		5,888,342	5,940,000	5.0%
HMN Holdco, LLC	Media	First Lien Term Loan 14.00% Cash, 5/16/2019	\$ 9,540,696	9,360,503	9,206,771	7.7%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,783	—	179,127	0.1%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests	8,139	—	67,798	0.1%
		Total Media		9,360,503	9,453,696	7.9%
Elyria Foundry Company, L.L.C. (d)	Metals	Senior Secured Note 17.00% (13.00% Cash/4.00% PIK), 9/14/2014	\$ 8,859,616	8,859,614	5,785,311	4.8%
Elyria Foundry Company, L.L.C. (d), (g)	Metals	Warrants to Purchase Limited Liability Company Interests (2008)	7,000	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	5,785,311	4.8%
Network Communications, Inc. (d), (g)	Publishing	Common Stock	380,572	—	—	0.0%
Network Communications, Inc. (d)	Publishing	Unsecured Notes 8.60% PIK, 1/14/2020	\$ 2,657,971	2,299,254	1,488,510	1.2%
		Total Publishing		2,299,254	1,488,510	1.2%
Community Investors, Inc. (g)	Software	Common Stock	1,282	1,282	2,449	0.0%
Community Investors, Inc.	Software	First Lien Term Loan 9.75% Cash, 5/9/2018	\$ 6,896,042	6,784,964	6,896,042	5.8%
Community Investors, Inc.	Software	Revolver	\$ 166,667	—	—	0.0%
Community Investors, Inc. (g)	Software	Preferred Stock	63,463	149,138	121,214	0.1%
Community Investors, Inc. (g)	Software	Preferred Stock - A Shares	135,584	135,584	258,965	0.2%
Identity Automation Systems (g)	Software	Common Stock Class A Units	232,616	232,616	232,616	0.2%
Identity Automation Systems	Software	First Lien Term Loan 10.25% Cash, 8/25/2019	\$ 5,000,000	4,950,321	5,000,000	4.2%
Pen-Link, Ltd. (d)	Software	Second Lien Term Loan 12.50% Cash, 5/26/2019	\$ 11,500,000	11,294,269	11,500,000	9.6%
		Total Software		23,548,174	24,011,286	20.1%
Censis Technologies, Inc.	Technology	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 12,000,000	11,761,173	11,760,000	9.8%
Censis Technologies, Inc. (g), (h)	Technology	Limited Partner Interests	999	999,000	999,000	0.8%
		Total Technology		12,760,173	12,759,000	10.6%
Advanced Air & Heat of Florida, LLC	Utilities	First Lien Term Loan 10.00% Cash, 1/31/2019	\$ 6,105,441	6,022,273	6,105,441	5.1%
		Total Utilities		6,022,273	6,105,441	5.1%
Sub Total Non-control/Non-affiliated investments				215,422,798	216,229,627	180.5%

Table of Contents

<u>Company</u>	<u>Industry</u>	<u>Investment Interest Rate / Maturity</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value (c)</u>	<u>% of Net Assets</u>
Control investments—16.8% (b)						
Saratoga Investment Corp. CLO 2013-1, Ltd. (a), (d), (e), (f)	Structured Finance Securities	Other/Structured Finance Securities 16.01%, 10/17/2023	\$30,000,000	16,555,808	20,090,075	16.8%
Sub Total Control investments				16,555,808	20,090,075	16.8%
TOTAL INVESTMENTS— 197.3% (b)				\$ 231,978,606	\$ 236,319,702	197.3%

- (a) Represents a non-qualifying investment as defined under Section 55 (a) of the Investment Company Act of 1940, as amended. Non-qualifying assets represent 9.2% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.
- (b) Percentages are based on net assets of \$119,817,820 as of August 31, 2014.
- (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) This investment does not have a stated interest rate that is payable thereon. As a result, the 16.01% interest rate in the table above represents the annualized interest rate currently earned on the investment cost and is based on the current cash interest and other income generated by the investment for the six months ended August 31, 2014 (which was approximately \$1.3 million for the six-month period).
- (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:

<u>Company</u>	<u>Purchases</u>	<u>Redemptions</u>	<u>Sales (cost)</u>	<u>Interest Income</u>	<u>Management fee income</u>	<u>Net Realized gains/ (losses)</u>	<u>Net Unrealized gains/ (losses)</u>
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$1,301,369	\$ 767,493	\$ —	\$ 3,534,267

- (g) Non-income producing at August 31, 2014. All of the Company's non-income producing investments at August 31, 2014 were equity investments that did not carry any stated dividend or interest rate payable thereon except with respect to the Company's debt investment in McMillin Companies L.L.C., which was in default under the terms of the debt investment at August 31, 2014. Subsequently, a payment was received by McMillin Companies L.L.C. in excess of the August 31, 2014 fair value thereof.
- (h) Includes securities issued by an affiliate of the company.

MANAGEMENT AGREEMENTS

Saratoga Investment Advisors serves as our investment adviser. Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Subject to the overall supervision of our board of directors, Saratoga Investment Advisors manages our day-to-day operations and provides investment advisory and management services to us. Under the terms of an investment advisory and management agreement, Saratoga Investment Advisors:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make;
- determines the securities and other assets that we purchase, retain or sell; and
- performs due diligence on prospective portfolio companies.

Saratoga Investment Advisors services under the investment advisory and management agreement are not exclusive, and it is free to furnish similar services to other entities.

Management Fee and Incentive Fee

Pursuant to the investment advisory and management agreement with Saratoga Investment Advisors, we pay Saratoga Investment Advisors a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee.

The base management fee is paid quarterly in arrears, and equals 1.75% per annum of our gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and calculated at the end of each fiscal quarter based on the average value of our gross assets (i.e., total assets less cash or cash equivalents, as presented in the Company's consolidated financial statements) as of the end of such fiscal quarter and the end of the immediate prior fiscal quarter. Any derivative contracts the Company may enter into will be factored into our gross assets on which a management fee is paid to Saratoga Investment Advisors to the extent and in the manner that it is treated as such under GAAP and set forth in our consolidated financial statements. Base management fees for any partial month or quarter are appropriately pro-rated.

The incentive fee has the following two parts:

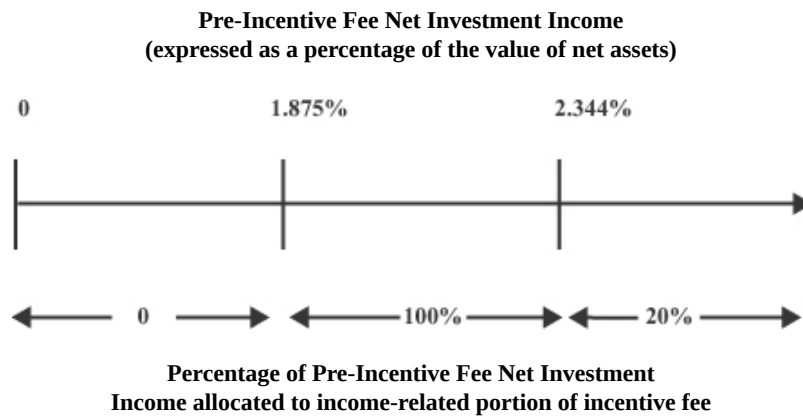
The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding fiscal quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock or debt security, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less liabilities) at the end of the immediately preceding fiscal quarter, is compared to a "hurdle rate" of 1.875% per quarter (7.5% annualized), subject to a "catch up" provision. The base management fee is calculated prior to giving effect to the payment of any incentive fees.

[Table of Contents](#)

We pay Saratoga Investment Advisors an incentive fee with respect to our pre-incentive fee net investment income in each fiscal quarter as follows: (A) no incentive fee in any fiscal quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (B) 100% of our pre-incentive fee net investment income with respect to that portion of such 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) is payable to Saratoga Investment Advisors; and (C) 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized). We refer to the amount specified in clause (B) as the “catch-up.” The “catch-up” provision is intended to provide Saratoga Investment Advisors with an incentive fee of 20% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our pre-incentive fee net investment income exceeds 2.344% in any fiscal quarter. Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, Saratoga Investment Advisors was only entitled to 20% of the amount of our pre-incentive fee net investment income, if any, that exceeded 1.875% in any fiscal quarter (7.5% annualized) without any catch-up provision. These calculations are appropriately pro-rated when such calculations are applicable for any period of less than three months.

The following is a graphical representation of the calculation of the income-related portion of the incentive fee subsequent to any period ending after December 31, 2010:

Quarterly Incentive Fee Based on “Pre-Incentive Fee Net Investment Income”



The second part of the incentive fee, the capital gains fee, is determined and payable in arrears as of the end of each fiscal year (or, upon termination of the investment advisory and management agreement), and is calculated at the end of each applicable year by subtracting (1) the sum of our cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (2) our cumulative aggregate realized capital gains, in each case calculated from May 31, 2010. If such amount is positive at the end of such year, then the capital gains fee for such year is equal to 20% of such amount, less the cumulative aggregate amount of capital gains fees paid in all prior years. If such amount is negative, then there is no capital gains fee for such year.

Under the investment advisory and management agreement, 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 Saratoga Investment Advisors will be entitled to 20% of net capital gains that arise after May 31, 2010. In addition, the cost basis for computing our realized gains and losses on investments held by us as of May 31, 2010 equals the fair value of such investments as of such date.

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee(1):

Assumptions

- Hurdle rate(2) = 1.875%
- Management fee(3) = 0.4375%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(4) = 0.33%

Alternative 1

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 1.25%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 0.4825%

Pre-incentive fee net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 3.0%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 2.2325%

Pre-incentive fee net investment income exceeds hurdle rate, but does not fully satisfy the “catch-up” provision, therefore the income related portion of the incentive fee is 0.3575%.

$$\begin{aligned} \text{Incentive Fee} &= (100\% \times (\text{pre-incentive fee net investment income} - 1.875\%)) \\ &= 100\%(2.2325\% - 1.875\%) \\ &= 100\%(0.3575\%) \\ &= 0.3575\% \end{aligned}$$

-
- (1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.
 - (2) Represents 7.5% annualized hurdle rate.
 - (3) Represents 1.75% annualized management fee. For the purposes of this example, we have assumed that we have not incurred any indebtedness and that we maintain no cash or cash equivalents.
 - (4) The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20% on all pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.344% in any fiscal quarter.

Alternative 3

Additional Assumptions

- Investment income (including interest, dividends, fees, etc.) = 3.5%
- Pre-Incentive Fee Net Investment Income (investment income – (management fee + other expenses)) = 2.7325%

[Table of Contents](#)

Pre-incentive fee net investment income exceeds the hurdle rate, and fully satisfies the “catch-up” provision, therefore the income related portion of the incentive fee is 0.5467%.

$$\begin{aligned} \text{Incentive fee} &= 100\% \times \text{pre-incentive fee net investment income (subject to “catch-up”)}(4) \\ \text{Incentive fee} &= 100\% \times \text{“catch-up”} + (20\% \times (\text{Pre-incentive fee net investment income} - 2.344\%)) \\ \text{Catch up} &= 2.344\% - 1.875\% \\ &= 0.469\% \\ \text{Incentive fee} &= (100\% \times 0.469\%) + (20\% \times (2.7325\% - 2.344\%)) \\ &= 0.469\% + (20\% \times 0.3885\%) \\ &= 0.469\% + 0.0777\% \\ &= 0.5467\% \end{aligned}$$

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions(1)

(1) The examples assume that Investment A and Investment B were acquired by us subsequent to May 31, 2010. If Investment A and B were acquired by us prior to May 31, 2010, then the cost basis for computing our realized gains and losses on such investments would equal the fair value of such investments as of May 31, 2010.

- Year 1: \$20 million investment made in Company A (“Investment A”), and \$30 million investment made in Company B (“Investment B”)
- Year 2: Investment A is sold for \$50 million and fair market value (“FMV”) of Investment B determined to be \$32 million
- Year 3: FMV of Investment B determined to be \$25 million
- Year 4: Investment B sold for \$31 million

The capital gains portion of the incentive fee, if any, calculated under the cumulative method would be:

- Year 1: None
- Year 2: \$6 million (20% multiplied by \$30 million realized capital gains on sale of Investment A)
- Year 3: None; \$5 million (20% multiplied by (\$30 million realized cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (capital gains incentive fee paid in Year 2)
- Year 4: \$200,000; \$6.2 million (20% multiplied by \$31 million cumulative realized capital gains) less \$6 million (capital gains incentive fee paid in Year 2)

Alternative 2

Assumptions(1)

- Year 1: \$20 million investment made in Company A (“Investment A”), \$30 million investment made in Company B (“Investment B”) and \$25 million investment made in Company C (“Investment C”)
- Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million
- Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million
- Year 4: FMV of Investment B determined to be \$35 million
- Year 5: Investment B sold for \$20 million

[Table of Contents](#)

The capital gains portion of the incentive fee, if any, calculated under the cumulative method would be:

- Year 1: None
- Year 2: \$5 million (20% multiplied by \$25 million (\$30 million realized capital gains on Investment A less \$5 million unrealized capital depreciation on Investment B))
- Year 3: \$1.4 million (\$6.4 million (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (capital gains incentive fee paid in Year 2))
- Year 4: None
- Year 5: None (\$5 million (20% multiplied by \$25 million (cumulative realized capital gains of \$35 million less realized capital losses of \$10 million)) less \$6.4 million (cumulative capital gains incentive fee paid in Year 2 and Year 3))

Board Approval of the Investment Advisory and Management Agreement

The investment advisory and management agreement with Saratoga Investment Advisors was initially approved by our board of directors at an in-person meeting of the directors, including a majority of our independent directors, and was approved by our stockholders at the special meeting of stockholders held on July 30, 2010.

In approving this agreement, the directors considered, among other things, (i) the nature, extent and quality of the advisory and other services to be provided to us by Saratoga Investment Advisors; (ii) our investment performance and the investment performance of Saratoga Investment Advisors; (iii) the expected costs of the services to be provided by Saratoga Investment Advisors (including management fees, advisory fees and expense ratios) and the profits expected to be realized by Saratoga Investment Advisors; (iv) the limited potential for economies of scale in investment management associated with managing us; and (v) Saratoga Investment Advisors estimated pro forma profitability with respect to managing us.

Pursuant to the 1940 Act, the initial term of the Management Agreement was for two years from its effective date of July 30, 2010, and will continue in effect for a successive period of 12 months thereafter, provided that each continuance is specifically approved at least annually by both (i) the vote of a majority of the board members or the vote of a majority of our outstanding voting securities (as such term is defined in the 1940 Act) and (ii) the vote of a majority of the board members who are not parties to the investment advisory and management agreement or interested persons (as such term is defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval. Most recently, on July 10, 2014, our board of directors, including a majority of our independent directors, approved the renewal of the Management Agreement for an additional one-year term at an in-person meeting.

Payment of our expenses

The investment advisory and management agreement provides that all investment professionals of Saratoga Investment Advisors and its staff, when and to the extent engaged in providing investment advisory services required to be provided by Saratoga Investment Advisors, and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by Saratoga Investment Advisors and not by us.

We bear all costs and expenses of our operations and transactions, including those relating to:

- our organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firm);

Table of Contents

- expenses incurred by Saratoga Investment Advisors payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us 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 advisors, 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;
- 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 the administration agreement, including rent and the allocable portion of the cost of our officers and their respective staffs (including travel expenses)).

Duration and Termination

The investment advisory and management agreement will remain in effect continuously, unless terminated under the termination provisions of the agreement. The investment advisory and management agreement may be terminated as a whole at any time by us, without the payment of any penalty, upon the vote of a majority of the board members or a majority of our outstanding voting securities or by Saratoga Investment Advisors, on 60 days' written notice by either party to the other, which notice may be waived by the non-terminating party.

Indemnification

Under the investment advisory and management agreement, Saratoga Investment Advisors and certain of its affiliates are not liable to us for any action taken or omitted to be taken by Saratoga Investment Advisors in connection with the performance of any of its duties or obligations under the agreement or otherwise as an investment adviser to us, except to the extent specified in Section 36(b) of the 1940 Act concerning loss resulting from a breach of fiduciary duty (as the same is finally determined by judicial proceedings) with respect to the receipt of compensation for services and except to the extent such action or omission constitutes gross negligence, willful misfeasance, bad faith or reckless disregard of its duties and obligations under the agreement.

[Table of Contents](#)

We also provide indemnification to Saratoga Investment Advisors and certain of its affiliates for damages, liabilities, costs and expenses incurred by them in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding arising out of or otherwise based upon the performance of any of its duties or obligations under the agreement or otherwise as an investment adviser to us. However, we would not provide indemnification against any liability to us or our security holders to which Saratoga Investment Advisors or such affiliates would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of any such person's duties or by reason of the reckless disregard of its duties and obligations under the agreement.

Organization of the Investment Adviser

Saratoga Investment Advisors is registered as an investment adviser under the Investment Advisers Act of 1940. The principal executive offices of Saratoga Investment Advisors are located at 535 Madison Avenue, New York, New York 10022.

Administration Agreement

Pursuant to a separate administration agreement, Saratoga Investment Advisors, who also serves as our administrator, furnishes us with office facilities, equipment and clerical, book-keeping and record keeping services. Under the administration agreement, our administrator also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain, preparing reports for our stockholders and reports required to be filed with the SEC. In addition, our administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement equal an amount based upon our allocable portion of our administrator's overhead in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs relating to the performance of services under this agreement (including travel expenses). Our allocable portion is based on the proportion that our total assets bears to the total assets administered or managed by our administrator. Under the administration agreement, our administrator also provides managerial assistance, on our behalf, to those portfolio companies who accept our offer of assistance. The amount payable under the administration agreement is currently capped at \$1.0 million for each annual term of the agreement. The administration agreement had an initial term of two years from its effective date of July 30, 2010, with automatic one-year renewals, subject to approval by our board of directors, a majority of whom must be our independent directors. On July 10, 2014, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by us thereunder to \$1.0 million for the additional one-year term. The administration agreement may be terminated by either party without penalty upon 60 days written notice to the other party.

Indemnification

Under the administration agreement, Saratoga Investment Advisors and certain of its affiliates are not liable to us for any action taken or omitted to be taken by Saratoga Investment Advisors in connection with the performance of any of its duties or obligations under the agreement.

We also provide indemnification to Saratoga Investment Advisors and certain of its affiliates for damages, liabilities, costs and expenses incurred by them in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding arising out of or otherwise based upon the performance of any of its duties or obligations under the agreement or otherwise as an administrator to us. However, we do not provide indemnification against any liability to us or our security holders to which Saratoga Investment Advisors or such affiliates would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of any such person's duties or by reason of the reckless disregard of its duties and obligations under the agreement.

License Agreement

We entered into a trademark license agreement with Saratoga Investment Advisors, pursuant to which Saratoga Investment Advisors grants us a non-exclusive, royalty-free license to use the name “Saratoga.” Under this agreement, we have a right to use the “Saratoga” name, for so long as Saratoga Investment Advisors or one of its affiliates remains our investment adviser. Other than with respect to this limited license, we have no legal right to the “Saratoga” name. Saratoga Investment Advisors has the right to terminate the license agreement if it is no longer acting as our investment adviser. In the event the investment advisory and management agreement is terminated, we would be required to change our name to eliminate the use of the name “Saratoga.”

MANAGEMENT

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors elects our officers who serve at its discretion. Our Board of Directors has five members, two of whom are “interested persons” as defined in Section 2(a)(19) of the 1940 Act and five of whom are not interested persons, whom we refer to as our independent directors.

Director and Executive Officer Information

As of June 3, 2014, our executive officers, directors and key employees and their positions are as set forth below. The address for each executive officer and director is c/o Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Expiration of Term</u>
<i>Interested Directors</i>				
Christian L. Oberbeck	53	Chairman of the Board and Chief Executive Officer	2010	2015
Michael J. Grisius	49	President and Director	2011	2014
<i>Independent Directors</i>				
Steven M. Looney	63	Director	2007	2016
Charles S. Whitman III	70	Director	2007	2016
G. Cabell Williams	58	Director	2007	2014
<u>Name</u>	<u>Age</u>	<u>Position</u>		
<i>Executive Officers</i>				
Christian L. Oberbeck	53	Chief Executive Officer		
Michael J. Grisius	49	President		
Henri J. Steenkamp	38	Chief Financial Officer, Treasurer, Secretary and Chief Compliance Officer		

Biographical information regarding our Board and our executive officers is set forth below. We have divided the directors into two groups— independent directors and interested directors. Interested directors are “interested persons” of Saratoga Investment Corp., as defined in Section 2(a)(19) of the 1940 Act. We do not currently have any other executive officers who are not also directors.

Biographical Information

Independent Directors

Steven M. Looney—Mr. Looney is a Managing Director of Peale Davies & Co. Inc., a consulting firm with particular expertise in financial process and IT outsourcing, and is a CPA and an attorney. Mr. Looney has also served as Managing Director, Americas of Vayon Group, a strategic adviser for greentech electric and hybrid vehicle services, since June 2014. Mr. Looney also serves as a consultant and director to numerous companies in the healthcare, manufacturing and technology services industries, including FCL Graphics Inc., (since October 2009) Church Street Health Management (since June 2012), Sun Healthcare Group (May 2004 to November 2010) and WH Industries Inc. (January 1997 to December 2012). Between 2000 and 2005, he served as Senior Vice President and Chief Financial Officer of PCCI, Inc., a private IT staffing and outsourcing firm. Between 1992 and 2000, Mr. Looney worked at WH Industries as Chief Financial and Administrative Officer. Mr. Looney also serves as a director of Excellent Education for Everyone, a nonprofit organization. Mr. Looney graduated summa cum laude from the University of Washington with a B.A. degree in Accounting and received a J.D. from the University of Washington School of Law where he was a member of the law review. Mr. Looney’s

[Table of Contents](#)

qualifications as director include his experience as a Managing Director of Peale Davies & Co. Inc. and as Chief Financial and Administrative Officer of WH Industries, as well as his financial, accounting and legal expertise.

Charles S. Whitman III—Mr. Whitman is senior counsel (retired) at Davis Polk & Wardwell LLP. Mr. Whitman was a partner in Davis Polk’s Corporate Department for 28 years, representing clients in a broad range of corporate finance matters, including shelf registrations, securities compliance for financial institutions, foreign asset privatizations, and mergers and acquisitions. From 1971 to 1973, Mr. Whitman served as Executive Assistant to three successive Chairmen of the SEC. Mr. Whitman serves on the Legal Advisory Board of the National Association of Securities Dealers. Mr. Whitman graduated from Harvard College and graduated magna cum laude from Harvard Law School with a LL.B. Mr. Whitman also received an LL.M. from Cambridge University in England. Mr. Whitman’s qualifications as director include his 28 years of experience representing clients, including AT&T, Exxon Mobil, General Motors and BP, in securities matters as a partner in Davis Polk’s corporate department.

G. Cabell Williams—Mr. Williams has served as the Managing General Partner of Williams and Gallagher, a private equity partnership located in Chevy Chase, Maryland since 2004. Since March 2011, Mr. Williams has also served as a partner of Faragut Capital Partners, an investment firm based in Fairfax, VA. In 2004, Mr. Williams concluded a 23 year career at Allied Capital Corporation, a business development company based in Washington, DC, which was acquired by Ares Capital Corporation in 2010. While at Allied, Mr. Williams held a variety of positions, including President, COO and finally Managing Director following Allied’s merger with its affiliates in 1998. From 1991 to 2004, Mr. Williams either led or co-managed the firm’s Private Equity Group. For the nine years prior to 1999, Mr. Williams led Allied’s Mezzanine investment activities. For 15 years, Mr. Williams served on Allied’s Investment Committee where he was responsible for reviewing and approving all of the firm’s investments. Prior to 1991, Mr. Williams ran Allied’s Minority Small Business Investment Company. He also founded Allied Capital Commercial Corporation, a real estate investment vehicle. Mr. Williams has served on the Board of various public and private companies. Mr. Williams attended The Landon School, and graduated from Mercersburg Academy and Rollins College, receiving a B.S. in Business Administration from the latter. Mr. Williams’ qualifications as director include his over 25 years of experience managing investment activities at Williams and Gallagher and at Allied Capital, where he served in a variety of positions, including President, COO and Managing Director.

Interested Directors

Christian L. Oberbeck—Mr. Oberbeck has over 23 years of experience in leveraged finance, from distressed debt to private equity, and has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in these businesses. Mr. Oberbeck is the Managing Partner of Saratoga Partners, a middle market private equity investment firm, and has served on its investment committee since 1995. Mr. Oberbeck is also the Managing Member of Saratoga Investment Advisors, LLC, the Company’s investment adviser, and the Chief Executive Officer of the Company. Mr. Oberbeck also served as our President until February 2013.

Prior to assuming management responsibility for Saratoga Partners in 2008, Mr. Oberbeck has co-managed Saratoga Partners since 1995, when he joined Dillon Read and Saratoga Partners from Castle Harlan, Inc., a corporate buyout firm, which he had joined at its founding in 1987 and was a Managing Director, leading successful investments in manufacturing and financial services companies. Prior to joining that, he worked in the Corporate Development Group of Arthur Young and in corporate finance at Blyth Eastman Paine Webber. Mr. Oberbeck has been a director of numerous middle market companies.

Mr. Oberbeck graduated from Brown University in 1982 with a BS in Physics and a BA in Mathematics. In 1985, he earned an MBA from Columbia University. Mr. Oberbeck’s qualifications as a director include his extensive experience in the investment and finance industry, as well as his intimate knowledge of the Company’s operations, gained through his service as an executive officer.

[Table of Contents](#)

Michael J. Grisius—Mr. Grisius has over 22 years of experience in leveraged finance, investment management and financial services. He has originated, structured, negotiated, consummated, managed and monitored numerous successful investments in mezzanine debt, private equity, senior debt, structured products and commercial real estate debt. Mr. Grisius is Chief Investment Officer and a Managing Director of Saratoga Investment Advisors, LLC, the Company’s investment adviser and was appointed President of the Company in February 2013. Mr. Grisius joined Saratoga Investment Advisors, LLC in July 2011.

Prior to joining Saratoga Investment Advisors, Mr. Grisius served as Managing Director at Allied Capital Corporation, where he was an investment professional for 16 years. At Allied Capital Corporation, Mr. Grisius held several senior positions including co-head of Mezzanine Finance and member of its Management Committee and its Investment Committee. In 2008, Mr. Grisius was appointed co-chairman of the Allied Capital Corporation’s Investment Committee. He also had responsibility for structuring and managing Unitranche Fund, LLC. During his tenure at Allied, Mr. Grisius built and led teams that made investments in subordinated debt, control equity and real estate mortgage debt. Mr. Grisius has served on the board of directors of numerous middle market companies. Prior to joining Allied Capital Corp., Mr. Grisius worked in leveraged finance at Chemical Bank from 1989 to 1992 and held senior accountant and consultant positions with KPMG LLP from 1985 to 1988.

Mr. Grisius graduated with a BS from Georgetown University in 1985 and earned an MBA from Cornell University’s Johnson Graduate School of Management in 1990. Mr. Grisius’ qualifications as a director include his broad experience in leverage finance, investment management, private equity and financial services.

Executive Officers

For information regarding Mr. Oberbeck, the Chairman of the Board and our Chief Executive Officer and Mr. Grisius, our President, see “—Interested directors” above.

Henri J. Steenkamp. Mr. Steenkamp has over 15 years of experience in finance and accounting. On March 4, 2014, the Board of Directors appointed Mr. Steenkamp to serve as the Company’s Interim Chief Financial Officer, Treasurer, Secretary and Chief Compliance Officer. On July 10, 2014, our board of directors appointed Mr. Steenkamp to serve in all of the foregoing roles on a permanent basis. Prior to joining the Company, Mr. Steenkamp served as the Chief Financial Officer of MF Global Holdings Ltd., a broker in commodities and derivatives, from April 2011. Prior to that, Mr. Steenkamp held the position of Chief Accounting Officer and Global Controller at MF Global for four years. He joined MF Global, then Man Financial, in 2006 as Vice President of External Reporting and Accounting Policy. After MF Global filed for bankruptcy protection in October 2011, he continued to serve as Chief Financial Officer through January 2013. Before joining MF Global, Mr. Steenkamp spent eight years with PricewaterhouseCoopers (“PwC”), including four years in Transaction Services in its New York office, managing a variety of capital-raising transactions on a global basis. His focus was also on the SEC registration and public company filing process, including technical accounting. He spent four years with PwC in South Africa, where he served as an auditor primarily for SEC registrants and assisted South African companies as they went public in the U.S. Mr. Steenkamp is a chartered accountant and holds an honors degree in finance.

Board Leadership and the Board’s Role in the Oversight of Risk Management

Our board of directors monitors and performs an oversight role with respect to the business and affairs of the Company, including with respect to investment practices and performance, compliance with regulatory requirements and the services, expenses and performance of service providers to the Company. Among other things, our board of directors approves the appointment of our investment adviser, administrator and officers; reviews and monitors the services and activities performed by our investment adviser, administrator and officers; and approves the engagement, and reviews the performance of, our independent public accounting firm.

[Table of Contents](#)

Under our bylaws, the Board may designate a chairman to preside over the meetings of the Board and meetings of the stockholders and to perform such other duties as may be assigned to him by the Board. The Company does not have a fixed policy as to whether the chairman of the Board should be an independent director and believes that its flexibility to select its chairman and reorganize its leadership structure from time to time is in the best interests of the Company and its stockholders.

Mr. Oberbeck, who is an “interested person” of the Company as defined in Section 2(a)(19) of the 1940 Act, serves as our chief executive officer and chairman of the Board. The Board believes that Mr. Oberbeck, as chief executive officer of the Company and as a principal of Saratoga Investment Advisors, is the director with the most knowledge of our business strategy and is best situated to serve as chairman of the Board. The Board does not currently have a lead independent director. We believe that our board leadership structure must be evaluated on a case-by-case basis and that our existing board leadership structure is appropriate. However, we continually re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet our needs.

The Board, directly and through the audit committee and other committees of the Board, takes an active role in the oversight of the Company’s policies with respect to the assessment and management of enterprise risk. Among other things, the Board has policies in place for identifying the senior executive responsible for key risks as well as the Board committees with oversight responsibility for particular key risks. In a number of cases, oversight is conducted by the full Board. Our Board also performs its risk oversight responsibilities with the assistance of the chief compliance officer. The chief compliance officer is designated to oversee compliance with the federal securities laws.

We believe that our Board and its committees’ role in risk oversight complements our Board’s leadership structure because it allows our independent directors, through three fully independent board committees, auditor and independent valuation providers, our chief compliance officer, and otherwise, to exercise oversight of risk without any conflict that might discourage critical review. We believe that our board leadership structure and the Board’s approach to risk oversight must be evaluated on a case-by-case basis and that the Board’s role in risk oversight is appropriate. However, we continually re-examine the manner in which the Board administers its oversight function on an ongoing basis to ensure that it continues to meet our needs.

Director Independence

In accordance with rules of the New York Stock Exchange (the “NYSE”), the Board annually determines the independence of each director. No director is considered independent unless the Board has determined that he or she has no material relationship with the Company. The Company monitors the status of its directors and officers through the activities of the Company’s Nominating and Corporate Governance Committee and through a questionnaire to be completed by each director no less frequently than annually, with updates periodically if information provided in the most recent questionnaire has changed.

In order to evaluate the materiality of any such relationship, the Board uses the definition of director independence set forth in the NYSE Listed Company Manual. Section 303A.00 of the NYSE Listed Company Manual provides that business development companies, or BDCs, such as the Company, are required to comply with all of the provisions of Section 303A applicable to domestic issuers other than Sections 303A.02, the section that defines director independence. Section 303A.00 provides that a director of a BDC shall be considered to be independent if he or she is not an “interested person” of the Company, as defined in Section 2(a)(19) of the 1940 Act. Section 2(a)(19) of the 1940 Act defines an “interested person” to include, among other things, any person who has, or within the last two years had, a material business or professional relationship with the Company.

The Board has determined that each of the directors is independent and has no relationship with the Company, except as a director and stockholder of the Company, with the exception of Messrs. Oberbeck and Grisius, who are interested persons of the Company due to their positions as officers of the Company and/or officers of Saratoga Investment Advisors, LLC, our external investment adviser.

[Table of Contents](#)

Corporate Governance

We maintain a corporate governance webpage at the “Corporate Governance” link under the “Investor Relations” link at <http://saratogainvestmentcorp.com>.

Our Corporate Governance Procedures, Code of Business Conduct and Ethics, Code of Ethics and Board committee charters are available at our corporate governance webpage at <http://saratogainvestmentcorp.com> and are also available to any stockholder who requests them by writing to our Interim Secretary, Henri J. Steenkamp, at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022.

Annual Evaluation

Our directors perform an evaluation, at least annually, of the effectiveness of the Board and its committees. This evaluation includes an annual questionnaire and Board and Board committee discussion.

Board Meetings and Committees

Our Board met six times during fiscal year 2014. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held while the director was a member. The Board’s standing committees are set forth below. We require each director to make a diligent effort to attend all Board and committee meetings, as well as each Annual Meeting of Stockholders. All of the five directors attended the 2014 Annual Meeting of Stockholders in person.

Communications with Directors

Stockholders and other interested parties may contact any member (or all members) of the Board by mail. To communicate with the Board, any individual directors or any group or committee of directors, correspondence should be addressed to the Board or any such individual directors or group or committee of directors by either name or title. All such correspondence should be sent to Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, Attention: Secretary. Any communication to report potential issues regarding accounting, internal controls and other auditing matters will be directed to the Audit Committee. Appropriate personnel of the Company will review and sort through communications before forwarding them to the addressee(s).

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to which applies to, among others, our executive officers, including our principal executive officer and principal financial officer, as well as every officer, director and employee of the Company. Requests for copies should be sent in writing to Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022. The Company’s Code of Business Conduct and Ethics is also available on our website at <http://saratogainvestmentcorp.com>.

If we make any substantive amendment to, or grant a waiver from, a provision of our Code of Business Conduct and Ethics, we will promptly disclose the nature of the amendment or waiver on our website at <http://saratogainvestmentcorp.com>.

Committees of the Board of Directors

Audit Committee

The current members of the audit committee are Steven M. Looney (Chairman), Charles S. Whitman III and G. Cabell Williams. The Board has determined that Mr. Looney is an “audit committee financial expert” as defined under Item 407 of Regulation S-K of the Securities Exchange Act of 1934 and that each of Messrs.

[Table of Contents](#)

Whitman and Williams are “financially literate” as required by NYSE corporate governance standards. All of these members are independent directors. The audit committee is responsible for approving our independent accountants, reviewing with our independent accountants the plans and results of the audit engagement, approving professional services provided by our independent accountants, reviewing the independence of our independent accountants and reviewing the adequacy of our internal accounting controls. The audit committee is also responsible for aiding our board of directors in determining the fair value of debt and equity investments that are not publicly traded or for which current market values are not readily available; where appropriate, the board of directors and audit committee may utilize the services of an independent valuation firm to assist them in determining the fair value of these investments. Finally, the audit committee also reviews our financial statements and the disclosure thereof and the adequacy of our disclosure controls and procedures.

Authority

The audit committee is authorized (without seeking Board approval) to retain special legal, accounting or other advisors and may request any officer or employee of the Company or the Company’s outside counsel or independent auditor to meet with any members of, or advisors to, the audit committee. The audit committee has available appropriate funding from the Company as determined by the audit committee for payment of: (i) compensation to any accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, (ii) compensation to any advisers employed by the audit committee, and (iii) ordinary administrative expenses of the audit committee that are necessary or appropriate in carrying out its duties. The audit committee may delegate its authority to subcommittees or the chairman of the audit committee when it deems appropriate and in the best interests of the Company.

Procedures

The audit committee meets as often as it determines is appropriate to carry out its responsibilities under its charter, but not less frequently than quarterly. The chairman of the audit committee, in consultation with the other committee members, determines the frequency and length of the committee meetings and sets meeting agendas consistent with its charter. The audit committee meets separately, periodically, with management, with internal auditors or other personnel responsible for the internal audit function and with the independent auditor.

A charter of the audit committee is available in print to any stockholder who requests it and it is also available on the Company’s website at www.saratogainvestmentcorp.com.

Nominating and Corporate Governance Committee

The current members of the nominating and corporate governance committee are Charles S. Whitman III (Chairman), G. Cabell Williams and Steven M. Looney. All of these members are independent directors. The nominating and corporate governance committee is responsible for identifying individuals qualified to become board members, and recommending to the Board director nominees for election at the next annual or special meeting of shareholders at which directors are to be elected or to fill any vacancies or newly created directorships that may occur between such meetings, recommending directors for appointment to Board committees, making recommendations to the Board as to determinations of director independence, overseeing the evaluation of the Board, overseeing and setting compensation for the Company’s directors.

In making its recommendations for Board and committee membership, the nominating and corporate governance committee reviews candidates’ qualifications for membership on the Board or a committee of the Board (including making a specific determination as to the independence of each candidate) based on the criteria approved by the Board (and taking into account the enhanced independence, financial literacy and financial expertise standards required under law or the New York Stock Exchange rules for audit committee membership purposes). In evaluating current directors for re-nomination to the Board or re-appointment to any Board committees, the nominating and corporate governance committee assesses the performance of such directors, periodically reviews

Table of Contents

the composition of the Board and its committees in light of the current challenges and needs of the Board, the Company and each committee, and determines whether it may be appropriate to add or remove individuals after considering issues of judgment, diversity, age, skills, background and experience, considers rotation of committee members and committee chairmen and considers any other factors that are set forth in the Company's corporate governance procedures or are deemed appropriate by the nominating and corporate governance committee or the Board. The nominating and corporate governance committee considers issues of judgment, diversity, age, skills, background and experience in evaluating candidates for membership on the Board.

The nominating and corporate governance committee does not have a formal policy on the consideration of director candidates recommended by stockholders. The board of directors believes that it is more appropriate to give the nominating and corporate governance committee flexibility in evaluating stockholder recommendations. In the event that a director nominee is recommended by a stockholder, the nominating and corporate governance committee will give due consideration to the director nominee and will use the same criteria used for evaluating board director nominees, in addition to considering the information relating to the director nominee provided by the stockholder.

Authority

The nominating and corporate governance committee has the sole authority to retain and terminate any search firm assisting the nominating and corporate governance committee in identifying director candidates, including sole authority to approve all such search firm's fees and other retention terms. In addition, the nominating and corporate governance committee has the sole authority to retain and terminate any compensation consultant assisting the nominating and corporate governance committee in the evaluation of director compensation, including sole authority to approve all such compensation consultant's fees and other retention terms. The nominating and corporate governance committee may delegate its authority to subcommittees or the chair of the nominating and corporate governance committee when it deems appropriate and in the best interests of the Company.

Procedures

The nominating and corporate governance committee meets as often as it determines is appropriate to carry out its responsibilities under its charter. The chair of the committee, in consultation with the other committee members, determines the frequency and length of the committee meetings and shall set meeting agendas consistent with its charter.

A charter of the nominating and corporate governance committee is available in print to any stockholder who requests it, and it is also available on the Company's website at www.saratogainvestmentcorp.com.

Compensation Committee

The current members of the compensation committee are G. Cabell Williams (Chairman), Steven M. Looney and Charles S. Whitman III. All of these members are independent directors. The compensation committee is responsible for overseeing the Company's compensation policies generally and making recommendations to the Board with respect to incentive compensation and equity-based plans of the Company that are subject to Board approval, evaluating executive officer performance and reviewing the Company's management succession plan, overseeing and setting compensation for the Company's directors and, as applicable, its executive officers and, as applicable, preparing the report on executive officer compensation that SEC rules require to be included in the Company's annual proxy statement. Currently, none of our executive officers are compensated by the Company and as such the compensation committee is not required to produce a report on executive officer compensation for inclusion in our annual proxy statement.

The compensation committee has the sole authority to retain and terminate any compensation consultant assisting the compensation committee, including sole authority to approve all such compensation consultant's

[Table of Contents](#)

fees and other retention terms. The compensation committee may delegate its authority to subcommittees or the chairman of the compensation committee when it deems appropriate and in the best interests of the Company.

Procedures

The compensation committee shall meet as often as it determines is appropriate to carry out its responsibilities under its charter. The chairman of the compensation committee, in consultation with the other committee members, shall determine the frequency and length of the committee meetings and shall set meeting agendas consistent with its charter. No executive officer should attend that portion of any meeting where such executive's performance (or, as applicable, compensation) is discussed, unless specifically invited by the compensation committee.

A charter of the compensation committee is available in print to any stockholder who requests it and is also available on the Company's website at www.saratogainvestmentcorp.com.

Compensation Committee Interlocks and Insider Participation

During fiscal year 2012, none of the Company's executive officers served on the board of directors (or a compensation committee thereof or other board committee performing equivalent functions) of any entities that had one or more executive officers serve on the compensation committee or on the board of directors. No current or past executive officers or employees of the Company or its affiliates serve on the compensation committee.

Executive Compensation

Currently, none of our executive officers are compensated by us. We currently have no employees, and each of our executive officers is also an employee of Saratoga Investment Advisors. Services necessary for our business are provided by individuals who are employees of Saratoga Investment Advisors, pursuant to the terms of the investment advisory and management agreement and the administration agreement.

Director Compensation

Our 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."

The following table sets forth information concerning total compensation earned by or paid to each of our directors during the fiscal year ended February 28, 2014:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Total</u>
Interested Directors		
Christian L. Oberbeck(1)	—	—
Michael J. Grisius(1)	—	—
Independent Directors		
Steven M. Looney	\$ 69,000	\$69,000
Charles S. Whitman III	\$ 66,000	\$66,000
G. Cabell Williams	\$ 66,000	\$66,000

(1) No compensation was paid to directors who are interested persons of us as defined in the 1940 Act.

PORTFOLIO MANAGEMENT

The day-to-day management of our portfolio is the responsibility of Saratoga Investment Advisors and overseen by its investment committee.

Investment Committee

The members of Saratoga Investment Advisors' investment committee include Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby and Charles G. Phillips. See the section of the prospectus entitled "Management" for biographies of Messrs. Oberbeck and Grisius. For biographical information for Messrs. Inglesby and Phillips, see "Investment Professionals" below.

Investment Professionals

Our investment adviser's investment personnel, in addition to our investment adviser's investment committee, are primarily responsible for the day-to-day management of our portfolio.

The members of our investment adviser's investment committee and its investment personnel are not be employed by us, and receive no compensation from us in connection with their activities. However, they receive compensation from our investment adviser that includes an annual base salary, an annual individual performance bonus, contributions to 401(k) plans, and, in certain circumstances, a portion of the incentive fee or carried interest earned in connection with their services.

Below are the biographies for the members of our investment adviser's investment committee whose biographies are not included elsewhere in this prospectus and the other investment professionals of our investment adviser.

Thomas V. Inglesby—Mr. Inglesby has over 25 years of investment experience including private equity and leveraged finance. Mr. Inglesby is a managing director at Saratoga Investment Advisors and is responsible for originating, structuring, negotiating, consummating, managing and monitoring middle market investments.

Prior to joining Saratoga Investment Advisors, Mr. Inglesby was a senior managing director at GSC Group, Inc. From September 2008 through July 2010, Mr. Inglesby was a senior managing director in the Recovery Investment Group at GSC Group, serving on the investment committee as an internal advisor on matters relating to GSC Group's ongoing restructuring. From 2002 to 2008, Mr. Inglesby served as the Head of the U.S. Corporate Debt Group of GSC Group. During this period, GSC Group raised and managed \$5.6 billion in capital across 12 corporate credit investment funds. From 1997 to 2002, he served as a managing director at GSC Group focused on middle market buyouts. Prior to joining GSC Group in 1997, Mr. Inglesby served as a managing director with Harbour Group from 1994 to 1997, where he focused on acquisitions of manufacturing companies in fragmented industries. From 1992 to 1994, Mr. Inglesby served as a managing director at the South Street Funds, a startup distressed debt investment fund founded by former partners at Goldman Sachs. From 1986 to 1990, Mr. Inglesby served as a vice president in the Merchant Banking Department at PaineWebber.

In September 2010, GSC Group filed for bankruptcy under Chapter 11 of the United States Bankruptcy Code.

Mr. Inglesby received a J.D. from the University of Virginia School of Law, an M.B.A. from the Darden Graduate School of Business Administration, and a B.S. in Accounting with General Honors from the University of Maryland.

Charles G. Phillips IV—Mr. Phillips has over 13 years of investment experience including private equity and leveraged finance. Mr. Phillips is a managing director at Saratoga Investment Advisors and Saratoga Partners

[Table of Contents](#)

and has been involved in originating, structuring, negotiating, consummating, managing and monitoring middle market investments. Mr. Phillips has extensive experience investing in middle-market manufacturing and service companies. He also has extensive experience in dealing with public financings and sales through his work with several portfolio companies of Saratoga Partners. Prior corporate finance experience includes mergers and acquisitions and capital markets experience in a variety of industries, including packaged foods, consumer products, cable television, energy and education. Mr. Phillips joined Saratoga Partners in 1997 after graduating from Harvard Business School. Prior to that, from 1993 to 1995, Mr. Phillips worked in Dillon Read's corporate finance department, where he was involved in mergers and acquisitions and advisory assignments in a variety of industries. Prior experience includes McCown De Leeuw & Co., a corporate buyout firm. Mr. Phillips has served as a director of a number of Saratoga Partners' portfolio companies.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Transactions with Related Persons

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors, LLC. We have also entered into a license agreement with Saratoga Investment Advisors, LLC, pursuant to which Saratoga Investment Advisors has agreed to grant us a non-exclusive, royalty-free license to use the name "Saratoga." In addition, pursuant to the terms of the administration agreement, Saratoga Investment Advisors, LLC provides us with the office facilities and administrative services necessary to conduct our day-to-day operations. Mr. Oberbeck, our chief executive officer, is the primary investor in and controls Saratoga Investment Advisors, LLC.

Review, Approval or Ratification of Transactions with Related Persons

The Audit Committee of our Board is required to review and approve any transactions with related persons (as such term is defined in Item 404 of Regulation S-K). Generally, a related person includes any director or officer of the Company or any immediate family member of a director or officer of the Company or any 5% holder of our common stock or any immediate family member of a 5% holder of our common stock.

CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS

The following table sets forth, as of November 4, 2014, the beneficial ownership of each current director, the nominees for director, the Company's executive officers, each person known to us to beneficially own 5.0% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

The percentage ownership is based on 5,379,616 shares of common stock outstanding as of November 4, 2014. Shares of common stock that are subject to warrants or other convertible securities currently exercisable or exercisable within 60 days thereof, are deemed outstanding for the purposes of computing the percentage ownership of the person holding these options or convertible securities, but are not deemed outstanding for computing the percentage ownership of any other person. Beneficial ownership is determined under the rules of the SEC and generally includes voting or investment power with respect to securities. To our knowledge, unless otherwise indicated in the footnotes to this table, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned. Unless otherwise indicated by footnote, the address for each listed individual is Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022.

<u>Name of Beneficial Owners</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>Percent of Class</u>
Interested Directors		
Christian L. Oberbeck	1,539,564(1)	28.6%
Michael J. Grisius	67,479	1.3%

[Table of Contents](#)

<u>Name of Beneficial Owners</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>Percent of Class</u>
Executive Officer		
Henri J. Steenkamp	1,400	*
Independent Directors		
Steven M. Looney	1,547	*
Charles S. Whitman III	1,833	*
G. Cabell Williams	20,376	*
All Directors and Executive Officers as a Group	1,632,195	29.9%
Owners of 5% or more of our common stock		
Black Diamond Capital Management, L.L.C.(2)	505,935	9.4%
Elizabeth Oberbeck(3)	744,183	13.8%
Raging Capital Management, LLC(4)	318,077	5.9%
Thomas V. Inglesby(5)	269,549	5.4%

* Less than 1.0%

Mr. Oberbeck and Mr. Inglesby are affiliates who make up 30.0% of the ownership of SAR.

- (1) Includes 473,373 shares of common stock directly held by Mr. Oberbeck, 180,738 shares of common stock held by Saratoga Investment Advisors, which Mr. Oberbeck controls, 174,035 shares of common stock held by CLO Partners LLC, an entity wholly owned by Mr. Oberbeck, and 744,183 shares of common stock directly held by Elizabeth Oberbeck. See footnote 3 below.
- (2) Based on information included in Amendment No. 2 to Schedule 13G filed by Black Diamond Capital Management, L.L.C. with the SEC on February 14, 2014. The address of Black Diamond Capital Management, L.L.C. is One Sound Shore Drive, Suite 200, Greenwich, CT 06830.
- (3) Based on information included in Amendment No. 3 to Schedule 13D filed jointly by Christian L. Oberbeck, Elizabeth Oberbeck, Saratoga Investment Advisors and CLO Partners LLC on November 4, 2014. Pursuant to an Agreement Relating to Shares of Common Stock of Saratoga Investment Corp. (the "Transfer Agreement"), Christian L. Oberbeck transferred 744,183 shares of common stock beneficially owned by him to Elizabeth Oberbeck. Elizabeth Oberbeck has full ownership rights with respect to the shares, including without limitation, the right to (A) receive any cash and/or stock dividends and distributions paid on or with respect to the shares and (B) sell the shares in accordance with the provisions of the Transfer Agreement and receive all proceeds therefrom. However, pursuant to the terms of the Transfer Agreement, Christian L. Oberbeck has retained the right to vote the shares, except that Elizabeth Oberbeck has retained the right to vote the shares on all matters submitted to shareholders with respect to any matter that could give rise to dissenters or other rights of an objecting shareholder under Maryland General Corporation Law. The Transfer Agreement also contains a right of first refusal that requires Elizabeth Oberbeck to offer Christian L. Oberbeck the opportunity to purchase any shares of Common Stock owned by her prior to her intended sale of the shares. Any such purchases may be made either directly by Mr. Oberbeck or through entities affiliated with him.
- (4) Based on information included in Amendment No. 4 to Schedule 13G filed by Raging Capital Management, LLC with the SEC on February 14, 2014. The address of Raging Capital Master Fund, Ltd. is Ten Princeton Avenue, Rocky Hill, NJ 08553.
- (5) Based on information included in Schedule 13D filed by Thomas V. Inglesby with the SEC on January 6, 2014.

[Table of Contents](#)

Set forth below is the dollar range of equity securities beneficially owned by each of our directors as of _____, 2014. We are not part of a “family of investment companies” as that term is defined in the 1940 Act.

<u>Name of Director</u>	<u>Dollar Range of Equity Securities Beneficially Owned(1)(2)</u>
Interested Directors	
Christian L. Oberbeck	Over \$1,000,000
Michael J. Grisius	Over \$1,000,000
Independent Directors	
Steven M. Looney	\$10,001-\$50,000
Charles S. Whitman	\$10,001-\$50,000
G. Cabell Williams	\$100,001-\$500,000

- (1) The dollar ranges are as follows: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000 or over \$1,000,000.
- (2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$ _____ on November _____, 2014 on the New York Stock Exchange. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

REGULATION

Business Development Company Regulations

We have elected to be treated as a BDC under the 1940 Act. As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. The 1940 Act contains prohibitions and restrictions relating to transactions between BDCs and their affiliates (including any investment advisers or sub-advisers), principal underwriters and affiliates of those affiliates or underwriters, and requires that a majority of the directors be persons other than “interested persons,” as that term is defined in the 1940 Act. In addition, the 1940 Act provides that we may not change the nature of our business so as to cease to be, or to withdraw our election as, a BDC, unless approved by a majority of our outstanding voting securities. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67% or more of such company’s stock present at a meeting if more than 50% of the outstanding stock of such company is present and represented by proxy or (ii) more than 50% of the outstanding stock of such company.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the company’s total assets. The principal categories of qualifying assets relevant to our business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:
 - (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (c) satisfies either of the following:
 - (i) does not have any class of securities listed on a national securities exchange;
 - (ii) has a class of securities listed on a national securities exchange but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million;
 - (iii) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company;
 - (iv) is a small and solvent company having total assets of not more than \$4 million and capital and surplus of not less than \$2 million; or
 - (v) meets such other criteria as may established by the SEC.
- (2) Securities of any eligible portfolio company which we control.
- (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
- (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own at least 60% of the outstanding equity of the eligible portfolio company.

Table of Contents

- (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of options, warrants or rights relating to such securities.
- (6) Cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment.

Managerial Assistance to Portfolio Companies

As a BDC we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. Pursuant to a separate administration agreement, our investment adviser provides such managerial assistance on our behalf to portfolio companies that request this assistance, recognizing that our involvement with each investment will vary based on factors including the size of the company, the nature of our investment, the company's overall stage of development and our relative position in the capital structure. We may receive fees for these services.

In addition, a BDC must have been organized and have its principal place of business in the United States and must be operated for the purpose of making investments in the types of securities described in (1), (2) or (3) above under "—Qualifying assets." BDCs generally must offer to make available to the issuer of the securities significant managerial assistance, except in circumstances where either (i) the BDC controls such issuer of securities or (ii) the BDC purchases such securities in conjunction with one or more other persons acting together and one of the other persons in the group makes available such managerial assistance. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees, offers to provide, and, if accepted, does so provide, significant guidance and counsel concerning the management, operations or business objectives and policies of a portfolio company.

Temporary investments

As a BDC, pending investment in other types of "qualifying assets," as described above, our investments may consist of cash, cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury Bills or in repurchase agreements, provided that such agreements are fully collateralized by cash or securities issued by the U.S. Government or its agencies. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the asset diversification requirements in order to qualify as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Indebtedness and senior securities

As a BDC, we are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of shares of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities

[Table of Contents](#)

remain outstanding, we must generally make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or stock unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage.

Common stock

We are generally not able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and that of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to applicable requirements of the 1940 Act.

Code of ethics

As a BDC, we and Saratoga Investment Advisors have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act that establishes procedures for personal investments and restricts certain personal securities transactions. Personnel subject to each code may invest in securities for their personal investment accounts, including securities that may be purchased or held by us, so long as such investments are made in accordance with the code's requirements.

Proxy voting policies and procedures

SEC registered investment advisers that have the authority to vote (client) proxies (which authority may be implied from a general grant of investment discretion) are required to adopt policies and procedures reasonably designed to ensure that the adviser votes proxies in the best interests of its clients. Registered investment advisers also must maintain certain records on proxy voting. In most cases, we will invest in securities that do not generally entitle us to voting rights in our portfolio companies. When we do have voting rights, we will delegate the exercise of such rights to our investment adviser.

Saratoga Investment Advisors has particular proxy voting policies and procedures in place. In determining how to vote, officers of Saratoga Investment Advisors will consult with each other, taking into account our interests and the interests of our investors, as well as any potential conflicts of interest. Saratoga Investment Advisors will consult with legal counsel to identify potential conflicts of interest. Where a potential conflict of interest exists, Saratoga Investment Advisors may, if it so elects, resolve it by following the recommendation of a disinterested third party, by seeking the direction of our independent directors or, in extreme cases, by abstaining from voting. While Saratoga Investment Advisors may retain an outside service to provide voting recommendations and to assist in analyzing votes, it will not delegate its voting authority to any third party.

An officer of Saratoga Investment Advisors will keep a written record of how all such proxies are voted. It will retain records of (1) proxy voting policies and procedures, (2) all proxy statements received (or it may rely on proxy statements filed on the SEC's EDGAR system in lieu thereof), (3) all votes cast, (4) investor requests for voting information, and (5) any specific documents prepared or received in connection with a decision on a proxy vote. If it uses an outside service, Saratoga Investment Advisors may rely on such service to maintain copies of proxy statements and records, so long as such service will provide a copy of such documents promptly upon request.

Saratoga Investment Advisors' proxy voting policies are not exhaustive and are designed to be responsive to the wide range of issues that may be subject to a proxy vote. In general, Saratoga Investment Advisors will vote

[Table of Contents](#)

our proxies in accordance with these guidelines unless: (1) it has determined otherwise due to the specific and unusual facts and circumstances with respect to a particular vote, (2) the subject matter of the vote is not covered by these guidelines, (3) a material conflict of interest is present, or (4) it finds it necessary to vote contrary to its general guidelines to maximize stockholder value or our best interests.

In reviewing proxy issues, Saratoga Investment Advisors generally will use the following guidelines:

Elections of Directors: In general, Saratoga Investment Advisors will vote in favor of the management-proposed slate of directors. If there is a proxy fight for seats on a portfolio company's board of directors, or Saratoga Investment Advisors determines that there are other compelling reasons for withholding our vote, it will determine the appropriate vote on the matter. It may withhold votes for directors that fail to act on key issues, such as failure to: (1) implement proposals to declassify a board, (2) implement a majority vote requirement, (3) submit a rights plan to a stockholder vote or (4) act on tender offers where a majority of stockholders have tendered their shares. Finally, Saratoga Investment Advisors may withhold votes for directors of non-U.S. issuers where there is insufficient information about the nominees disclosed in the proxy statement.

Appointment of Auditors: We believe that a portfolio company remains in the best position to choose its independent auditors and Saratoga Investment Advisors will generally support management's recommendation in this regard.

Changes in Capital Structure: Changes in a portfolio company's organizational documents may be required by state or federal regulation. In general, Saratoga Investment Advisors will cast our votes in accordance with the management on such proposals. However, Saratoga Investment Advisors will consider carefully any proposal regarding a change in corporate structure that is not required by state or federal regulation.

Corporate Restructurings, Mergers and Acquisitions: We believe proxy votes dealing with corporate reorganizations are an extension of the investment decision. Accordingly, Saratoga Investment Advisors will analyze such proposals on a case-by-case basis and vote in accordance with its perception of our interests.

Proposals Affecting Stockholder Rights: We will generally vote in favor of proposals that give stockholders a greater voice in the affairs of a portfolio company and oppose any measure that seeks to limit such rights. However, when analyzing such proposals, Saratoga Investment Advisors will balance the financial impact of the proposal against any impairment of stockholder rights as well as of our investment in the portfolio company.

Corporate Governance: We recognize the importance of good corporate governance. Accordingly, Saratoga Investment Advisors will generally favor proposals that promote transparency and accountability within a portfolio company.

Anti-Takeover Measures: Saratoga Investment Advisors will evaluate, on a case-by-case basis, any proposals regarding anti-takeover measures to determine the likely effect on stockholder value dilution.

Share Splits: Saratoga Investment Advisors will generally vote with management on share split matters.

Limited Liability of Directors: Saratoga Investment Advisors will generally vote with management on matters that could adversely affect the limited liability of directors.

Social and Corporate Responsibility: Saratoga Investment Advisors will review proposals related to social, political and environmental issues to determine whether they may adversely affect stockholder value. It may abstain from voting on such proposals where they do not have a readily determinable financial impact on stockholder value.

[Table of Contents](#)

Privacy principles

We are committed to protecting the privacy of our stockholders. The following explains the privacy policies of Saratoga Investment Corp., Saratoga Investment Advisors and their affiliated companies.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about our stockholders. The only information we collect from stockholders is the holder's name, address, number of shares and social security number. This information is used only so that we can send annual reports and other information about us to the stockholder, and send the stockholder proxy statements or other information required by law.

We do not share this information with any non-affiliated third party except as described below.

- *Authorized Employees of Saratoga Investment Advisors.* It is our policy that only authorized employees of Saratoga Investment Advisors who need to know a stockholder's personal information will have access to it.
- *Service Providers.* We may disclose your personal information to companies that provide services on our behalf, such as recordkeeping, processing a stockholder's trades, and mailing a stockholder information. These companies are required to protect our stockholders' information and use it solely for the purpose for which they received it.
- *Courts and Government Officials.* If required by law, we may disclose a stockholder's personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

Compliance with applicable laws

As a BDC, we will be subject to periodic examination by the SEC for compliance with the 1940 Act.

We are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect us against larceny and embezzlement. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

We and Saratoga Investment Advisors are each required to adopt and implement written policies and procedures reasonably designed to prevent violation of the federal securities laws, review these policies and procedures annually for their adequacy and the effectiveness of their implementation, and designate a chief compliance officer to be responsible for administering the policies and procedures.

Co-investment

We may be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our board of directors who are not interested persons and, in some cases, prior approval by the SEC. Thus, based on current SEC interpretations, co-investment transactions involving a BDC like us and an entity that is advised by Saratoga Investment Advisors or an affiliated adviser generally could not be effected without SEC relief. The staff of the SEC has, however, granted no-action relief to third parties permitting for purchases of a single class of privately-placed securities provided that the adviser negotiates no term other than price and certain other conditions are met. As a result, currently we only expect to co-invest on a concurrent basis with affiliates of Saratoga Investment Advisors when each of us will own the same securities of the issuer and when no term is negotiated other than price. Any such investment would be made, subject to compliance with existing regulatory guidance, applicable regulations and our allocation procedures.

We may in the future submit an exemptive application to the SEC to permit greater flexibility to negotiate the terms of co-investments because we believe that it will be advantageous for us to co-invest with affiliates of

[Table of Contents](#)

Saratoga Investment Advisors where such investment is consistent with the investment objective, investment positions, investment policies, investment strategies, investment restrictions, regulatory requirements and other pertinent factors applicable to us. However, there is no assurance that any application for exemptive relief, if made, would be granted by the SEC.

Small Business Investment Company Regulations

On March 28, 2012, our wholly-owned subsidiary, Saratoga Investment Corp. SBIC, LP, received an SBIC license from the SBA.

The SBIC license allows our SBIC subsidiary to obtain leverage by issuing SBA-guaranteed debentures, subject to the satisfaction of certain customary procedures. 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 at the time of issuance at a market-driven spread over U.S. Treasury Notes with 10-year maturities.

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 million and have average annual fully taxed net income not exceeding \$6 million for the two most recent fiscal years. In addition, an SBIC must devote 25% 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 million and has average annual fully taxed net income not exceeding \$2 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.

SBA regulations currently limit the amount of SBA-guaranteed debentures that an SBIC may issue to \$150 million when it has at least \$75 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of \$225 million in SBA-guaranteed debentures when they have at least \$112.5 million in combined regulatory capital. As of June 4, 2014, our SBIC subsidiary had \$32 million in regulatory capital and \$64 million of SBA-guaranteed debentures outstanding. The SBA restricts the ability of SBICs to repurchase their capital stock. SBA regulations also include restrictions on a “change of control” or transfer of an SBIC and require that SBICs invest idle funds in accordance with SBA regulations. In addition, our SBIC subsidiary may also be limited in its ability to make distributions to us if it does not have sufficient capital, in accordance with SBA regulations.

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

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material U.S. federal estate tax consequences) applicable to an investment in the Notes. This summary does not purport to be a complete description of the income and estate tax considerations applicable to such an investment. The discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, potentially with retroactive effect. You should consult your own tax advisor with respect to tax considerations that pertain to your purchase, ownership and disposition of our Notes.

This discussion deals only with Notes held as capital assets within the meaning of Section 1221 of the Code and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the Notes as a hedge against currency risks or as a position in a “straddle,” “hedge,” “constructive sale transaction” or “conversion transaction” for tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, or persons whose functional currency is not the U.S. dollar. It also does not deal with beneficial owners of the Notes other than original purchasers of the Notes who acquire the Notes in this offering for a price equal to their original issue price (*i.e.*, the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). If you are considering purchasing the Notes, you should consult your own tax advisor concerning the application of the U.S. federal tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the Notes under the laws of any other taxing jurisdiction.

For purposes of this discussion, the term “U.S. holder” means a beneficial owner of a Note that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States or any State thereof or the District of Columbia, (iii) a trust (a) subject to the control of one or more U.S. persons and the primary supervision of a court in the United States, or (b) that existed on August 20, 1996 and has made a valid election (under applicable Treasury Regulations) to be treated as a domestic trust, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source. The term “non-U.S. holder” means a beneficial owner of a Note that is neither a U.S. holder nor a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes). An individual may, subject to exceptions, be deemed to be a resident alien, as opposed to a non-resident alien, by, among other ways, being present in the United States (i) on at least 31 days in the calendar year, and (ii) for an aggregate of at least 183 days during a three-year period ending in the current calendar year, counting for such purposes all of the days present in the current year, one-third of the days present in the immediately preceding year, and one-sixth of the days present in the second preceding year. Resident aliens are subject to U.S. federal income tax as if they were U.S. citizens.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partners of partnerships holding Notes should consult their own tax advisors.

Taxation of Note Holders

Under present law, we are of the opinion that the Notes will constitute indebtedness of us for U.S. federal income tax purposes, which the below discussion assumes. We intend to treat all payments made with respect to the Notes consistent with this characterization.

Taxation of U.S. Holders. Payments or accruals of interest on a Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

Upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the Note. A U.S. holder's adjusted tax basis in a Note generally will equal the U.S. holder's initial investment in the Note. Capital gain or loss generally will be long-term capital gain or loss if the Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The distinction between capital gain or loss and ordinary income or loss is also important in other contexts; for example, for purposes of the limitations on a U.S. holder's ability to offset capital losses against ordinary income.

Unearned Income Medicare Contribution

After December 31, 2012, a tax of 3.8% will be imposed on certain "net investment income" (or "undistributed net investment income", in the case of estates and trusts) received by taxpayers other than corporations with adjusted gross income above certain threshold amounts. "Net investment income" as defined for U.S. federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the Notes. Tax-exempt trusts, which are not subject to income taxes generally, and foreign individuals will not be subject to this tax. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the Notes.

Taxation of Non-U.S. Holders. A non-U.S. holder generally will not be subject to U.S. federal income or withholding taxes on payments of principal or interest on a Note provided that (i) income on the Note is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through stock ownership, (iii) the non-U.S. holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (directly or indirectly, actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder has provided a statement in the year in which a payment occurs or in the preceding 3 years, on an Internal Revenue Service (IRS) Form W-8BEN, Form W-8BEN-E, or other applicable form signed under penalties of perjury that includes its name and address and certifies that the non-U.S. holder is the beneficial owner and is not a U.S. person in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to U.S. federal income tax withholding on payments of interest on the Notes at a rate of 30% unless (i) the income is effectively connected with the conduct of a U.S. trade or business (and, under certain income tax treaties, is attributable to a permanent establishment maintained in the U.S. by the non-U.S. holder), so long as the non-U.S. holder has provided an IRS Form W-8ECI or substantially similar substitute form stating that the interest on the Notes is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. in which case the interest will be subject to U.S. federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty provides for a lower rate of, or exemption from, withholding tax.

[Table of Contents](#)

In the case of a non-U.S. holder that is a corporation and that receives income that is effectively connected with the conduct of a U.S. trade or business, such income may also be subject to a branch profits tax (which is generally imposed on a non-U.S. corporation on the actual or deemed repatriation from the United States of earnings and profits attributable to a U.S. trade or business) at a 30% rate. The branch profits tax may not apply (or may apply at a reduced rate) if the non-U.S. holder is a qualified resident of a country with which the United States has an income tax treaty.

To claim the benefit of an income tax treaty or to claim exemption from withholding because income is effectively connected with a U.S. trade or business, the non-U.S. holder must timely provide the appropriate, properly executed IRS forms. The non-U.S. holder must inform the recipient of any changes on these forms within 30 days of such change. These forms may be required to be periodically updated. Also, a non-U.S. holder who is claiming the benefits of a treaty may be required to obtain a United States taxpayer identification number and to provide certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Generally, a non-U.S. holder will not be subject to U.S. federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption, retirement or other taxable disposition of a Note, provided that (i) the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (or, if required by an applicable income tax treaty, is not attributable to a U.S. "permanent establishment" maintained by the non-U.S. holder) and (ii) that the non-U.S. holder is not an individual who is present in the U.S. for 183 days or more in the taxable year of the sale, exchange, or other taxable disposition and meets certain other conditions (unless such holder is eligible for relief under an applicable income tax treaty). Certain other exceptions may be applicable, and a non-U.S. holder should consult its tax advisor in this regard.

A Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h) (3) of the Code and the Treasury Regulations thereunder or (ii) such individual's interest in the Notes is effectively connected with the individual's conduct of a U.S. trade or business.

Information Reporting and Backup Withholding. A U.S. holder (other than an "exempt recipient," including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding on, and to information reporting requirements with respect to, payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate may apply.

The amount of interest we pay to a non-U.S. holder on the Notes will be reported to such non-U.S. Holder and to the IRS annually on an IRS Form 1042-S even if the non-U.S. holder is exempt from the 30% withholding tax described above. Copies of the information returns reporting those payments and the amounts withheld, if any, may also be made available to the tax authorities in the country where the non-U.S. holder is resident under provisions of an applicable income tax treaty or agreement.

In addition, backup withholding tax and certain other information reporting requirements apply to payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the Notes, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to a non-U.S. holder if such non-U.S. holder has provided to the applicable withholding agent under penalties of perjury the required certification of their non-U.S. person status as discussed above (and the applicable withholding agent does not have actual knowledge or reason to know that they are a U.S. person) or if the non-U.S. holder is an exempt recipient.

[Table of Contents](#)

If a non-U.S. holder sells or redeems a Note through a U.S. broker or the U.S. office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless such non-U.S. holder provides a withholding certificate or other appropriate documentary evidence establishing that such non-U.S. holder is not a U.S. person to the broker and such broker does not have actual knowledge or reason to know that such non-U.S. holder is a U.S. person, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting and backup withholding. If a non-U.S. holder sells or redeems a note through the foreign office of a broker who is a U.S. person or has certain enumerated connections with the U.S., the proceeds from such sale or redemption will be subject to information reporting unless the non-U.S. holder provides to such broker a withholding certificate or other appropriate documentary evidence establishing that the non-U.S. holder is not a U.S. person and such broker does not have actual knowledge or reason to know that such evidence is false, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that the non-U.S. holder is a U.S. person.

You should consult your tax advisor regarding the qualification for an exemption from backup withholding and information reporting and the procedures for obtaining such an exemption, if applicable. Any amounts withheld under the backup withholding rules from a payment to a beneficial owner generally would be allowed as a refund or a credit against such beneficial owner's U.S. federal income tax provided the required information is timely furnished to the IRS.

Foreign Account Tax Compliance Act

Legislation enacted in 2010 imposes a U.S. federal withholding tax of 30% on payments of interest or gross proceeds from the disposition of a debt instrument paid after December 31, 2012 to certain non-U.S. entities, including certain foreign financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its U.S. account holders and its U.S. owners. Pursuant to Treasury Regulations and other Treasury guidance, these rules generally are not effective for payments of gross proceeds, until January 1, 2017. In addition, Treasury Regulations state that even after the effective dates the new withholding obligations will not apply to payments on, or with respect to, obligations that are outstanding on July 1, 2014. Prospective purchasers of the Notes should consult their own tax advisors regarding the new withholding and reporting provisions.

You should consult your own tax advisor with respect to the particular tax consequences to you of an investment in the Notes, including the possible effect of any pending legislation or proposed regulations.

Our Taxation as a Regulated Investment Company

As a regulated investment company ("RIC"), we generally will not have to pay corporate-level federal income taxes on any net ordinary income or realized capital gains that we distribute to our stockholders as dividends. To qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, in order to maintain our qualification as a RIC, we must distribute to our stockholders, for each taxable year, at least 90% of our "investment company taxable income," which is generally our net ordinary income plus the excess of realized net short-term capital gains over realized net long-term capital losses (the "Annual Distribution Requirement").

Taxation as a Regulated Investment Company

If we:

- Qualify as a RIC; and
- Satisfy the Annual Distribution Requirement

[Table of Contents](#)

then we will not be subject to U.S. federal income tax on the portion of our income we distribute (or are deemed to distribute) to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gains not distributed (or deemed distributed) to our stockholders.

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our net ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income recognized, but not distributed, in preceding years (the “Excise Tax Avoidance Requirement”). We generally will endeavor in each taxable year to make sufficient distributions to our stockholders to avoid the 4% excise tax on our income. However, depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay the 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. We may, in the future, make actual distributions to our stockholders of our net capital gains.

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- continue to qualify as a business development company under the 1940 Act at all times during each taxable year;
- derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to loans of certain securities, gains from the sale of stock or other securities, net income from certain “qualified publicly traded partnerships,” or other income derived with respect to our business of investing in such stock or securities (the “90% Income Test”); and
- diversify our holdings so that at the end of each quarter of the taxable year:
 - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. Government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
 - no more than 25% of the value of our assets is invested in the securities, other than U.S. government securities or securities of other RICs, of one issuer, of two or more issuers that are controlled, as determined under applicable Code rules, by us and that are engaged in the same or similar or related trades or businesses or of certain “qualified publicly traded partnerships” (the “Diversification Tests”).

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with PIK interest or, in certain cases, increasing interest rates or issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. We may also have to include in income other amounts that we have not yet received in cash, such as PIK interest and deferred loan origination fees that are paid after origination of the loan or are paid in non-cash compensation such as warrants or stock. Because any original issue discount or other amounts accrued will be included in our net ordinary income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount. If the IRS should adopt a position that a distribution of 20% cash and the balance in stock is not a distribution satisfying the Annual Distribution Requirement, we may find it more difficult to meet such requirement.

Although we do not presently expect to do so, we are authorized to borrow funds, to sell assets and to make taxable distributions of our stock and debt securities in order to satisfy distribution requirements. Our ability to dispose of assets to meet our distribution requirements may be limited by (1) the illiquid nature of our portfolio

[Table of Contents](#)

and/or (2) other requirements relating to our status as a RIC, including the Diversification Tests. If we dispose of assets in order to meet the Annual Distribution Requirement or the Excise Tax Avoidance Requirement, we may make such dispositions at times that, from an investment standpoint, are not advantageous. If we are unable to obtain cash from other sources to satisfy the Annual Distribution Requirement, we may fail to qualify as a RIC and become subject to tax as an ordinary corporation.

Under the 1940 Act, we are not permitted to make distributions to our stockholders while our debt obligations and other senior securities are outstanding unless certain “asset coverage” tests are met. If we are prohibited to make distributions, we may fail to qualify as a RIC and become subject to tax as an ordinary corporation.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things: (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income; (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited); (iv) cause us to recognize income or gain without a corresponding receipt of cash; (v) adversely affect the time as to when a purchase or sale of securities is deemed to occur; (vi) adversely alter the characterization of certain complex financial transactions; and (vii) produce income that will not be qualifying income for purposes of the 90% Income Test described above. We will monitor our transactions and may make certain tax decisions in order to mitigate the potential adverse effect of these provisions.

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to U.S. federal income tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. If we fail to maintain RIC tax treatment for any reason and are subject to corporate-level federal income tax, the resulting corporate-level federal income tax could substantially reduce our net assets and the amount of income available to make interest and principal payments on the Notes. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated.

DETERMINATION OF NET ASSET VALUE

The NAV per share of our outstanding shares of common stock is determined quarterly by dividing the value of total assets minus liabilities by the total number of shares of common stock outstanding at the date as of which the determination is made.

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. In calculating the value of our total assets, investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO’s

[Table of Contents](#)

valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates.

The determination of fair value 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.

In September 2006, the Financial Accounting Standards Board, (the “FASB”), issued Statement of Financial Accounting Standards No. 157, “Fair Value Measurements” (“FAS 157”). In conjunction with Accounting Standards Codification (“ASC”) 105 issued by the FASB in June 2009, FAS 157 has been codified in ASC 820, “Fair Value Measurement and Disclosures” (“ASC 820”). ASC 820 defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles in the United States, or GAAP, and expands disclosures about fair value measurements.

ASC 820 classifies the inputs used to measure these fair values into the following hierarchy:

Level 1 : Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.

Level 2 : Quoted prices for similar assets or liabilities in active markets, or quoted prices for identical or similar assets or liabilities in markets that are not active, or other observable inputs other than quoted prices.

Level 3 : Unobservable inputs for the asset or liability.

[Table of Contents](#)

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls will be determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment.

The changes to generally accepted accounting principles from the application of ASC 820 relate to the definition of fair value, framework for measuring fair value and the expanded disclosures about fair value measurements. ASC 820 applies to fair value measurements already required or permitted by other standards. In accordance with ASC 820, the fair value of our investments is defined as the price that we would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market in which that investment is transacted.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Determinations in Connection with Offerings

In connection with any offering of shares of our common stock, our board of directors or one of its committees will be required to make the determination that we are not selling shares of our common stock at a price below the then current NAV of our common stock or, if our shareholders have granted us the authority to sell shares of our common stock at a price below the then current NAV per share, at a level consistent with such explicit authority, at the time at which the sale is made. Our board of directors or the applicable committee will consider the following factors, among others, in making such determination:

- the NAV of our common stock most recently disclosed by us in the most recent periodic report that we filed with the SEC;
- our management's assessment of whether any material change in the NAV of our common stock has occurred (including through the realization of gains on the sale of our portfolio securities) during the period beginning on the date of the most recently disclosed NAV of our common stock in our most recent periodic report that we filed with the SEC and ending two days prior to the date of the sale of our common stock; and
- the magnitude of the difference between the NAV of our common stock most recently disclosed by us in our most recent periodic report that we filed with the SEC and our management's assessment of any material change in the NAV of our common stock since that determination, and the offering price of the shares of our common stock in the proposed offering.

The processes and procedures set forth above are part of our compliance policies and procedures. In addition, we will make a record of any such determinations made and such documentation will be maintained in a manner consistent with the Company's other 1940 Act related materials.

SALES OF COMMON STOCK BELOW NET ASSET VALUE

At our 2014 Annual Meeting of Stockholders, we received approval from our stockholders to authorize us to sell or otherwise issue the Company's common stock at an offering price per share to investors that is not less than 85% of the Company's then current net asset value per share. This authorization is effective for a period of approximately one year, ending on the earlier of our next annual meeting of shareholders or September 30, 2015 and does not limit the number of offerings or the aggregate dollar amount of shares of common stock sold in offerings that we may undertake pursuant to this authority.

In order to sell shares of common stock pursuant to this authorization, no further authorization from our stockholders will need to be solicited, but a majority of our directors who have no financial interest in the sale and a majority of our independent directors will have to (a) find that the sale is in our best interests and in the best interests of our stockholders and (b) in consultation with any underwriter or underwriters of the offering, make a good faith determination as of a time either immediately prior to the first solicitation by us or on our behalf of firm commitments to purchase such shares of common stock, or immediately prior to the issuance of such common stock, that the price at which such shares of common stock are to be sold is not less than a price which closely approximates the market value of those shares of common stock, less any distributing commission or discount.

Any offering of common stock below its net asset value per share will be designed to raise capital for investment in accordance with our investment objective. In making a determination that an offering of common stock below its net asset value per share is in our and our stockholders' best interests, our board of directors will consider a variety of factors including:

- the effect that an offering below net asset value per share would have on our stockholders, including the potential dilution to the net asset value per share of our common stock our stockholders would experience as a result of the offering;
- the amount per share by which the offering price per share and the net proceeds per share are less than our most recently determined net asset value per share;
- the relationship of recent market prices of par common stock to net asset value per share and the potential impact of the offering on the market price per share of our common stock;
- whether the estimated offering price would closely approximate the market value of shares of our common stock;
- the potential market impact of being able to raise capital during the current financial market difficulties;
- the nature of any new investors anticipated to acquire shares of our common stock in the offering;
- the anticipated rate of return on and quality, type and availability of investments; and
- the leverage available to us.

Our board of directors will also consider the fact that sales of shares of common stock at a discount will benefit our investment adviser as the investment adviser will earn additional investment management fees on the proceeds of such offerings, as it would from the offering of any other of our securities or from the offering of common stock at a premium to net asset value per share.

Pursuant to the stockholder proposal, we will not sell shares of our common stock under this prospectus and any accompanying prospectus supplement unless the offering price per share is equal to 85% of our then current NAV per share.

Sales by us of our common stock at a discount from net asset value per share pose potential risks for our existing stockholders whether or not they participate in the offering, as well as for new investors who participate

[Table of Contents](#)

in the offering. Any sale of common stock at a price below net asset value per share would result in an immediate dilution to existing common stockholders who do not participate in such sale on at least a pro-rata basis. See “Risk Factors—Risks Relating to Our Common Stock—Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.”

The following three headings and accompanying tables explain and provide hypothetical examples on the impact of an offering of our common stock at a price less than net asset value per share on three different types of investors:

- existing stockholders who do not purchase any shares in the offering;
- existing stockholders who purchase a relatively small amount of shares in the offering or a relatively large amount of shares in the offering; and
- new investors who become stockholders by purchasing shares in the offering.

Impact On Existing Stockholders Who Do Not Participate in the Offering

Our current stockholders who do not participate in an offering below net asset value per share or who do not buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) face the greatest potential risks. These stockholders will experience an immediate dilution in the net asset value of the shares of common stock they hold and their net asset value per share. These stockholders will also experience a disproportionately greater decrease in their participation in our earnings and assets and in their voting power than the increase we will experience in our assets, potential earning power and voting interests due to such offering. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential increases and decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and level of discounts increases. Further, if current stockholders do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current net asset value, their voting power will be diluted.

The following table illustrates the level of NAV dilution that would be experienced by a nonparticipating stockholder in three different hypothetical offerings of different sizes and levels of discount from NAV per share, all within the ranges provided in the Stockholder Proposal, although it is not possible to predict the level of market price decline that may occur. Actual sales prices and discounts may differ from the presentation below.

The examples assume that Company XYZ has 5,000,000 shares of common stock outstanding, \$240,000,000 in total assets and \$125,000,000 in total liabilities. The current NAV and NAV per share are thus \$115,000,000 and \$23.00. The table illustrates the dilutive effect on nonparticipating Stockholder A of (1) the issuance of 500,000 shares (10% of the outstanding shares) at an offering price of \$20.70 per share to investors (a 10% discount from NAV); (2) the issuance of 1,000,000 shares (20% of the outstanding shares) at an offering price of \$19.55 per share to investors (a 15% discount from NAV); (3) the issuance of 2,000,000 shares (40% of the outstanding shares) at an offering price of \$19.55 per share to investors (a 15% discount from NAV); and (4) the issuance of 5,000,000 (100% of the outstanding shares) at an offering price of \$19.55 per share to investors (a 15% discount from NAV).

Table of Contents

	Example 1 10% Offering at 10% Discount			Example 2 20% Offering at 15% Discount		Example 3 40% Offering at 15% Discount		Example 4 100% Offering at 15% Discount	
	Prior to Sale Below NAV	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change
Offering Price									
Price per Share to Public	—	\$ 20.70	—	19.55	—	\$ 19.55	—	\$ 19.55	—
Net Proceeds per Share to Issuer(1)	—	\$ 19.25	—	18.18	—	\$ 18.18	—	\$ 18.18	—
Decrease to NAV									
Total Shares Outstanding	5,000,000	5,500,000	10.00%	6,000,000	20.00%	7,000,000	40.00%	10,000,000	100%
NAV per Share	23.00	\$ 22.66	(1.48)%	\$ 22.19	(3.49)%	\$ 21.62	(5.99)%	\$ 20.59	(10.48)%
Dilution to Stockholder									
Shares Held by Stockholder A	10,000	10,000	—	10,000	—	10,000	—	10,000	—
Percentage Held by Stockholder A	0.20%	0.18%	(9.09)%	0.17%	(16.67)%	0.14%	(28.57)%	0.1%	(50.00)%
Total Asset Values									
Total NAV Held by Stockholder A	\$ 230,000	\$ 226,591	(1.48)%	221,967	(3.49)%	\$ 216,229	(5.99)%	\$ 205,900	(10.48)%
Total Investment by Stockholder A (Assumed to be \$23.00 per Share)	\$ —	\$ 230,000	—	\$ 230,000	—	\$ 230,000	—	\$ 230,000	—
Total Dilution to Stockholder A (Total NAV Less Total Investment)	—	\$ (2,409)	—	(8,033)	—	(13,771)	—	\$ (24,100)	—
Per Share Amounts									
NAV per Share Held by Stockholder A	—	\$ 22.65	—	22.20	—	\$ 21.62	—	\$ 20.59	—
Investment per Share Held by Stockholder A (Assumed to be \$23.00 per Share on Shares Held Prior to Sale)	\$ —	\$ 23.00	—	23.00	—	\$ 23.00	—	\$ 23.00	—
Dilution per Share Held by Stockholder A (NAV per Share Less Investment per Share)	—	\$ (0.35)	—	\$ (0.80)	—	\$ (1.38)	—	\$ (2.41)	—
Percentage Dilution to Stockholder A (Dilution per Share Divided by Investment per Share)	—	—	(1.5)%	—	(3.5)%	—	(6.0)%	—	(10.50)%

(1) Assume 7% issuance discount.

Impact on Existing Stockholders Who Do Participate in the Offering

Our existing stockholders who participate in an offering below net asset value per share or who buy additional shares in the secondary market at the same or lower price as we obtain in the offering (after expenses and commissions) will experience the same types of net asset value dilution as the nonparticipating stockholders, albeit at a lower level, to the extent they purchase less than the same percentage of the discounted offering as their interest in our shares immediately prior to the offering. The level of net asset value dilution to such stockholders will decrease as the number of shares such stockholders purchase increases. Existing stockholders who buy more than their proportionate percentage will experience net asset value dilution but will, in contrast to existing stockholders who purchase less than their proportionate share of the offering, experience an increase (often called accretion) in net asset value per share over their investment per share and will also experience a disproportionately greater increase in their participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests due to the offering. The level of accretion will increase as the excess number of shares purchased by such stockholder increases. Even a stockholder who over-participates will, however, be subject to the risk that we may make additional discounted offerings in which such stockholder does not participate, in which case such a stockholder will experience net asset value dilution as described above in any subsequent offerings. These stockholders may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in net asset value per share. This decrease could be more pronounced as the size of the offering and the level of discount to net asset value increases.

The following chart illustrates the level of dilution and accretion in the hypothetical 20% offering at a 15% discount from the prior chart (Example 3) for a stockholder that acquires shares equal to (1) 50% of its proportionate share of the offering (i.e., 1,000) shares, which is 0.1% of an offering of 1,000,000 shares rather than its 0.2% proportionate share) and (2) 150% of such percentage (i.e., 33,000 shares, which is 0.3% of an offering of 1,000,000 shares rather than its 0.2% proportionate share). The prospectus supplement pursuant to which any discounted offering is made will include a chart for this example based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

	Prior to Sale Below NAV	50% Participation		150% Participation	
		Following Sale	% Change	Following Sale	% Change
Offering Price					
Price per Share to Public	—	\$ 19.55	— %	\$ 19.55	— %
Net Proceeds per Share to Issuer(1)	—	\$ 18.18	— %	\$ 18.18	— %
Increase in Shares and Decrease to NAV					
Total Shares Outstanding	5,000,000	6,000,000	20%	6,000,000	20%
NAV per share	\$ 23.00	\$ 22.19	(3.49)%	\$ 22.19	(3.49)%
Dilution/Accretion to Participating Stockholder A					
Share Dilution/Accretion					
Shares Held by Stockholder A	10,000	11,000	10%	13,000	30%
Percentage Outstanding Held by Stockholder A	0.2%	0.18%	(8.33)%	0.21%	8.33%
NAV Dilution/Accretion					
Total NAV Held by Stockholder A	\$ 230,000	\$ 244,090	6.13%	\$ 288,470	25.42%
Total Investment by Stockholder A (Assumed to be \$23.00 per Share on Shares Held Prior to Sale)	—	\$ 248,180	—	\$ 284,540	—
Total Dilution/Accretion to Stockholder A (Total NAV Less Total Investment)	\$ —	\$ (4,090)	(1.68)%	\$ 3,930	1.36%
NAV Dilution/Accretion per Share					
NAV per Share Held by Stockholder A	\$ —	\$ 22.19	(3.49)%	\$ 22.19	(3.49)%
Investment per Share Held by Stockholder A (Assumed to be \$23.00 per Share on Shares Held Prior to Sale)	\$ —	\$ 22.56	— %	\$ 21.89	— %
NAV Dilution/Accretion per Share Experienced by Stockholder A (NAV per Share Less Investment per Share)	—	\$ (0.37)	— %	\$ (0.30)	— %
Percentage NAV Dilution/Accretion Experienced by Stockholder A (NAV Dilution/Accretion per Share Divided by Investment per Share)	—	—	(1.64)%	—	1.37%

(1) Assume 7% issuance discount.

Impact on New Investors

Investors who are not currently stockholders, but who participate in an offering below NAV and whose investment per share is greater than the resulting NAV per share due to selling compensation and expenses paid by us will experience an immediate decrease, albeit small, in the NAV of their shares and their NAV per share compared to the price they pay for their shares (Example 1 below). On the other hand, investors who are not currently stockholders, but who participate in an offering below NAV per share and whose investment per share is also less than the resulting NAV per share will experience an immediate increase in the NAV of their shares and their NAV per share compared to the price they pay for their shares (Examples 2 and 3 below). These latter investors will experience a disproportionately greater participation in our earnings and assets and their voting power than our increase in assets, potential earning power and voting interests. These investors will, however, be subject to the risk that we may make additional discounted offerings in which such new stockholder does not participate, in which case such new stockholder will experience dilution as described above in any subsequent offerings. These investors may also experience a decline in the market price of their shares, which often reflects to some degree announced or potential decreases in NAV per share. This decrease could be more pronounced as the size of the offering and level of discount to NAV increases.

The following chart illustrates the level of dilution or accretion for new investors that would be experienced by a new investor in the same hypothetical discounted offerings as described in the first chart above. The illustration is for a new investor who purchases the same percentage (0.20%) of the shares in the offering as Stockholder A in the prior examples held immediately prior to the offering. The prospectus supplement pursuant to which any discounted offering is made will include a chart for these examples based on the actual number of shares in such offering and the actual discount from the most recently determined NAV per share.

	Prior to Sale Below NAV	Example 1 10% Offering at 10% Discount		Example 2 20% Offering at 15% Discount		Example 3 40% Offering at 15% Discount		Example 4 100% Offering at 15% Discount		
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	
Offering Price										
Price per Share to Public	—	\$ 20.70	—	\$ 19.55	— %	\$ 19.55	— %	\$ 19.55	— %	
Net Proceeds per Share to Issuer	—	\$ 19.25	—	\$ 18.18	— %	\$ 18.18	— %	\$ 18.18	— %	
Increase in Shares and Decrease to NAV										
Total Shares Outstanding	5,000,000	5,500,000	10%	6,000,000	20%	7,000,000	40%	10,000,000	100%	
NAV per Share	\$ 23.00	\$ 22.66	(1.48)%	\$ 22.19	(3.49)%	\$ 21.62	(5.99)%	\$ 20.59	(10.48)%	
Dilution/Accretion to New Investor A										
Share Dilution										
Shares held by Investor A	—	1,000	— %	2,000	— %	4,000	— %	10,000	— %	
Percentage Outstanding Held by Investor A	— %	0.02%	— %	0.03%	— %	0.06	— %	0.10	— %	
NAV Dilution										
Total NAV Held by Investor A	—	\$ 22,660	— %	\$ 44,380	— %	\$ 86,480	— %	\$ 205,900	— %	
Total Investment by Investor A (At Price to Public)	—	\$ 19,250	— %	\$ 36,360	— %	\$ 72,720	— %	\$ 181,800	— %	
Total Dilution/Accretion to Investor A (Total NAV Less Total Investment)	—	\$ 3,410	17.71%	\$ 8,020	22.06%	\$ 13,760	18.92%	\$ 24,100	13.26%	

[Table of Contents](#)

	Prior to Sale Below NAV	Example 1 10% Offering at 10% Discount		Example 2 20% Offering at 15% Discount		Example 3 40% Offering at 15% Discount		Example 4 100% Offering at 15% Discount		
		Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	Following Sale	% Change	
NAV Dilution per Share										
NAV per Share Held by Investor A	—	\$ 22.66	— %	\$ 22.19	— %	\$ 21.62	— %	\$ 20.59	— %	
Investment per Share Held by Investor A	—	\$ 19.25	— %	\$ 18.18	— %	\$ 18.18	— %	\$ 18.18	— %	
NAV Dilution/Accretion per Share										
Experienced by Investor A (NAV per Share Less Investment per Share)	—	\$ 3.41	— %	\$ 4.01	— %	\$ 3.44	— %	\$ 2.41	— %	
Percentage NAV Dilution/Accretion										
Experienced by Investor A (NAV Dilution/ Accretion per Share Divided by Investment per Share)	—	—	17.71%	—	22.06%	—	18.92%	—	13.26%	

DESCRIPTION OF OUR CAPITAL STOCK

The following description is based on relevant portions of the Maryland General Corporation Law and our charter and bylaws, which we collectively refer to as our “governing documents.”

As of the date of this prospectus, our authorized stock consists of 100,000,000 shares of capital stock, \$0.001 par value per share, all of which are designated as shares of common stock. Our common stock trades under the symbol “SAR” on the New York Stock Exchange. There are no outstanding options or warrants to purchase our common stock. No shares of common stock have been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our governing documents, our board of directors is authorized to create new classes or series of shares of stock and to authorize the issuance of shares of stock without obtaining stockholder approval. Our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

Common Stock

Each share of our common stock has equal rights as to earnings, assets, dividends and voting and all of our outstanding shares of common stock are duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of funds legally available therefor. Shares of our common stock have no preemptive, exchange, conversion or redemption rights.

In the event of our liquidation, dissolution or winding up, each share of common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of shares of our preferred stock, if any are outstanding at such time. Each share of our common stock entitles its holder to cast one vote on all matters submitted to a vote of stockholders, including the election and removal of directors.

The following table sets forth information regarding our authorized shares of stock under our charter and shares of stock outstanding as of the date of this prospectus.

<u>Title of Class</u>	<u>Shares Authorized</u>	<u>Amount Held by Us or for Our Account</u>	<u>Amount Outstanding Exclusive of Amount Held by Us or for Our Account</u>
Common Stock	100,000,000	—	5,379,616

Preferred Stock

Our governing documents authorize our board of directors to classify and reclassify any unissued shares of stock into other classes or series of stock, including preferred stock. Prior to the issuance of shares of stock of each class or series, the board of directors is required by our governing documents to set the terms, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms or conditions of redemption for each class or series of shares of stock. Thus, the board of directors could authorize the issuance of preferred stock with terms and conditions that could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. In addition, as a business development company, any issuance of preferred stock must comply with the requirements of the 1940 Act. The 1940 Act requires, among other things, that (1) immediately after issuance and before any dividend or other distribution is made with respect to our common stock and before any purchase of common stock is made, the aggregate

[Table of Contents](#)

dividend or distribution on, or purchase price of, such shares of preferred stock together with all other indebtedness and senior securities must not exceed an amount equal to 50% of our total assets after deducting the amount of such dividend, distribution or purchase price, as the case may be, and (2) the holders of preferred stock, if any are issued, must be entitled as a class to elect two directors at all times and to elect a majority of the directors if dividends on such preferred stock is in arrears by two years or more. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding shares of preferred stock. We believe that the availability for issuance of preferred stock will provide us with increased flexibility in structuring future financings and acquisitions.

Limitation on Liability of Directors and Officers; Indemnification and Advance of Expenses

The Maryland General Corporation Law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. Our governing documents contain a provision which eliminates directors' and officers' liability to the maximum extent permitted by the Maryland General Corporation Law, subject to the requirements of the 1940 Act.

Maryland law requires a corporation (unless its charter provides otherwise, which, our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made or threatened to be made a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or are threatened to be made a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Our charter authorizes us to obligate ourselves, and our bylaws do obligate us, to the maximum extent permitted by Maryland law and subject to any applicable requirements of the 1940 Act, to indemnify and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to (1) any present or former director or officer or (2) any individual who, while a director or officer and at our request, serves or has served another corporation, real estate investment trust, partnership, limited liability company, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner, manager, member or trustee, from and against any claim or liability to which that person may become subject for which that person may incur by reason of his or her service in such capacity. Our charter and bylaws also permit indemnification and the advancement of expenses to any person who served a predecessor to Saratoga Investment Corp. in any of the capacities described above and any of our employees or agents or any employees or agents of such predecessor.

As a business development company, and in accordance with the 1940 Act, we will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

[Table of Contents](#)

In addition to the indemnification provided for in our bylaws, we have entered into indemnification agreements with each of our current directors and officers and we intend to enter into indemnification agreements with each of our future directors and officers. The indemnification agreements attempt to provide these directors and officers the maximum indemnification permitted under Maryland law and the 1940 Act. The agreements provide, among other things, for the advancement of expenses and indemnification for liabilities incurred which such person may incur by reason of his or her status as a present or former director or officer in any action or proceeding arising out of the performance of such person's services as a present or former director or officer.

Provisions of Our Governing Documents and the Maryland General Corporation Law

Our governing documents and the Maryland General Corporation Law contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms.

Classified Board of Directors

Our board of directors is divided into three classes of directors serving staggered three-year terms. Directors of each class are elected to serve for three-year terms and until their successors are duly elected and qualify, and each year one class of directors is elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

Number of Directors; Vacancies; Removal

Our governing documents provide that the number of directors will be set only by our board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, unless our bylaws are amended, the number of directors may never be less than three nor more than eleven. Our charter provides that, except as may be provided by the board of directors in setting the terms of any class or series of shares of stock, so long as we have a class of securities registered under the Exchange Act and at least three independent directors, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is elected and qualifies, subject to any applicable requirements of the 1940 Act. If there are no directors then in office, vacancies may be filled by stockholders at a special meeting called for such purpose. Our charter provides that a director may be removed only by the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of directors.

Election of Directors

Our charter and bylaws provide that the affirmative vote of the holders of a majority of the outstanding shares of stock entitled to vote in the election of directors will be required to elect each director. Pursuant to our charter and bylaws, our board of directors may amend the bylaws to alter the vote required to elect directors.

Action by Stockholders

All of our outstanding shares of common stock will generally be able to vote on any matter that is a proper subject for action by the stockholders of a Maryland corporation, including in respect of the election or removal of

[Table of Contents](#)

directors as well as other extraordinary matters. Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or by written or electronically-transmitted unanimous consent in lieu of a meeting. These provisions, combined with the requirements of our governing documents regarding the calling of a stockholder-requested special meeting of stockholder discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals

Our bylaws provide that, with respect to an annual meeting of our stockholders, nominations of individuals for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors, (3) by any stockholder who is a stockholder of record both at the time of giving notice by the stockholder and at the time of the annual meeting, who is entitled to vote at the meeting and who has complied with the advance notice procedures of the bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of individuals for election to the board of directors at a special meeting may be made only (1) pursuant to our notice of the meeting, (2) by or at the direction of the board of directors, (3) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who is a stockholder of record both at the time of giving notice by the stockholder and at the time of the special meeting and who is entitled to vote at the meeting and who has complied with the advance notice provisions of our bylaws or (4) by a stockholder who is entitled to vote at the meeting in circumstances in which a special meeting of stockholders is called for the purpose of electing directors when no directors remain in office.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

Calling of Special Meetings of Stockholders

Our bylaws provide that special meetings of our stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of our stockholders will be called by our secretary upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting, except that, if no directors remain in office, a special meeting of our stockholders shall be called to elect directors by the secretary upon the written request of holders entitled to cast at least 10% of the votes entitled to be cast generally in the election of directors.

Amendment of Governing Documents

Under Maryland law, a Maryland corporation generally cannot dissolve or amend its charter unless the corporation's board of directors declares the dissolution or amendment to be advisable and the dissolution or amendment is approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. A Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter

[Table of Contents](#)

generally provides for approval of amendments to our charter by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. However, our charter also provides that certain charter amendments and proposals for our liquidation, dissolution or conversion, whether by merger or otherwise, from a closed-end company to an open-end company require the approval of the stockholders entitled to cast at least two-thirds percent of the votes entitled to be cast on such matter. If such amendment or proposal is approved by at least two-thirds of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter. The “continuing directors” are, as defined in our charter, our current directors as well as those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of the continuing directors then on the board of directors.

Our governing documents provide that the board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

Approval of Extraordinary Actions

Under Maryland law, a Maryland corporation generally cannot amend its charter, merge, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless the corporation’s board of directors declares action or transaction to be advisable and the action or transaction is approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. A Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter.

Except for a merger that would result in our conversion to an open-end company, which requires the approval described above, our charter provides that we may merge, sell all or substantially all of our assets, engage in a consolidation or share exchange or engage in similar transactions, if such transaction is declared advisable by our board of directors and approved by a majority of all of the votes entitled to be cast on the matter.

No Appraisal Rights

Except with respect to appraisal rights arising in connection with the Maryland Control Share Acquisition Act discussed below, as permitted by the Maryland General Corporation Law, our governing documents provide that our stockholders will not be entitled to exercise appraisal rights unless a majority of our board of directors determines that such rights will apply with respect to all or any classes or series of stock, to one or more transactions occurring after the date of such determination in connection with which holders of such shares would otherwise be entitled to exercise appraisal rights.

Control Share Acquisitions

The Control Share Acquisition Act provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

[Table of Contents](#)

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholder meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may repurchase for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to repurchase control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act, which will prohibit any such repurchase other than in limited circumstances. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholder meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The Control Share Acquisition Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

Our bylaws contain a provision exempting from the Control Share Acquisition Act any and all acquisitions by any person of our common stock. Such provision could also be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Acquisition Act only if the board of directors determines that it would be in our best interests and if the SEC does not object to our determination that our being subject to the Control Share Acquisition Act does not conflict with the 1940 Act.

Business Combinations

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation’s stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

[Table of Contents](#)

After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution exempting from the provisions of the Maryland Business Combination Act any business combination between us and any other person. If our board of directors adopts resolutions causing us to be subject to the provisions of the Business Combination Act, these provisions may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

Conflict with 1940 Act

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act or the Business Combination Act (if we amend our bylaws to be subject to such Acts), or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

DESCRIPTION OF OUR SUBSCRIPTION RIGHTS

We may issue subscription rights to purchase common stock. Subscription rights may be issued independently or together with any other offered security and may or may not be transferable by the person purchasing or receiving the subscription rights. In connection with any subscription rights offering to our stockholders, we may enter into a standby underwriting or other arrangement with one or more underwriters or other persons pursuant to which such underwriters or other persons would purchase any offered securities remaining unsubscribed for after such subscription rights offering. We will not offer transferable subscription rights to our stockholders at a price equivalent to less than the then current net asset value per share of common stock, excluding underwriting commissions, unless we first file a post-effective amendment that is declared effective by the SEC with respect to such issuance and the common stock to be purchased in connection with the rights represents no more than one-third of our outstanding common stock at the time such rights are issued (i.e., the right to purchase one new share for a minimum of every three rights held). In connection with a subscription rights offering to our stockholders, we would distribute certificates evidencing the subscription rights and a prospectus supplement to our stockholders on the record date that we set for receiving subscription rights in such subscription rights offering. Our common stockholders will indirectly bear the expenses of such subscription rights offerings, regardless of whether our common stockholders exercise any subscription rights.

The applicable prospectus supplement would describe the following terms of subscription rights in respect of which this prospectus is being delivered:

- the title of such subscription rights;
- the exercise price or a formula for the determination of the exercise price for such subscription rights;

[Table of Contents](#)

- the number or a formula for the determination of the number of such subscription rights issued to each stockholder;
- the extent to which such subscription rights are transferable;
- if applicable, a discussion of the material U.S. federal income tax considerations applicable to the issuance or exercise of such subscription rights;
- the date on which the right to exercise such subscription rights would commence, and the date on which such rights shall expire (subject to any extension);
- the extent to which such subscription rights include an over-subscription privilege with respect to unsubscribed securities;
- if applicable, the material terms of any standby underwriting or other purchase arrangement that we may enter into in connection with the subscription rights offering; and
- any other terms of such subscription rights, including terms, procedures and limitations relating to the exchange and exercise of such subscription rights.

Exercise of Subscription Rights

Each subscription right would entitle the holder of the subscription right to purchase for cash such amount of shares of common stock or other securities at such exercise price as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the subscription rights offered thereby or another report filed with the SEC. Subscription rights may be exercised at any time up to the close of business on the expiration date for such subscription rights set forth in the applicable prospectus supplement. After the close of business on the expiration date, all unexercised subscription rights would become void. We have not previously completed such an offering of subscription rights.

Subscription rights may be exercised as set forth in the prospectus supplement relating to the subscription rights offered thereby. Upon receipt of payment and the subscription rights certificate properly completed and duly executed at the corporate trust office of the subscription rights agent or any other office indicated in the prospectus supplement, we will forward, as soon as practicable, the shares of common stock or other securities purchasable upon such exercise. We may determine to offer any unsubscribed offered securities directly to stockholders, persons other than stockholders, to or through agents, underwriters or dealers or through a combination of such methods, including pursuant to standby underwriting or other arrangements, as set forth in the applicable prospectus supplement.

DESCRIPTION OF OUR DEBT SECURITIES

We may issue debt securities in one or more series. The specific terms of each series of debt securities will be described in the particular prospectus supplement relating to that series. The prospectus supplement may or may not modify the general terms found in this prospectus and will be filed with the SEC. For a complete description of the terms of a particular series of debt securities, you should read both this prospectus and the prospectus supplement relating to that particular series.

As required by federal law for all bonds and notes of companies that are publicly offered, the debt securities are governed by a document called an “indenture.” An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under “—Events of Default—Remedies if an Event of Default Occurs.” Second, the trustee performs certain administrative duties for us with respect to our debt securities.

All the material terms of the indenture and the supplemental indenture, as well as an explanation of your rights as a holder of debt securities, are described in this prospectus and in the prospectus supplement accompanying this prospectus. Because this section is a summary, however, it does not describe every aspect of the debt securities and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of debt securities. We have filed a form of the indenture with the SEC. See “Available Information” for information on how to obtain a copy of the indenture. We will file a supplemental indenture with the SEC in connection with any debt offering, at which time the supplemental indenture would be publicly available.

The prospectus supplement, which will accompany this prospectus, will describe the particular series of debt securities being offered by including:

- the designation or title of the series of debt securities;
- the total principal amount of the series of debt securities;
- the percentage of the principal amount at which the series of debt securities will be offered;
- the date or dates on which principal will be payable;
- the rate or rates (which may be either fixed or variable) and/or the method of determining such rate or rates of interest, if any;
- the date or dates from which any interest will accrue, or the method of determining such date or dates, and the date or dates on which any interest will be payable;
- whether any interest may be paid by issuing additional securities of the same series in lieu of cash (and the terms upon which any such interest may be paid by issuing additional securities);
- the terms for redemption, extension or early repayment, if any;
- the currencies in which the series of debt securities are issued and payable;
- whether the amount of payments of principal, premium or interest, if any, on a series of debt securities will be determined with reference to an index, formula or other method (which could be based on one or more currencies, commodities, equity indices or other indices) and how these amounts will be determined;
- the place or places, if any, other than or in addition to the Borough of Manhattan in the City of New York, of payment, transfer, conversion and/or exchange of the debt securities;
- the denominations in which the offered debt securities will be issued (if other than \$1,000 and any integral multiple thereof);

Table of Contents

- the provision for any sinking fund;
- any restrictive covenants;
- any Events of Default (as defined in “Events of Default” below);
- whether the series of debt securities are issuable in certificated form;
- any provisions for defeasance or covenant defeasance;
- any special federal income tax implications, including, if applicable, federal income tax considerations relating to original issue discount;
- whether and under what circumstances we will pay additional amounts in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities rather than pay the additional amounts (and the terms of this option);
- any provisions for convertibility or exchangeability of the debt securities into or for any other securities;
- whether the debt securities are subject to subordination and the terms of such subordination;
- whether the debt securities are secured and the terms of any security interest;
- the listing, if any, on a securities exchange; and
- any other terms.

The debt securities may be secured or unsecured obligations. Unless the prospectus supplement states otherwise, principal (and premium, if any) and interest, if any, will be paid by us in immediately available funds.

We are permitted, under specified conditions, to issue multiple classes of indebtedness if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance after giving effect to any exemptive relief granted to us by the SEC. In addition, while any indebtedness and senior securities remain outstanding, we must make provisions to prohibit the distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. For a discussion of the risks associated with leverage, see “Risk Factors—Risks Related to Our Business and Structure—Regulations governing our operation as a BDC will affect our ability to raise additional capital.”

General

The indenture provides that any debt securities proposed to be sold under this prospectus and the accompanying prospectus supplement (“offered debt securities”) and any debt securities issuable upon the exercise of warrants or upon conversion or exchange of other offered securities (“underlying debt securities”) may be issued under the indenture in one or more series.

For purposes of this prospectus, any reference to the payment of principal of, or premium or interest, if any, on, debt securities will include additional amounts if required by the terms of the debt securities.

The indenture does not limit the amount of debt securities that may be issued thereunder from time to time. Debt securities issued under the indenture, when a single trustee is acting for all debt securities issued under the indenture, are called the “indenture securities.” The indenture also provides that there may be more than one trustee thereunder, each with respect to one or more different series of indenture securities. See “—Resignation of Trustee” below. At a time when two or more trustees are acting under the indenture, each with respect to only certain series, the term “indenture securities” means the one or more series of debt securities with respect to which each respective trustee is acting. In the event that there is more than one trustee under the indenture, the

[Table of Contents](#)

powers and trust obligations of each trustee described in this prospectus will extend only to the one or more series of indenture securities for which it is trustee. If two or more trustees are acting under the indenture, then the indenture securities for which each trustee is acting would be treated as if issued under separate indentures.

The indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We refer you to the prospectus supplement for information with respect to any deletions from, modifications of or additions to the Events of Default or our covenants that are described below, including any addition of a covenant or other provision providing event risk protection or similar protection.

We have the ability to issue indenture securities with terms different from those of indenture securities previously issued and, without the consent of the holders thereof, to reopen a previous issue of a series of indenture securities and issue additional indenture securities of that series unless the reopening was restricted when that series was created.

Conversion and Exchange

If any debt securities are convertible into or exchangeable for other securities, the prospectus supplement will explain the terms and conditions of the conversion or exchange, including the conversion price or exchange ratio (or the calculation method), the conversion or exchange period (or how the period will be determined), if conversion or exchange will be mandatory or at the option of the holder or us, provisions for adjusting the conversion price or the exchange ratio and provisions affecting conversion or exchange in the event of the redemption of the underlying debt securities. These terms may also include provisions under which the number or amount of other securities to be received by the holders of the debt securities upon conversion or exchange would be calculated according to the market price of the other securities as of a time stated in the prospectus supplement.

Issuance of Securities in Registered Form

We may issue the debt securities in registered form, in which case we may issue them either in book-entry form only or in “certificated” form. Debt securities issued in book-entry form will be represented by global securities. We expect that we will usually issue debt securities in book-entry only form represented by global securities.

Book-Entry Holders

We will issue registered debt securities in book-entry form only, unless we specify otherwise in the applicable prospectus supplement. This means debt securities will be represented by one or more global securities registered in the name of a depositary that will hold them on behalf of financial institutions that participate in the depositary’s book-entry system. These participating institutions, in turn, hold beneficial interests in the debt securities held by the depositary or its nominee. These institutions may hold these interests on behalf of themselves or customers.

Under the indenture, only the person in whose name a debt security is registered is recognized as the holder of that debt security. Consequently, for debt securities issued in book-entry form, we will recognize only the depositary as the holder of the debt securities and we will make all payments on the debt securities to the depositary. The depositary will then pass along the payments it receives to its participants, which in turn will pass the payments along to their customers who are the beneficial owners. The depositary and its participants do so under agreements they have made with one another or with their customers; they are not obligated to do so under the terms of the debt securities.

[Table of Contents](#)

As a result, investors will not own debt securities directly. Instead, they will own beneficial interests in a global security, through a bank, broker or other financial institution that participates in the depository's book-entry system or holds an interest through a participant. As long as the debt securities are represented by one or more global securities, investors will be indirect holders, and not holders, of the debt securities.

Street Name Holders

In the future, we may issue debt securities in certificated form or terminate a global security. In these cases, investors may choose to hold their debt securities in their own names or in "street name." Debt securities held in street name are registered in the name of a bank, broker or other financial institution chosen by the investor, and the investor would hold a beneficial interest in those debt securities through the account he or she maintains at that institution.

For debt securities held in street name, we will recognize only the intermediary banks, brokers and other financial institutions in whose names the debt securities are registered as the holders of those debt securities, and we will make all payments on those debt securities to them. These institutions will pass along the payments they receive to their customers who are the beneficial owners, but only because they agree to do so in their customer agreements or because they are legally required to do so. Investors who hold debt securities in street name will be indirect holders, and not holders, of the debt securities.

Legal Holders

Our obligations, as well as the obligations of the applicable trustee and those of any third parties employed by us or the applicable trustee, run only to the legal holders of the debt securities. We do not have obligations to investors who hold beneficial interests in global securities, in street name or by any other indirect means. This will be the case whether an investor chooses to be an indirect holder of a debt security or has no choice because we are issuing the debt securities only in book-entry form.

For example, once we make a payment or give a notice to the holder, we have no further responsibility for the payment or notice even if that holder is required, under agreements with depository participants or customers or by law, to pass it along to the indirect holders but does not do so. Similarly, if we want to obtain the approval of the holders for any purpose (for example, to amend an indenture or to relieve us of the consequences of a default or of our obligation to comply with a particular provision of an indenture), we would seek the approval only from the holders, and not the indirect holders, of the debt securities. Whether and how the holders contact the indirect holders is up to the holders.

When we refer to you in this Description of Our Debt Securities, we mean those who invest in the debt securities being offered by this prospectus, whether they are the holders or only indirect holders of those debt securities. When we refer to your debt securities, we mean the debt securities in which you hold a direct or indirect interest.

Special Considerations for Indirect Holders

If you hold debt securities through a bank, broker or other financial institution, either in book-entry form or in street name, we urge you to check with that institution to find out:

- how it handles securities payments and notices;
- whether it imposes fees or charges;
- how it would handle a request for the holders' consent, if ever required;
- whether and how you can instruct it to send you debt securities registered in your own name so you can be a holder, if that is permitted in the future for a particular series of debt securities;

[Table of Contents](#)

- how it would exercise rights under the debt securities if there were a default or other event triggering the need for holders to act to protect their interests; and
- if the debt securities are in book-entry form, how the depositary's rules and procedures will affect these matters.

Global Securities

As noted above, we usually will issue debt securities as registered securities in book-entry form only. A global security represents one or any other number of individual debt securities. Generally, all debt securities represented by the same global securities will have the same terms.

Each debt security issued in book-entry form will be represented by a global security that we deposit with and register in the name of a financial institution or its nominee that we select. The financial institution that we select for this purpose is called the depositary. Unless we specify otherwise in the applicable prospectus supplement, The Depository Trust Company, New York, New York, known as DTC, will be the depositary for all debt securities issued in book-entry form.

A global security may not be transferred to or registered in the name of anyone other than the depositary or its nominee, unless special termination situations arise. We describe those situations below under “—Termination of a Global Security.” As a result of these arrangements, the depositary, or its nominee, will be the sole registered owner and holder of all debt securities represented by a global security, and investors will be permitted to own only beneficial interests in a global security. Beneficial interests must be held by means of an account with a broker, bank or other financial institution that in turn has an account with the depositary or with another institution that has an account with the depositary. Thus, an investor whose security is represented by a global security will not be a holder of the debt security, but only an indirect holder of a beneficial interest in the global security.

Special Considerations for Global Securities

As an indirect holder, an investor's rights relating to a global security will be governed by the account rules of the investor's financial institution and of the depositary, as well as general laws relating to securities transfers. The depositary that holds the global security will be considered the holder of the debt securities represented by the global security.

If debt securities are issued only in the form of a global security, an investor should be aware of the following:

- an investor cannot cause the debt securities to be registered in his or her name and cannot obtain certificates for his or her interest in the debt securities, except in the special situations we describe below;
- an investor will be an indirect holder and must look to his or her own bank or broker for payments on the debt securities and protection of his or her legal rights relating to the debt securities, as we describe under “—Issuance of Securities in Registered Form” above;
- an investor may not be able to sell interests in the debt securities to some insurance companies and other institutions that are required by law to own their securities in non-book-entry form;
- an investor may not be able to pledge his or her interest in a global security in circumstances where certificates representing the debt securities must be delivered to the lender or other beneficiary of the pledge in order for the pledge to be effective;
- the depositary's policies, which may change from time to time, will govern payments, transfers, exchanges and other matters relating to an investor's interest in a global security. We and the trustee have no responsibility for any aspect of the depositary's actions or for its records of ownership interests in a global security. We and the trustee also do not supervise the depositary in any way;

[Table of Contents](#)

- if we redeem less than all the debt securities of a particular series being redeemed, DTC's practice is to determine by lot the amount to be redeemed from each of its participants holding that series;
- an investor is required to give notice of exercise of any option to elect repayment of its debt securities, through its participant, to the applicable trustee and to deliver the related debt securities by causing its participant to transfer its interest in those debt securities, on DTC's records, to the applicable trustee;
- DTC requires that those who purchase and sell interests in a global security deposited in its book-entry system use immediately available funds; your broker or bank may also require you to use immediately available funds when purchasing or selling interests in a global security; and
- financial institutions that participate in the depository's book-entry system, and through which an investor holds its interest in a global security, may also have their own policies affecting payments, notices and other matters relating to the debt securities; there may be more than one financial intermediary in the chain of ownership for an investor; we do not monitor and are not responsible for the actions of any of those intermediaries.

Termination of a Global Security

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated debt securities directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders. We have described the rights of legal holders and street name investors under “—Issuance of Securities in Registered Form” above.

The prospectus supplement may list situations for terminating a global security that would apply only to the particular series of debt securities covered by the prospectus supplement. If a global security is terminated, only the depository, and not we or the applicable trustee, is responsible for deciding the investors in whose names the debt securities represented by the global security will be registered and, therefore, who will be the holders of those debt securities.

Payment and Paying Agents

We will pay interest to the person listed in the applicable trustee's records as the owner of the debt security at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the debt security on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the “record date.” Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling debt securities must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the debt securities to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called “accrued interest.”

Payments on Global Securities

We will make payments on a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder's right to those payments will be governed by the rules and practices of the depository and its participants, as described under “—Special Considerations for Global Securities.”

Payments on Certificated Securities

We will make payments on a certificated debt security as follows. We will pay interest that is due on an interest payment date to the holder of debt securities as shown on the trustee's records as of the close of business

[Table of Contents](#)

on the regular record date at our office and/or at other offices that may be specified in the prospectus supplement. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee and/or at other offices that may be specified in the prospectus supplement or in a notice to holders against surrender of the debt security.

Alternatively, at our option, we may pay any cash interest that becomes due on the debt security by mailing a check to the holder at his, her or its address shown on the trustee's records as of the close of business on the regular record date or by transfer to an account at a bank in the United States, in either case, on the due date.

Payment When Offices Are Closed

If any payment is due on a debt security on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date, except as otherwise indicated in the attached prospectus supplement. Such payment will not result in a default under any debt security or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on their debt securities.

Events of Default

You will have rights if an Event of Default occurs in respect of the debt securities of your series and is not cured, as described later in this subsection.

The term "Event of Default" in respect of the debt securities of your series means any of the following:

- we do not pay the principal of (or premium, if any, on) a debt security of the series when due;
- we do not pay interest on a debt security of the series when due, and such default is not cured within 30 days;
- we do not deposit any sinking fund payment in respect of debt securities of the series within two business days of its due date;
- we remain in breach of a covenant in respect of debt securities of the series for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the outstanding debt securities of the series);
- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and remain undischarged or unstayed for a period of 60 days;
- the series of debt securities has an asset coverage, as such term is defined in the 1940 Act, of less than 100 per centum on the last business day of each of twenty-four consecutive calendar months, after giving effect to any exemptive relief granted to the Company by the SEC; or
- any other Event of Default in respect of debt securities of the series described in the prospectus supplement occurs.

An Event of Default for a particular series of debt securities does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of debt securities of any default, except in the payment of principal, premium, interest, or sinking or purchase fund installment, if it in good faith considers the withholding of notice to be in the interest of the holders.

Remedies if an Event of Default Occurs

If an Event of Default has occurred and is continuing, the trustee or the holders of not less than 25% in principal amount of the outstanding debt securities of the affected series may (and the trustee shall at the request of such holders) declare the entire principal amount of all the debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. A declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the outstanding debt securities of the affected series if (1) we have deposited with the trustee all amounts due and owing with respect to the securities (other than principal that has become due solely by reason of such acceleration) and certain other amounts, and (2) any other Events of Default have been cured or waived.

The trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee protection from expenses and liability reasonably satisfactory to it (called an “indemnity”). If indemnity reasonably satisfactory to it is provided, the holders of a majority in principal amount of the outstanding debt securities of the relevant series may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass your trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

- you must give the trustee written notice that an Event of Default with respect to the relevant series of debt securities has occurred and remains uncured;
- the holders of at least 25% in principal amount of all outstanding debt securities of the relevant series must make a written request that the trustee take action because of the default and must offer the trustee indemnity, security or both reasonably satisfactory to it against the costs, expenses and other liabilities of taking that action;
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity and/or security; and
- the holders of a majority in principal amount of the outstanding debt securities of that series must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your debt securities on or after the due date.

Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.

Each year, we will furnish to each trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the debt securities, or else specifying any default.

Waiver of Default

Holders of a majority in principal amount of the outstanding debt securities of the affected series may waive any past defaults other than

- the payment of principal, any premium or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

Merger or Consolidation

Under the terms of the indenture, we are generally permitted to consolidate or merge with another corporation. We are also permitted to sell all or substantially all of our assets to another corporation. However, we may not take any of these actions unless all the following conditions are met:

- where we merge out of existence or sell substantially all our assets, the resulting corporation or transferee must agree to be legally responsible for our obligations under the debt securities;
- the merger or sale of assets must not cause a default on the debt securities and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under “Events of Default” above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded;
- we must deliver certain certificates and documents to the trustee; and
- we must satisfy any other requirements specified in the prospectus supplement relating to a particular series of debt securities.

Modification or Waiver

There are three types of changes we can make to the indenture and the debt securities issued thereunder.

Changes Requiring Your Approval

First, there are changes that we cannot make to your debt securities without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on a debt security or the terms of any sinking fund with respect to any security;
- reduce any amounts due on a debt security;
- reduce the amount of principal payable upon acceleration of the maturity of an original issue discount or indexed security following a default or upon the redemption thereof or the amount thereof provable in a bankruptcy proceeding;
- adversely affect any right of repayment at the holder’s option;
- change the place or currency of payment on a debt security (except as otherwise described in the prospectus or prospectus supplement);
- impair your right to sue for payment;
- adversely affect any right to convert or exchange a debt security in accordance with its terms;
- modify the subordination provisions in the indenture in a manner that is adverse to outstanding holders of the debt securities;
- reduce the percentage of holders of debt securities whose consent is needed to modify or amend the indenture;
- reduce the percentage of holders of debt securities whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults;
- modify any other aspect of the provisions of the indenture dealing with supplemental indentures with the consent of holders, waiver of past defaults, changes to the quorum or voting requirements or the waiver of certain covenants; and
- change any obligation we have to pay additional amounts.

Changes Not Requiring Approval

The second type of change does not require any vote by the holders of the debt securities. This type is limited to clarifications, establishment of the form or terms of new securities of any series as permitted by the indenture and certain other changes that would not adversely affect holders of the outstanding debt securities in any material respect. We also do not need any approval to make any change that affects only debt securities to be issued under the indenture after the change takes effect.

Changes Requiring Majority Approval

Any other change to the indenture and the debt securities would require the following approval:

- if the change affects only one series of debt securities, it must be approved by the holders of a majority in principal amount of that series; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of a series of debt securities issued under the indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants applicable to that series of debt securities. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “—Changes Requiring Your Approval.”

Further Details Concerning Voting

When taking a vote, we will use the following rules to decide how much principal to attribute to a debt security:

- for original issue discount securities, we will use the principal amount that would be due and payable on the voting date if the maturity of these debt securities were accelerated to that date because of a default;
- for debt securities whose principal amount is not known (for example, because it is based on an index), we will use the principal face amount at original issuance or a special rule for that debt security described in the prospectus supplement; and
- for debt securities denominated in one or more foreign currencies, we will use the U.S. dollar equivalent.

Debt securities will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption or if we, any other obligor, or any affiliate of us or any obligor own such debt securities. Debt securities will also not be eligible to vote if they have been fully defeased as described later under “—Defeasance—Full Defeasance.”

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding indenture securities that are entitled to vote or take other action under the indenture. However, the record date may not be more than 30 days before the date of the first solicitation of holders to vote on or take such action. If we set a record date for a vote or other action to be taken by holders of one or more series, that vote or action may be taken only by persons who are holders of outstanding indenture securities of those series on the record date and must be taken within eleven months following the record date.

Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the debt securities or request a waiver.

Defeasance

The following provisions will be applicable to each series of debt securities unless we state in the applicable prospectus supplement that the provisions of covenant defeasance and full defeasance will not be applicable to that series.

Covenant Defeasance

Under current U.S. federal tax law and the indenture, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the particular series was issued. This is called “covenant defeasance.” In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your debt securities. If we achieved covenant defeasance and your debt securities were subordinated as described under “—Indenture Provisions—Subordination” below, such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit described in the first bullet below to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debt holders. In order to achieve covenant defeasance, we must do the following:

- we must deposit in trust for the benefit of all holders of a series of debt securities a combination of cash (in such currency in which such securities are then specified as payable at stated maturity) or government obligations applicable to such securities (determined on the basis of the currency in which such securities are then specified as payable at stated maturity) that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates and any mandatory sinking fund payments or analogous payments;
- we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit;
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers’ certificate stating that all conditions precedent to covenant defeasance have been complied with;
- defeasance must not result in a breach or violation of, or result in a default under, of the indenture or any of our other material agreements or instruments;
- no default or event of default with respect to such debt securities shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days; and
- satisfy the conditions for covenant defeasance contained in any supplemental indentures.

If we accomplish covenant defeasance, you can still look to us for repayment of the debt securities if there were a shortfall in the trust deposit or the trustee is prevented from making payment. For example, if one of the remaining Events of Default occurred (such as our bankruptcy) and the debt securities became immediately due and payable, there might be such a shortfall. However, there is no assurance that we would have sufficient funds to make payment of the shortfall.

Full Defeasance

If there is a change in U.S. federal tax law or we obtain an IRS ruling, as described in the second bullet below, we can legally release ourselves from all payment and other obligations on the debt securities of a particular series (called “full defeasance”) if we put in place the following other arrangements for you to be repaid:

- we must deposit in trust for the benefit of all holders of a series of debt securities a combination of cash (in such currency in which such securities are then specified as payable at stated maturity) or

[Table of Contents](#)

government obligations applicable to such securities (determined on the basis of the currency in which such securities are then specified as payable at stated maturity) that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates and any mandatory sinking fund payments or analogous payments;

- we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit. Under current U.S. federal tax law, the deposit and our legal release from the debt securities would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your debt securities and you would recognize gain or loss on the debt securities at the time of the deposit;
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, as amended, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with;
- defeasance must not result in a breach or violation of, or constitute a default under, of the indenture or any of our other material agreements or instruments;
- no default or event of default with respect to such debt securities shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days; and
- satisfy the conditions for full defeasance contained in any supplemental indentures.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If your debt securities were subordinated as described later under “—Indenture Provisions—Subordination”, such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit referred to in the first bullet of the preceding paragraph to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debt holders.

Form, Exchange and Transfer of Certificated Registered Securities

If registered debt securities cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form;
- without interest coupons; and
- unless we indicate otherwise in the prospectus supplement, in denominations of \$1,000 and amounts that are multiples of \$1,000.

Holders may exchange their certificated securities for debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed and as long as the denomination is greater than the minimum denomination for such securities.

Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering debt securities in the names of holders transferring debt securities. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder's proof of legal ownership.

[Table of Contents](#)

If we have designated additional transfer agents for your debt security, they will be named in the prospectus supplement. We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

If a registered debt security is issued in book-entry form, only the depository will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

Resignation of Trustee

Each trustee may resign or be removed with respect to one or more series of indenture securities provided that a successor trustee is appointed to act with respect to these series and has accepted such appointment. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

Indenture Provisions—Subordination

Upon any distribution of our assets upon our dissolution, winding up, liquidation or reorganization, the payment of the principal of (and premium, if any) and interest, if any, on any indenture securities denominated as subordinated debt securities is to be subordinated to the extent provided in the indenture in right of payment to the prior payment in full of all Senior Indebtedness (as defined below), but our obligation to you to make payment of the principal of (and premium, if any) and interest, if any, on such subordinated debt securities will not otherwise be affected. In addition, no payment on account of principal (or premium, if any), sinking fund or interest, if any, may be made on such subordinated debt securities at any time unless full payment of all amounts due in respect of the principal (and premium, if any), sinking fund and interest on Senior Indebtedness has been made or duly provided for in money or money's worth.

In the event that, notwithstanding the foregoing, any payment by us is received by the trustee in respect of subordinated debt securities or by the holders of any of such subordinated debt securities, upon our dissolution, winding up, liquidation or reorganization before all Senior Indebtedness is paid in full, the payment or distribution received by the trustee in respect of such subordinated debt securities or by the holders of any of such subordinated debt securities must be paid over to the holders of the Senior Indebtedness or on their behalf for application to the payment of all the Senior Indebtedness remaining unpaid until all the Senior Indebtedness has been paid in full, after giving effect to any concurrent payment or distribution to the holders of the Senior Indebtedness. Subject to the payment in full of all Senior Indebtedness upon this distribution by us, the holders of such subordinated debt securities will be subrogated to the rights of the holders of the Senior Indebtedness to the extent of payments made to the holders of the Senior Indebtedness out of the distributive share of such subordinated debt securities.

By reason of this subordination, in the event of a distribution of our assets upon our insolvency, certain of our senior creditors may recover more, ratably, than holders of any subordinated debt securities or the holders of any indenture securities that are not Senior Indebtedness. The indenture provides that these subordination provisions will not apply to money and securities held in trust under the defeasance provisions of the indenture.

[Table of Contents](#)

Senior Indebtedness is defined in the indenture as the principal of (and premium, if any) and unpaid interest on:

- our indebtedness (including indebtedness of others guaranteed by us), whenever created, incurred, assumed or guaranteed, for money borrowed, that we have designated as “Senior Indebtedness” for purposes of the indenture and in accordance with the terms of the indenture (including any indenture securities designated as Senior Indebtedness), and
- renewals, extensions, modifications and refinancings of any of this indebtedness.

If this prospectus is being delivered in connection with the offering of a series of indenture securities denominated as subordinated debt securities, the accompanying prospectus supplement will set forth the approximate amount of our Senior Indebtedness and of our other Indebtedness outstanding as of a recent date.

Secured Indebtedness and Ranking

Certain of our indebtedness, including certain series of indenture securities, may be secured. The prospectus supplement for each series of indenture securities will describe the terms of any security interest for such series and will indicate the approximate amount of our secured indebtedness as of a recent date. Any unsecured indenture securities will effectively rank junior to any secured indebtedness, including any secured indenture securities, that we incur in the future to the extent of the value of the assets securing such future secured indebtedness. The debt securities, whether secured or unsecured, of the Company will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities (i.e., the holders of the debt securities will not have access to the assets of the Company’s subsidiaries, financing vehicles or similar facilities until after all of these entities’ creditors have been paid and the remaining assets have been distributed up to the Company as the equity holder of these entities). In this regard, any notes that we may issue will be strictly the obligation of the Company, and not of Saratoga CLO, or any subsidiary we may form in the future.

In the event of our bankruptcy, liquidation, reorganization or other winding up, any of our assets that secure secured debt will be available to pay obligations on unsecured debt securities only after all indebtedness under such secured debt has been repaid in full from such assets. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all unsecured debt securities then outstanding after fulfillment of this obligation. As a result, the holders of unsecured indenture securities may recover less, ratably, than holders of any of our secured indebtedness.

The Trustee under the Indenture

U.S. Bank National Association serves as the trustee under the indenture.

Certain Considerations Relating to Foreign Currencies

Debt securities denominated or payable in foreign currencies may entail significant risks. These risks include the possibility of significant fluctuations in the foreign currency markets, the imposition or modification of foreign exchange controls and potential illiquidity in the secondary market. These risks will vary depending upon the currency or currencies involved and will be more fully described in the applicable prospectus supplement.

DESCRIPTION OF OUR WARRANTS

The following is a general description of the terms of the warrants we may issue from time to time. Particular terms of any warrants we offer will be described in the prospectus supplement relating to such warrants and will be subject to compliance with the 1940 Act.

As described further below, subject to receiving shareholder approval to issue warrants at a future annual meeting of stockholders, we may issue warrants to purchase shares of our common stock or debt securities. Such warrants may be issued independently or together with shares of common stock or debt securities and may be attached or separate from such securities. We will issue each series of warrants under a separate warrant agreement to be entered into between us and a warrant agent. The warrant agent will act solely as our agent and will not assume any obligation or relationship of agency for or with holders or beneficial owners of warrants.

A prospectus supplement will describe the particular terms of any series of warrants we may issue, including the following:

- the title and aggregate number of such warrants;
- the price or prices at which such warrants will be issued;
- the currency or currencies, including composite currencies, in which the price of such warrants may be payable;
- if applicable, the designation and terms of the securities with which the warrants are issued and the number of warrants issued with each such security or each principal amount of such security;
- in the case of warrants to purchase debt securities, the principal amount of debt securities purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which this principal amount of debt securities may be purchased upon such exercise;
- in the case of warrants to purchase common stock, the number of shares of common stock purchasable upon exercise of one warrant and the price at which and the currency or currencies, including composite currencies, in which these shares may be purchased upon such exercise;
- the date on which the right to exercise such warrants shall commence and the date on which such right will expire (subject to any extension);
- whether such warrants will be issued in registered form or bearer form;
- if applicable, the minimum or maximum amount of such warrants that may be exercised at any one time;
- if applicable, the date on and after which such warrants and the related securities will be separately transferable;
- the terms of any rights to redeem, or call such warrants;
- information with respect to book-entry procedures, if any;
- the terms of the securities issuable upon exercise of the warrants;
- if applicable, a discussion of certain U.S. federal income tax considerations; and
- any other terms of such warrants, including terms, procedures and limitations relating to the exchange and exercise of such warrants.

We and the warrant agent may amend or supplement the warrant agreement for a series of warrants without the consent of the holders of the warrants issued thereunder to effect changes that are not inconsistent with the provisions of the warrants and that do not materially and adversely affect the interests of the holders of the warrants.

[Table of Contents](#)

Each warrant will entitle the holder to purchase for cash such common stock at the exercise price or such principal amount of debt securities as shall in each case be set forth in, or be determinable as set forth in, the prospectus supplement relating to the warrants offered thereby. Warrants may be exercised as set forth in the prospectus supplement beginning on the date specified therein and continuing until the close of business on the expiration date set forth in the prospectus supplement. After the close of business on the expiration date, unexercised warrants will become void.

Upon receipt of payment and a warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the securities purchasable upon such exercise. If less than all of the warrants represented by such warrant certificate are exercised, a new warrant certificate will be issued for the remaining warrants. If we so indicate in the applicable prospectus supplement, holders of the warrants may surrender securities as all or part of the exercise price for warrants.

Prior to exercising their warrants, holders of warrants will not have any of the rights of holders of the securities purchasable upon such exercise, including, in the case of warrants to purchase debt securities, the right to receive principal, premium, if any, or interest payments, on the debt securities purchasable upon exercise or to enforce covenants in the applicable indenture or, in the case of warrants to purchase common stock, the right to receive dividends or other distributions, if any, or payments upon our liquidation, dissolution or winding up or to exercise any voting rights.

Under the 1940 Act, we may generally only offer warrants provided that (i) the warrants expire by their terms within ten years, (ii) the exercise or conversion price is not less than the current market value at the date of issuance, (iii) our stockholders authorize the proposal to issue such warrants, and our board of directors approves such issuance on the basis that the issuance is in the best interests of us and our stockholders and (iv) if the warrants are accompanied by other securities, the warrants are not separately transferable unless no class of such warrants and the securities accompanying them has been publicly distributed. The 1940 Act also provides that the amount of our voting securities that would result from the exercise of all outstanding warrants, as well as options and rights, at the time of issuance may not exceed 25% of our outstanding voting securities.

We may in the future seek the approval of our stockholders to approve a proposal to authorize us to issue securities to subscribe to, convert to, or purchase shares of our common stock in one or more offerings. Such authorization will have no expiration. If we do not receive such stockholder approval, we will not issue any warrants.

PLAN OF DISTRIBUTION

We may offer, from time to time, in one or more offerings or series, up to \$50,000,000 of our common stock, debt securities or warrants to purchase common stock or debt securities, in one or more underwritten public offerings, at-the-market offerings, negotiated transactions, block trades, best efforts offerings or a combination of these methods. We may sell the securities through underwriters or dealers, directly to one or more purchasers through agents or through a combination of any such methods of sale. Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement. A prospectus supplement or supplements will also describe the terms of the offering of the securities, including: the purchase price of the securities and the proceeds we will receive from the sale; any over-allotment options under which underwriters may purchase additional securities from us; any agency fees or underwriting discounts and other items constituting agents' or underwriters' compensation; the public offering price; any discounts or concessions allowed or re-allowed or paid to dealers; and any securities exchange or market on which the securities may be listed. Only underwriters named in the prospectus supplement will be underwriters of the securities offered by the prospectus supplement.

The distribution of our securities may be effected from time to time in one or more transactions at a fixed price or prices, which may be changed, at prevailing market prices at the time of sale, at prices related to such prevailing market prices, or at negotiated prices, provided, however, that the offering price per share of our common stock, less any underwriting commissions and discounts or agency fees paid by us, must generally equal or exceed the net asset value per share of our common stock. We may under certain circumstances consider selling our securities at prices below our net asset value per share consistent with the terms of our stockholder approval to sell our shares of common stock at a price below our net asset value per share. Any offering of shares of our common stock at a price below our then current net asset value per share that requires shareholder approval must occur, if at all, within one year after receiving such shareholder approval.

In connection with the sale of our securities, underwriters or agents may receive compensation from us or from purchasers of our securities, for whom they may act as agents, in the form of discounts, concessions or commissions. Our common stockholders will bear, directly or indirectly, such expenses, as well as any other fees and the expenses incurred by us in connection with any offering of our securities, including debt securities.

Underwriters may sell our securities to or through dealers and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions from the purchasers for whom they may act as agents. Underwriters, dealers and agents that participate in the distribution of our securities may be deemed to be underwriters under the Securities Act, and any discounts and commissions they receive from us and any profit realized by them on the resale of our securities may be deemed to be underwriting discounts and commissions under the Securities Act. Any such underwriter or agent will be identified and any such compensation received from us will be described in the applicable prospectus supplement.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including in short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of stock, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of stock. The third parties in such sale transactions will be underwriters and, if not identified in this prospectus, will be identified in the applicable prospectus supplement (or a post-effective amendment).

Any underwriter may engage in over-allotment, stabilizing transactions, short-covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves sales in excess of the offering size, which create a short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum price. Syndicate-covering or other

[Table of Contents](#)

short-covering transactions involve purchases of the securities, either through exercise of the over-allotment option or in the open market after the distribution is completed, to cover short positions. Penalty bids permit the underwriters to reclaim a selling concession from a dealer when the securities originally sold by the dealer are purchased in a stabilizing or covering transaction to cover short positions. Those activities may cause the price of the securities to be higher than it would otherwise be. If commenced, the underwriters may discontinue any of the activities at any time.

Any underwriters that are qualified market makers on the NYSE may engage in passive market making transactions in our common stock on the NYSE in accordance with Regulation M under the Exchange Act, during the business day prior to the pricing of the offering, before the commencement of offers or sales of our common stock. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, the passive market maker's bid must then be lowered when certain purchase limits are exceeded. Passive market making may stabilize the market price of the securities at a level above that which might otherwise prevail in the open market and, if commenced, may be discontinued at any time.

We may sell securities directly or through agents we designate from time to time. We will name any agent involved in the offering and sale of securities and we will describe any commissions we will pay the agent in the prospectus supplement. Unless the prospectus supplement states otherwise, our agent will act on a best-efforts basis for the period of its appointment.

Unless otherwise specified in the applicable prospectus supplement, each class or series of securities will be a new issue with no trading market, other than our common stock, which is traded on the NYSE. We may elect to list any other class or series of securities on any exchanges, but we are not obligated to do so. We cannot guarantee the liquidity of the trading markets for any securities.

Under agreements into which we may enter, underwriters, dealers and agents who participate in the distribution of our securities may be entitled to indemnification by us against certain liabilities, including liabilities under the Securities Act. Underwriters, dealers and agents may engage in transactions with, or perform services for, us in the ordinary course of business.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase our securities from us pursuant to contracts providing for payment and delivery on a future date. Institutions with which such contracts may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and others, but in all cases such institutions must be approved by us. The obligations of any purchaser under any such contract will be subject to the condition that the purchase of our securities shall not at the time of delivery be prohibited under the laws of the jurisdiction to which such purchaser is subject. The underwriters and such other agents will not have any responsibility in respect of the validity or performance of such contracts. Such contracts will be subject only to those conditions set forth in the prospectus supplement, and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

In order to comply with the securities laws of certain states, if applicable, our securities offered hereby will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, our securities may not be sold unless they have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority, Inc. will not be greater than 10% for the sale of any securities being registered.

BROKERAGE ALLOCATION AND OTHER PRACTICES

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, we generally do not execute transactions through any particular broker or dealer, but seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we generally seek reasonably competitive trade execution costs, we do not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided, and our management and employees are authorized to pay such commission under these circumstances.

CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR

Our investment securities are held under a custody agreement with U.S. Bank National Association. The address of the custodian is U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, acts as our transfer agent, dividend paying and reinvestment agent for our common stock. The principal business address of the transfer agent is 59 Maiden Lane, New York, New York 10038. U.S. Bank National Association, our trustee under an indenture and the first supplemental indenture thereto relating to the Notes, is the paying agent, registrar and transfer agent relating to the Notes. The principal business address of our trustee is 214 N. Tyron Street, 12th Floor, Charlotte, North Carolina 28202.

LEGAL MATTERS

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP, our independent registered public accounting firm, has audited our consolidated financial statements as of February 28, 2014 and February 28, 2013 and the three years ended February 28, 2014, February 28, 2013 and February 29, 2012 and the related senior securities table, as set forth in their reports. We have included our consolidated financial statements and our senior securities table in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing. Ernst & Young LLP's principal business address is 5 Times Square, New York, New York 10036.

AVAILABLE INFORMATION

As a public company, we file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of these reports, proxy and information

statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the SEC's Public Reference Section, Washington, D.C. 20549-0102. In addition, the SEC maintains an Internet website that contains reports, proxy and information statements and other information filed electronically by us with the SEC at <http://www.sec.gov>.

PRIVACY NOTICE

We are committed to protecting your privacy. This privacy notice explains the privacy policies of Saratoga Investment Corp. and its affiliated companies. This notice supersedes any other privacy notice you may have received from Saratoga Investment Corp.

We will safeguard, according to strict standards of security and confidentiality, all information we receive about you. The only information we collect from you is your name, address, number of shares you hold and your social security number. This information is used only so that we can send you annual reports and other information about us, and send you proxy statements or other information required by law.

We do not share this information with any non-affiliated third party except as described below:

- *Authorized Employees of Our Investment Adviser.* It is our policy that only authorized employees of our investment adviser who need to know your personal information will have access to it.
- *Service Providers.* We may disclose your personal information to companies that provide services on our behalf, such as recordkeeping, processing your trades, and mailing you information. These companies are required to protect your information and use it solely for the purpose for which they received it.
- *Courts and Government Officials.* If required by law, we may disclose your personal information in accordance with a court order or at the request of government regulators. Only that information required by law, subpoena, or court order will be disclosed.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Audited Financial Statements

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Assets and Liabilities as of February 28, 2014 and February 28, 2013	F-3
Consolidated Statements of Operations for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-4
Consolidated Schedules of Investments as of February 28, 2014 and February 28, 2013	F-5
Consolidated Statements of Changes in Net Assets for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-12
Consolidated Statements of Cash Flows for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-13
Notes to Consolidated Financial Statements	F-14

Unaudited Financial Statements

Consolidated Statements of Assets and Liabilities as of August 31, 2014 (unaudited) and February 28, 2014	F-39
Consolidated Statements of Operations for the six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-40
Consolidated Schedules of Investments as of August 31, 2014 (unaudited) and February 28, 2014	F-41
Consolidated Statements of Changes in Net Assets for the six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-49
Consolidated Statements of Cash Flows for the six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-50
Notes to Consolidated Financial Statements as of August 31, 2014 (unaudited)	F-51

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Saratoga Investment Corp.

We have audited the accompanying consolidated statement of assets and liabilities of Saratoga Investment Corp. (the “Company”) as of February 28, 2014 and February 28, 2013, including the consolidated schedule of investments, and the related consolidated statements of operations, changes in net assets and cash flows for the years ended February 28, 2014, February 28, 2013 and February 29, 2012. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of February 28, 2014, by correspondence with the custodian, debt agents and lenders. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saratoga Investment Corp. at February 28, 2014 and February 28, 2013, and the consolidated results of its operations, changes in its net assets and its cash flows for the years ended February 28, 2014, February 28, 2013 and February 29, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP
New York, NY
May 27, 2014

Saratoga Investment Corp.
Consolidated Statements of Assets and Liabilities

	As of	
	February 28, 2014	February 28, 2013
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$185,266,607 and \$130,465,086, respectively)	\$ 186,275,106	\$ 129,563,428
Control investments (cost of \$16,555,808 and \$18,944,966 respectively)	19,569,596	25,516,959
Total investments at fair value (amortized cost of \$201,822,415 and \$149,410,052 respectively)	205,844,702	155,080,387
Cash and cash equivalents	3,293,898	149,025
Cash and cash equivalents, reserve accounts	3,293,113	12,086,142
Interest receivable, (net of reserve of \$150,058 and \$53,543, respectively)	2,571,853	2,889,358
Deferred debt financing costs, net	4,008,704	2,090,184
Management fee receivable	150,106	215,853
Other assets	14,461	83,407
Receivable from unsettled trades	—	1,817,074
Total assets	<u>\$ 219,176,837</u>	<u>\$ 174,411,430</u>
LIABILITIES		
Revolving credit facility	\$ —	\$ 24,300,000
SBA debentures payable	50,000,000	36,000,000
Notes payable	48,300,000	—
Management and incentive fees payable	3,856,962	4,509,322
Accounts payable and accrued expenses	824,568	435,038
Interest and debt fees payable	873,135	257,796
Due to manager	398,154	222,513
Total liabilities	<u>\$ 104,252,819</u>	<u>\$ 65,724,669</u>
Commitments and contingencies (See Note 8)		
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,379,616 and 4,730,116 common shares issued and outstanding, respectively	\$ 5,380	\$ 4,730
Capital in excess of par value	184,851,154	174,824,076
Distribution in excess of net investment income	(29,627,578)	(24,522,951)
Accumulated net realized loss from investments and derivatives	(44,327,225)	(47,289,427)
Net unrealized appreciation on investments and derivatives	4,022,287	5,670,333
Total Net Assets	114,924,018	108,686,761
Total liabilities and Net Assets	<u>\$ 219,176,837</u>	<u>\$ 174,411,430</u>
NET ASSET VALUE PER SHARE	<u>\$ 21.36</u>	<u>\$ 22.98</u>

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Statements of Operations

	<u>For the year ended February 28, 2014</u>	<u>For the year ended February 28, 2013</u>	<u>For the year ended February 29, 2012</u>
INVESTMENT INCOME			
Interest from investments			
Non-control/Non-affiliate investments	\$ 15,832,083	\$ 9,176,156	\$ 5,613,705
Payment-in-kind interest income from Non-control/Non-affiliate investments	936,208	1,062,687	1,442,004
Control investments	<u>3,410,868</u>	<u>4,205,509</u>	<u>4,198,007</u>
Total interest income	20,179,159	14,444,352	11,253,716
Interest from cash and cash equivalents	7,932	5,956	7,865
Management fee income	1,775,141	2,000,072	2,011,516
Other income	<u>931,513</u>	<u>556,427</u>	<u>238,579</u>
Total investment income	<u>22,893,745</u>	<u>17,006,807</u>	<u>13,511,676</u>
EXPENSES			
Interest and debt financing expenses	6,083,891	2,540,413	1,297,985
Base management fees	3,326,879	2,107,378	1,617,496
Professional fees	1,211,836	1,190,587	1,455,380
Administrator expenses	1,000,000	1,000,000	1,000,000
Incentive management fees	691,492	2,044,788	1,257,087
Insurance	442,977	516,121	578,746
Directors fees and expenses	204,607	206,705	208,851
General & administrative	789,208	368,815	389,825
Other expense	<u>21,207</u>	<u>4,434</u>	<u>5,445</u>
Total expenses	<u>13,772,097</u>	<u>9,979,241</u>	<u>7,810,815</u>
NET INVESTMENT INCOME	<u>9,121,648</u>	<u>7,027,566</u>	<u>5,700,861</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain (loss) from investments	1,270,765	561,700	(12,185,997)
Net realized loss from derivatives	—	(131,000)	—
Net unrealized appreciation (depreciation) on investments	(1,648,046)	7,012,726	19,776,469
Net unrealized appreciation (depreciation) on derivatives	—	<u>130,925</u>	<u>(16,190)</u>
Net gain (loss) on investments	<u>(377,281)</u>	<u>7,574,351</u>	<u>7,574,282</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 8,744,367</u>	<u>\$ 14,601,917</u>	<u>\$ 13,275,143</u>
WEIGHTED AVERAGE—BASIC AND DILUTED EARNINGS PER COMMON SHARE			
	\$ 1.78	\$ 3.55	\$ 3.87
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING—BASIC AND DILUTED			
	4,920,517	4,110,484	3,434,345

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Schedule of Investments
February 28, 2014

Company(a)	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Non-control/Non-affiliated investments—162.1%						
(b)						
PATS Aircraft, LLC	Aerospace	Common Stock	51,813	89,636	89,636	0.1%
PATS Aircraft, LLC	Aerospace	First Lien Term Loan 8.50% Cash, 10/6/2016	\$ 254,598	254,598	254,598	0.2%
		Total Aerospace		344,234	344,234	0.3%
National Truck Protection Co., Inc.(d)(g)	Automotive	Common Stock	1,116	1,000,000	1,152,531	1.0%
National Truck Protection Co., Inc.(d)	Automotive	First Lien Term Loan 15.50% Cash, 9/13/2018	\$ 8,250,000	8,250,000	8,250,000	7.2%
Take 5 Oil Change, L.L.C.(d)(g)	Automotive	Common Stock	7,128	712,800	1,217,747	1.1%
		Total Automotive		9,962,800	10,620,278	9.3%
Legacy Cabinets Holdings(d)(g)	Building Products	Common Stock Voting A-1	2,535	220,900	552,351	0.5%
Legacy Cabinets Holdings(d)(g)	Building Products	Common Stock Voting B-1	1,600	139,424	348,624	0.3%
		Total Building Products		360,324	900,975	0.8%
ARSloane Acquisition, LLC	Business Services	First Lien Term Loan 7.50% Cash, 10/1/2019	\$ 997,500	988,200	1,004,981	0.9%
BMC Software, Inc.(d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 6,000,000	5,943,801	6,013,800	5.2%
Dispensing Dynamics International(d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$ 7,000,000	6,882,278	7,525,000	6.5%
Easy Ice, LLC(d)	Business Services	First Lien Term Loan 14.00% (11.00% Cash 3.00% PIK), 3/29/2018	\$ 7,507,024	7,387,970	7,507,024	6.5%
Emily Street Enterprises, L.L.C.(d)	Business Services	Senior Secured Note 12.00% (11.00% Cash/1.00% PIK), 12/28/2017	\$ 5,767,983	5,680,703	5,767,983	5.0%
Emily Street Enterprises, L.L.C.(d)(g)	Business Services	Warrant Membership Interests	49,318	400,000	601,679	0.5%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	First Lien Term Loan 5.50% Cash, 6/28/2019	\$ 3,990,000	3,954,385	3,960,075	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	1,972,758	2,000,000	1.7%
Knowland Technology Holdings, L.L.C.(d)	Business Services	First Lien Term Loan 11.00% Cash, 11/29/2017	\$ 6,200,000	6,107,034	6,200,000	5.4%
Trinet HR Corporation (SOI Holdings, Inc.)(d)	Business Services	First Lien Term Loan 5.00% Cash, 8/20/2020	\$ 4,987,500	4,941,335	5,018,921	4.4%
Trinet HR Corporation (SOI Holdings, Inc.)(d)	Business Services	Second Lien Term Loan 8.75% Cash, 2/20/2021	\$ 2,500,000	2,453,145	2,518,750	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	\$ 9,261,074	9,115,415	9,075,853	7.9%
Vector Controls Holding Co., LLC(d)(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	101	—	136,217	0.1%
		Total Business Services		55,827,024	57,330,283	49.8%

Table of Contents

Company(a)	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Targus Group International, Inc.(d)	Consumer Products	First Lien Term Loan 11.00% Cash, 5/24/2016	\$ 3,738,369	3,704,766	3,663,602	3.2%
Targus Holdings, Inc.(d)(g)	Consumer Products	Common Stock	62,413	566,765	730,232	0.6%
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 10.00% PIK, 6/14/2019	\$ 2,054,158	2,054,158	1,387,848	1.2%
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 16.00% Cash, 10/26/2018	\$ 384,577	379,471	336,505	0.3%
		Total Consumer Products		6,705,160	6,118,187	5.3%
Avionte Holdins, LLC	Consumer Services	Common Stock	\$ 100,000	100,000	100,000	0.1%
Avionte Holdins, LLC	Consumer Services	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 3,000,000	2,940,000	3,000,000	2.6%
CFE Acquisition L.L.C.(d)	Consumer Services	First Lien Term Loan 7.50% Cash, 7/31/2015	\$ 1,319,891	1,273,596	1,319,891	1.1%
Expedited Travel L.L.C.(d)	Consumer Services	First Lien Term Loan 9.00% Cash, 12/28/2017	\$ 4,580,000	4,501,104	4,580,000	4.0%
PrePaid Legal Services, Inc.(d)	Consumer Services	First Lien Term Loan 6.25% Cash, 7/1/2019	\$ 4,274,194	4,236,035	4,247,694	3.7%
PrePaid Legal Services, Inc.(d)	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2020	\$ 5,000,000	4,931,888	5,044,000	4.4%
		Total Consumer Services		17,982,623	18,291,585	15.9%
M/C Acquisition Corp., L.L.C.(d)(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d)	Education	First Lien Term Loan 1.00% Cash, 3/13/14	\$ 2,512,184	1,358,250	90,128	0.1%
		Total Education		1,388,491	90,128	0.1%
Group Dekko, Inc.(d)	Electronics	Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016	\$ 6,901,547	6,901,547	6,741,431	5.9%
		Total Electronics		6,901,547	6,741,431	5.9%
USS Parent Holding Corp.(d)(g)	Environmental	Non Voting Common Stock	765	133,002	220,992	0.2%
USS Parent Holding Corp.(d)(g)	Environmental	Voting Common Stock	17,396	3,025,798	5,027,574	4.4%
		Total Environmental		3,158,800	5,248,566	4.6%
DS Waters of America, Inc.(d)	Food and Beverage	First Lien Term Loan 5.25% Cash, 8/30/2020	\$ 2,493,750	2,470,506	2,531,156	2.2%
HOA Restaurant Group, L.L.C.(d)	Food and Beverage	Senior Secured Note 11.25% Cash, 4/1/2017	\$ 4,000,000	3,918,437	4,240,000	3.7%
TB Corp.(d)	Food and Beverage	First Lien Term Loan 5.75% Cash, 6/19/2018	\$ 5,101,971	5,082,013	5,127,481	4.5%
TB Corp.(d)	Food and Beverage	Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018	\$ 2,543,154	2,513,130	2,555,870	2.2%
TM Restaurant Group L.L.C.(d)	Food and Beverage	First Lien Term Loan 7.75% Cash, 7/16/2017	\$ 2,845,690	2,831,271	2,831,462	2.5%
		Total Food and Beverage		16,815,357	17,285,969	15.1%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00%(10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,509,782	5,405,325	5,509,782	4.8%
Oceans Acquisition, Inc.(d)	Healthcare Services	First Lien Term A Loan 10.75% Cash, 12/27/2017	\$ 6,373,113	6,273,020	6,373,113	5.6%
Oceans Acquisition, Inc.(d)	Healthcare Services	First Lien Term B Loan 10.75% Cash, 12/27/2017	\$ 500,000	490,224	500,000	0.4%

Table of Contents

Company(a)	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Smile Brands Group Inc.(d)	Healthcare Services	First Lien Term Loan 7.50% Cash, 8/16/2019	\$ 4,488,750	4,406,559	4,488,750	3.9%
Surgical Specialties Corporation (US), Inc.(d)	Healthcare Services	First Lien Term Loan 7.25% Cash, 8/22/2018	\$ 2,437,500	2,415,591	2,449,688	2.1%
Zest Holdings, LLC(d)	Healthcare Services	First Lien Term Loan 6.50% Cash, 8/16/2020	\$ 4,488,750	4,405,073	4,488,750	3.9%
		Total Healthcare Services		23,395,792	23,810,083	20.7%
McMillin Companies L.L.C.(d)(g)(h)	Homebuilding	Senior Secured Note 0% Cash, 12/31/2013	\$ 550,000	558,434	344,355	0.3%
		Total Homebuilding		558,434	344,355	0.3%
Distribution International, Inc.(d)	Manufacturing	First Lien Term Loan 7.50% Cash, 7/16/2019	\$ 5,970,000	5,916,094	5,970,000	5.2%
		Total Manufacturing		5,916,094	5,970,000	5.2%
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	6,644,711	5.8%
Elyria Foundry Company, L.L.C.(d)(g)	Metals	Warrants to Purchase Limited Liability Company Interests (2008)	7,000	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	6,644,711	5.8%
Network Communications, Inc.(d)(g)	Publishing	Common Stock	380,572	—	—	0.0%
Network Communications, Inc.(d)	Publishing	Unsecured Notes 8.60% PIK, 1/14/2020	\$ 2,601,736	2,202,168	1,190,888	1.0%
		Total Publishing		2,202,168	1,190,888	1.0%
Community Investors, Inc.(d)(g)	Software	Common Stock	1,282	1,282	1,449	0.0%
Community Investors, Inc.(d)	Software	First Lien Term Loan 9.75% Cash, 5/9/2018	\$ 6,983,333	6,863,915	6,983,333	6.1%
Community Investors, Inc.(d)	Software	Revolver	\$ 166,667	—	—	0.0%
Community Investors, Inc.(d)(g)	Software	Preferred Stock	135,584	135,584	153,210	0.1%
Pen-Link, Ltd.	Software	Second Lien Term Loan 12.50% Cash, 5/26/2019	\$ 11,500,000	11,280,887	11,500,000	10.0%
		Total Software		18,281,668	18,637,992	16.2%
Advanced Air & Heat of Florida, LLC	Utilities	First Lien Term Loan 10.00% Cash, 1/31/2019	\$ 6,705,441	6,606,457	6,705,441	5.8%
		Total Utilities		6,606,457	6,705,441	5.8%
Sub Total Non-control/Non-affiliated investments				185,266,607	186,275,106	162.1%
Control investments—17.0%(b)						
Saratoga Investment Corp. CLO 2013-1, Ltd.(d)(e)(f)	Structured Finance Securities	Other/Structured Finance Securities 15.16%, 10/17/2023	\$ 30,000,000	16,555,808	19,569,596	17.0%
Sub Total Control investments				16,555,808	19,569,596	17.0%
TOTAL INVESTMENTS—179.1%(b)				\$ 201,822,415	\$ 205,844,702	179.1%

Table of Contents

- (a) All of our equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Saratoga Investment Corp. CLO 2013-1, Ltd.
- (b) Percentages are based on net assets of \$114,924,018 as of February 28, 2014.
- (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) This investment does not have a stated interest rate that is payable thereon. As a result, the 15.16% interest rate in the table above represents the interest rate currently earned on the investment cost and is based on the current cash interest and other income generated by 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:

<u>Company</u>	<u>Purchases</u>	<u>Redemptions</u>	<u>Sales (cost)</u>	<u>Interest Income</u>	<u>Management fee income</u>	<u>Net Realized gains/(losses)</u>	<u>Net Unrealized gains/(losses)</u>
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$3,410,868	\$ 1,775,141	\$ —	\$ 3,013,788

- (g) Non-income producing at February 28, 2014.
- (h) In connection with the restructuring of this investment, the Company agreed to forgo the receipt of any interest payments thereon.

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		<u>3,500,000</u>	<u>3,500,000</u>	<u>3.2%</u>
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		<u>14,674,561</u>	<u>14,804,627</u>	<u>13.6%</u>
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		<u>692,553</u>	<u>267,378</u>	<u>0.2%</u>
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		<u>21,586,049</u>	<u>22,155,353</u>	<u>20.3%</u>
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		<u>11,626,367</u>	<u>13,727,373</u>	<u>12.7%</u>

Table of Contents

Company(a)	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
CFE 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%
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)(i)	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		11,003,536	11,180,480	10.3%
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		7,728,566	6,723,852	6.2%

Table of Contents

Company(a)	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
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				6,547,155	5,630,645	5.2%
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) This investment does not have a stated interest rate that is payable thereon. As a result, the 23.06% figure above represents the interest rate earned on the investment (at cost) and is based on the current cash interest and other income generated by 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.
- (i) In connection with the restructuring of this investment, the Company agreed to forgo the receipt of any interest payments thereon.

Saratoga Investment Corp.
Consolidated Statements of Changes in Net Assets

	<u>For the year ended</u> <u>February 28, 2014</u>	<u>For the year ended</u> <u>February 28, 2013</u>	<u>For the year ended</u> <u>February 29, 2012</u>
INCREASE FROM OPERATIONS:			
Net investment income	\$ 9,121,648	\$ 7,027,566	\$ 5,700,861
Net realized gain (loss) from investments	1,270,765	561,700	(12,185,997)
Net realized loss from derivatives	—	(131,000)	—
Net unrealized appreciation (depreciation) on investments	(1,648,046)	7,012,726	19,776,469
Net unrealized appreciation (depreciation) on derivatives	—	130,925	(16,190)
Net increase in net assets from operations	<u>8,744,367</u>	<u>14,601,917</u>	<u>13,275,143</u>
DECREASE FROM SHAREHOLDER DISTRIBUTIONS:			
Distributions declared	<u>(12,534,807)</u>	<u>(16,475,809)</u>	<u>(9,831,231)</u>
Net decrease in net assets from shareholder distributions	<u>(12,534,807)</u>	<u>(16,475,809)</u>	<u>(9,831,231)</u>
CAPITAL SHARE TRANSACTIONS:			
Stock dividend distribution	<u>10,027,697</u>	<u>13,180,503</u>	<u>7,864,784</u>
Net increase in net assets from capital share transactions	<u>10,027,697</u>	<u>13,180,503</u>	<u>7,864,784</u>
Total increase in net assets	6,237,257	11,306,611	11,308,696
Net assets at beginning of period	<u>108,686,761</u>	<u>97,380,150</u>	<u>86,071,454</u>
Net assets at end of period	<u>\$ 114,924,018</u>	<u>\$ 108,686,761</u>	<u>\$ 97,380,150</u>
Net asset value per common share	\$ 21.36	\$ 22.98	\$ 25.12
Common shares outstanding at end of period	5,379,616	4,730,116	3,876,661
Distribution in excess of net investment income	\$ (29,627,578)	\$ (24,522,951)	\$ (13,920,068)

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Statements of Cash Flows

	For the year ended February 28, 2014	For the year ended February 28, 2013	For the year ended February 29, 2012
Operating activities			
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 8,744,367	\$ 14,601,917	\$ 13,275,143
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:			
Paid-in-kind interest income	(1,007,494)	(1,062,687)	(1,442,004)
Net accretion of discount on investments	(666,849)	(975,475)	(1,191,822)
Amortization of deferred debt financing costs	903,289	482,306	674,724
Net realized (gain) loss from investments	(1,270,765)	(561,700)	12,185,997
Net realized loss from derivatives	—	131,000	—
Net unrealized (appreciation) depreciation on investments	1,648,046	(7,012,726)	(19,776,469)
Net unrealized (appreciation) depreciation on derivatives	—	(130,925)	16,190
Proceeds from sale and redemption of investments	71,606,736	21,487,698	33,568,147
Purchase of investments	(121,073,990)	(71,595,649)	(38,678,936)
(Increase) decrease in operating assets:			
Cash and cash equivalents, reserve accounts	8,793,029	13,448,053	(21,164,208)
Interest receivable	317,505	(1,199,954)	(23,321)
Management fee receivable	65,747	11,728	4,172
Other assets	68,946	11,416	(9,657)
Receivable from unsettled trades	1,817,074	(1,757,563)	(59,511)
Increase (decrease) in operating liabilities:			
Payable for unsettled trades	—	(4,072,500)	(827,500)
Management and incentive fees payable	(652,360)	1,623,652	681,864
Accounts payable and accrued expenses	389,530	(269,911)	(80,537)
Interest and credit facility fees payable	615,339	204,534	(14,530)
Due to manager	175,641	(171,581)	154,094
NET CASH USED BY OPERATING ACTIVITIES	<u>(29,526,209)</u>	<u>(36,808,367)</u>	<u>(22,708,164)</u>
Financing activities			
Borrowings on debt	18,000,000	55,550,000	20,000,000
Paydowns on debt	(28,300,000)	(15,250,000)	(4,500,000)
Issuance of notes	48,300,000	—	—
Debt financing cost	(2,821,806)	(1,373,000)	(235,446)
Payments of cash dividends	(2,507,112)	(3,295,306)	(1,966,447)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>32,671,082</u>	<u>35,631,694</u>	<u>13,298,107</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,144,873	(1,176,673)	(9,410,057)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	149,025	1,325,698	10,735,755
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 3,293,898</u>	<u>\$ 149,025</u>	<u>\$ 1,325,698</u>
Supplemental Information:			
Interest paid during the period	\$ 4,565,262	\$ 1,853,573	\$ 637,791
Supplemental non-cash information:			
Paid-in-kind interest income	\$ 1,007,494	\$ 1,062,687	\$ 1,442,004
Net accretion of discount on investments	\$ 666,849	\$ 975,475	\$ 1,191,822
Amortization of deferred credit facility financing costs	\$ 903,289	\$ 482,306	\$ 674,724
Stock dividend distribution	\$ 10,027,697	\$ 13,180,503	\$ 7,864,784

See accompanying notes to consolidated financial statements.

SARATOGA INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
February 28, 2014

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 14. Recapitalization Transaction” below.

We are externally managed and advised by our investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant to the 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 (“U.S. GAAP”) and include the accounts of the Company and its special purpose financing subsidiary, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC). 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 subsidiary, 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 U.S. 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;
- 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 in 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.

[Table of Contents](#)

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
- 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 Saratoga Investment Corp. CLO 2013-1, 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

[Table of Contents](#)

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*, ("ASC 325-40"), based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated 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.

Deferred Debt Financing Costs

Financing costs incurred in connection with our credit facility are deferred and amortized using the straight line method over the life of their respective facilities. Financing costs incurred in connection with our SBA debentures are deferred and amortized using the effective yield method over the life of the debentures.

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

[Table of Contents](#)

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*, (“ASC 740”), 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. During the fiscal year ended February 28, 2014, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2011, 2012 and 2013 federal tax years for the Company remain subject to examination by the IRS.

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 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 on the consolidated statements of operations, relating to the capital gains incentive fee payable on the consolidated statements of assets and liabilities, 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

[Table of Contents](#)

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.

New Accounting Pronouncements

In June 2013, the FASB issued ASU 2013-08, "Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements," which amends the criteria that define an investment company and clarifies the measurement guidance and requires new disclosures for investment companies. Under ASU 2013-08, an entity already regulated under the 1940 Act will be automatically deemed an investment company under the new GAAP definition. As such, the Company anticipates no impact from adopting this standard on the Company's consolidated financial results. The Company is currently assessing the additional disclosure requirements. ASU 2013-08 will be effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013.

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.

[Table of Contents](#)

- 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 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 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 February 28, 2014 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Syndicated loans	\$ —	\$ —	\$ 32,390	\$ 32,390
First lien term loans	—	—	80,246	80,246
Second lien term loans	—	—	27,804	27,804
Senior secured notes	—	—	30,032	30,032
Unsecured notes	—	—	5,471	5,471
Structured finance securities	—	—	19,570	19,570
Equity interest	—	—	10,332	10,332
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$205,845</u>	<u>\$205,845</u>

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			Total
	Level 1	Level 2	Level 3	
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	<u>\$ —</u>	<u>\$ —</u>	<u>\$155,080</u>	<u>\$155,080</u>

Table of Contents

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 28, 2014 (dollars in thousands):

	Syndicated 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)	407	(395)	165	41	207	(3,558)	1,485	(1,648)
Purchases and other adjustments to cost	37,048	49,329	20,727	14,414	390	—	841	122,749
Sales and redemptions	(5,138)	(53,162)	(3,030)	(7,728)	—	(2,389)	(160)	(71,607)
Net realized gain (loss) from investments	73	682	371	—	—	—	145	1,271
Balance as of February 28, 2014	<u>\$ 32,390</u>	<u>\$ 80,246</u>	<u>\$ 27,804</u>	<u>\$30,032</u>	<u>\$ 5,471</u>	<u>\$ 19,570</u>	<u>\$ 10,332</u>	<u>\$205,845</u>

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 as of February 28, 2014 is \$(1,767,285) and is included in net unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 28, 2013 (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)	2,090	657	(403)	(148)	(169)	4,267	719	7,013
Purchases and other adjustments to cost	52,872	3,005	13,002	107	3,035	—	1,612	73,633
Sales and redemptions	(7,564)	(3,092)	—	(6,090)	—	(4,596)	(146)	(21,488)
Net realized gain (loss) from investments	198	87	—	131	—	—	146	562
Balance as of February 28, 2013	<u>\$ 83,792</u>	<u>\$ 9,571</u>	<u>\$23,305</u>	<u>\$ —</u>	<u>\$ 4,874</u>	<u>\$ 25,517</u>	<u>\$ 8,021</u>	<u>\$155,080</u>

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.

[Table of Contents](#)

The net change in unrealized gain/loss on investments held as of February 28, 2013 is \$7,143,012 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 February 28, 2014 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	\$ 32,390	Market Comparables	Third-Party Bid	99.5 - 100.6
First lien term loans	80,246	Market Comparables	Market Yield (%)	5.1% - 15.5%
			EBITDA Multiples (x)	3.0x
			Third-Party Bid	83.3 - 101.5
Second lien term loans	27,804	Market Comparables	Market Yield (%)	9.6% - 12.5%
			Third-Party Bid	100.0 - 101.8
Senior secured notes	30,032	Market Comparables	Market Yield (%)	11.0% - 42.5%
			EBITDA Multiples (x)	5.0x
			Third-Party Bid	106.0 - 107.5
Unsecured notes	5,471	Market Comparables	Market Yield (%)	12.8% - 20.3%
Structured finance securities	19,570	Discounted Cash Flow	Discount Rate (%)	9.0%
Equity interests	10,332	Market Comparables	EBITDA Multiples (x)	6.3x - 12.0x

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>
First lien term loans	\$ 83,792	Market Comparables	Market Yield (%)	5.8% - 26.9%
			EBITDA Multiples (x)	3.0x
			Third-Party Bid	96.5 - 102.0
Second lien term loans	9,571	Market Comparables	Market Yield (%) Third-Party Bid	11.5%
				90.5
Senior secured notes	23,305	Market Comparables	Market Yield (%) EBITDA Multiples (x) Third-Party Bid	14.0% - 42.5%
				5.5x
				89.0 - 101.0
Unsecured notes	4,874	Market Comparables	Market Yield (%)	13.6% - 23.8%
Structured finance securities	25,517	Discounted Cash Flow	Discount Rate (%)	13.0%
Equity interests	8,021	Market Comparables	EBITDA Multiples (x)	3.0x - 8.9x

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.

The composition of our investments as of February 28, 2014, 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>
Syndicated loans	\$ 31,983	15.8%	\$ 32,390	15.7%
First lien term loans	80,734	40.0	80,246	39.0
Second lien term loans	27,540	13.6	27,804	13.5

Table of Contents

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
Senior secured notes	31,304	15.6	30,032	14.6
Unsecured notes	7,149	3.5	5,471	2.7
Structured finance securities	16,556	8.2	19,570	9.5
Equity interest	6,556	3.3	10,332	5.0
Total	\$ 201,822	100.0%	\$ 205,845	100.0%

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

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
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	\$ 149,410	100.0%	\$ 155,080	100.0%

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 and partnership interests, 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 Saratoga Investment Corp. CLO 2013-1, 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

[Table of Contents](#)

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 November 30, 2013, in connection with the 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 February 28, 2014. The significant inputs for the valuation model include:

- Default rates: 2.0%
- Recovery rates: 35-75%
- Prepayment rate: 25.0%
- Reinvestment rate / price: L+375bps / \$99.75

Note 4. Investment in Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”)

On January 22, 2008, we invested \$30 million in all of the outstanding subordinated notes of GSC Investment Corp. CLO 2007, Ltd., a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with GSC Investment Corp. CLO 2007, Ltd. pursuant to which we act as collateral manager to it. The Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. The Saratoga CLO remains 100% owned and managed by Saratoga Investment Corp. We receive a base management fee of 0.25% and a subordinated management fee of 0.25% of the Fee Basis Amount at the beginning of the Collection Period, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of the remaining interest proceeds and principal proceeds, if any, after the subordinated notes have realized the incentive management fee target return of 12.0%, in accordance with the Priority of Payments after making the prior distributions on the relevant payment date. For the years ended February 28, 2014 and 2013, and February 29, 2012, we accrued \$1.8 million, \$2.0 million and \$2.0 million in management fee income, respectively, and \$3.4 million, \$4.2 million and \$4.2 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 February 28, 2014, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$19.6 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 February 28, 2014, Saratoga CLO had investments with a principal balance of \$301.3 million and a weighted average spread over LIBOR of 4.1%, and had debt with a principal balance of \$284.1 million with a weighted average spread over LIBOR of 1.8%. 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 February 28, 2014, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$24.9 million, which had a present value of approximately \$20.2 million, using a 9.0% discount rate.

At February 28, 2013, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$25.5 million, whereas the net asset value of Saratoga CLO on such date was \$30.8 million. The Company does not believe that the net asset value of Saratoga CLO, which is the difference between Saratoga CLO's assets and liabilities at a given point in time, necessarily equates to the fair value of its

[Table of Contents](#)

investment in the subordinated notes of Saratoga CLO. Specifically, 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 February 28, 2013, Saratoga CLO had investments with a principal balance of \$383.3 million and a weighted average spread over LIBOR of 4.3%, and had debt with a principal balance of \$366.0 million with a weighted average spread over LIBOR of 1.4%. 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 February 28, 2013, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$38.7 million, which had a present value of approximately \$26.0 million, using a 13.0% discount rate. At February 28, 2013, the fair value of the subordinated notes, which we base upon the present value of the projected cash flows, was \$25.5 million, which was less than the net asset value of Saratoga CLO on such date by approximately \$5.3 million.

The separate audited financial statements of Saratoga CLO as of February 28, 2014 and 2013, pursuant to Rule 3-09 of SEC rules Regulation S-X, and for the twelve months ended February 28, 2014 and 2013 and February 29, 2012, are presented on page S-1.

Note 5. Income Taxes

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

The Company owns 100.0% of Saratoga CLO, an exempted company incorporated in the Cayman Islands. For financial reporting purposes, the Saratoga CLO is not included as part of the consolidated financial statements. For federal income tax purposes, the Company has requested and received approval from the Internal Revenue Service to treat the Saratoga CLO as a disregarded entity. As such, for federal income tax purposes and for purposes of meeting the RIC qualification and diversification tests, the results of operations of the Saratoga CLO are included with those of the Company.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income, as defined by the Code. Because federal income tax regulations differ from U.S. GAAP, distributions in accordance with tax regulations may differ from net investment income and realized gains recognized for financial reporting purposes. Differences may be permanent or temporary in nature. Permanent differences are reclassified among capital accounts in the financial statements to reflect their tax character. Differences in classification may also result from the treatment of short-term gains as ordinary income for tax purposes. As of February 28, 2014 and February 28, 2013, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to nondeductible excise tax, meals & entertainment, market discount, interest income with respect to the Saratoga CLO which is consolidated for tax purposes and the tax character of distributions as follows (dollars in thousands):

	February 28, 2014	February 28, 2013
Accumulated net investment income/(loss)	\$ (1,691)	\$ (1,155)
Accumulated net realized gains (losses) on investments	1,691	1,155
Additional paid-in-capital	—	—

[Table of Contents](#)

For income tax purposes, distributions paid to shareholders are reported as ordinary income, return of capital, long term capital gains or a combination thereof. The tax character of distributions paid for the years ended February 28, 2014 and February 28, 2013 was as follows (dollars in thousands):

	February 28, 2014	February 28, 2013
Ordinary Income	\$ 12,535	\$ 16,476
Capital gains	—	—
Return of capital	—	—
Total	<u>\$ 12,535</u>	<u>\$ 16,476</u>

For federal income tax purposes, as of February 28, 2014, the aggregate net unrealized depreciation for all securities is \$0.04 million. The aggregate cost of securities for federal income tax purposes is \$486.8 million.

For federal income tax purposes, as of February 28, 2013, the aggregate net unrealized depreciation for all securities is \$2.7 million. The aggregate cost of securities for federal income tax purposes is \$506.7 million.

At February 28, 2014 and February 28, 2013, the components of accumulated losses on a tax basis as detailed below differ from the amounts reflected per the Company's consolidated statements of assets and liabilities by temporary book/tax differences primarily arising from the consolidation of the Saratoga CLO for tax purposes, market discount and original issue discount income, interest income accrual on defaulted bonds, write-off of investments, and amortization of organizational expenditures (dollars in thousands):

	February 28, 2014	February 28, 2013
Post October loss deferred	\$ —	\$ —
Accumulated capital losses	(64,101)	(58,248)
Other temporary differences	(304)	(1,515)
Undistributed ordinary income	963	3,927
Unrealized depreciation	(41)	(2,750)
Total components of accumulated losses	<u>\$ (63,483)</u>	<u>\$ (58,586)</u>

The Company has incurred capital losses of \$19.3, \$14.1 and \$3.2 million for the years ended February 28, 2011, 2010 and 2009. Such capital losses will be available to offset future capital gains if any and if unused, will expire on February 28, 2019, 2018 and 2017.

At February 28, 2014, the Company had a short term capital loss of \$11.2 million and a long-term capital loss of \$16.3 million available to offset future capital gains. Post RIC-modernization act losses are deemed to arise on the first day of the fund's following fiscal year and there is no expiration for these losses.

Management has analyzed the Company's tax positions taken on federal income tax returns for all open years (fiscal years 2010-2014), and has concluded that no provision for uncertain income tax positions is required in the Company's financial statements.

On December 22, 2010, the Regulated Investment Company Modernization Act of 2010 (the "Modernization Act") was enacted, and the provisions with the Modernization Act are effective for the Company for the year ended February 29, 2012. The Modernization Act is the first major piece of legislation affecting RICs since 1986 and it modernizes several of the federal income and excise tax provisions related to RICs. Some highlights of the enacted provisions are as follows:

New capital losses may now be carried forward indefinitely, and retain the character of the original loss. Under pre-enactment law, capital losses could be carried forward for eight years, and carried forward as short-term capital, irrespective of the character of the original loss.

[Table of Contents](#)

The Modernization Act contains simplification provisions, which are aimed at preventing disqualification of a RIC for “inadvertent” failures of the asset diversification and/or qualifying income tests. Additionally, the Modernization Act exempts RICs from the preferential dividend rule, and repealed the 60-day designation requirement for certain types of pay-through income and gains.

Finally, the Modernization Act contains several provisions aimed at preserving the character of distributions made by a fiscal year RIC during the portion of its taxable year ending after October 31 or December 31, reducing the circumstances under which a RIC might be required to file amended Forms 1099 to restate previously reported distributions.

Note 6. Agreements and-Related Party Transactions

On July 30, 2010, the Company entered into the Management Agreement with our Manager. The initial term of the Management Agreement is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. 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 years ended February 28, 2014, February 28, 2013, and February 29, 2012, we incurred \$3.3 million, \$2.1 million, and \$1.6 million in base management fees, respectively. For the years ended February 28, 2014,

[Table of Contents](#)

February 28, 2013, and February 29, 2012, we incurred \$0.7 million, \$1.0 million, and \$0.5 million in incentive fees related to pre-incentive fee net investment income. For the year ended February 28, 2014, there was a reduction of \$0.3 million in incentive fees related to capital gains. For the years ended February 28, 2013 and February 29, 2012, we accrued \$1.0 million and \$0.7 million in incentive management fees related to capital gains, respectively. 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 February 28, 2014, the base management fees accrual was \$0.9 million and the incentive fees accrual was \$3.0 million and is included in management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 28, 2013, the base management fees accrual was \$0.6 million and incentive fees accrual was \$3.9 million and is 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 is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. The amount of expenses payable or reimbursable thereunder by the Company is 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 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 years ended February 28, 2014, February 28, 2013, and February 29, 2012, we recognized \$1.0 million, \$1.0 million, and \$1.0 million in administrator expenses for the periods, respectively, 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. As of February 28, 2014, \$0.4 million of administrator expenses were accrued and included in due to manager in the accompanying consolidated statements of assets and liabilities. As of February 28, 2013, \$0.2 million of administrator expenses were accrued and included in due to manager in the accompanying consolidated statements of assets and liabilities. For the years ended February 28, 2014 and 2013, and February 29, 2012, the Company bought investments fair valued at \$0.3 million, \$0.0 million and \$15.6 million, respectively, from the Saratoga CLO and sold no investments to related parties.

Note 7. 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 market wide 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

[Table of Contents](#)

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 "Credit Facility") with Madison Capital Funding LLC, in each case, described in "Note 14. 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 Credit 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 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
- remove the condition that we may not acquire additional loan assets without the prior written consent of Madison Capital Funding LLC.

As of February 28, 2014, there was no outstanding balance under the Credit Facility and the Company was in compliance with all of the limitations and requirements of the Credit Facility. \$2.3 million of financing costs related to the Credit Facility have been capitalized and are being amortized over the term of the facility. For the years ended February 28, 2014, February 28, 2013 and February 29, 2012, we recorded \$1.0 million, \$2.0 million, and \$0.6 million of interest expense, respectively. For the years ended February 28, 2014, February 28, 2013 and February 29, 2012, we recorded \$0.4 million, \$0.4 million and \$0.7 million of amortization of deferred financing costs related to the Credit Facility and Revolving Facility, respectively. The interest rates during the years ended February 28, 2014, February 28, 2013 and February 29, 2012 on the outstanding borrowings under the Credit Facility ranged from 7.50% to 7.50%, 7.50% to 7.50%, and 7.50% to 7.50%, respectively.

The Credit 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 Credit 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 Credit Facility has an eight year term, consisting of a

[Table of Contents](#)

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 Credit 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 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 will pay the lenders a commitment fee of 0.75% per year on the unused amount of the Credit Facility for the duration of the Revolving Period.

Our borrowing base under the Credit Facility was \$44.6 million subject to the Credit Facility cap of \$45.0 million at February 28, 2014. 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 February 28, 2014 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 Annual Report on Form 10-K will not be incorporated into the borrowing base until after this Annual Report on Form 10-K 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 February 28, 2014, we have funded SBIC LP with \$32.0 million of equity capital, and have \$50.0 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 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 debtholders 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.

[Table of Contents](#)

As of February 28, 2014 and February 28, 2013, there was \$50.0 million and \$36.0 million outstanding of SBA debentures, respectively. The carrying amount of the amount outstanding of SBA debentures approximates its fair value. \$1.7 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 years ended February 28, 2014 and February 28, 2013, we recorded \$1.3 million and \$0.1 million of interest expense related to the SBA debentures. For the years ended February 28, 2014 and February 28, 2013, we recorded \$0.2 million and \$0.1 million of amortization of deferred financing costs related to the SBA debentures, respectively. The weighted average interest rate during the years ended February 28, 2014 and February 28, 2013 on the outstanding borrowings of the SBA debentures was 3.03% and 1.42%, respectively. There were no outstanding SBA debentures at February 29, 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 February 28, 2014, the carrying amount and fair value of the Notes was \$48.3 million and \$48.6 million, respectively. The fair value of the Notes, which are publicly traded, is based upon closing market quotes as of the measurement date and would be classified as a level 1 liability within the fair value hierarchy. As of February 28, 2014, \$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 year ended February 28, 2014, we recorded \$2.9 million of interest expense and \$0.3 million of amortization of deferred financing costs related to the Notes.

Note 8. Commitments and contingencies

Contractual obligations

The following table shows our payment obligations for repayment of debt and other contractual obligations at February 28, 2014:

	Total (\$ in thousands)	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	
Long-Term Debt Obligations	\$ 98,300	\$ —	\$—	\$—	\$ 98,300

Off-balance sheet arrangements

The Company’s off-balance sheet arrangements consisted of \$12.2 million and \$0.0 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of February 28, 2014 and 2013, respectively. Such commitments are generally up to the Company’s discretion to approve, or the satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company’s Consolidated Statement of Assets and Liabilities and are not reflected in the Company’s Consolidated Statements of Assets and Liabilities.

Note 9. 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 years ended February 28, 2014, February 28, 2013 and February 29, 2012, we accrued \$0.2 million, \$0.2 million, and \$0.2 million for directors' fees expense, respectively. As of February 28, 2014 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 February 28, 2014, we had not issued any common stock to our directors as compensation for their services.

Note 10. 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.

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 14. 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.

[Table of Contents](#)

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.

On October 30, 2013, the Company declared a dividend of \$2.65 per share payable on December 27, 2013. 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 \$2.5 million or \$0.53 per share. Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock.

Note 11. 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 decrease in net assets per share from operations for the years ended February 28, 2014, February 28, 2013 and February 29, 2012 (dollars in thousands except share and per share amounts):

Basic and diluted	February 28, 2014	February 28, 2013	February 29, 2012
Net increase in net assets from operations	\$ 8,744	\$ 14,602	\$ 13,275
Weighted average common shares outstanding	4,920,517	4,110,484	3,434,345
Earnings per common share—basic and diluted	\$ 1.78	\$ 3.55	\$ 3.87

Note 12. Dividend

On October 30, 2013, the Company declared a dividend of \$2.65 per share payable on December 27, 2013. 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 \$2.5 million or \$0.53 per share.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock, or 13.7% of our outstanding common stock prior to the dividend payment. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.439 per share, which equaled the volume weighted average trading price per share of the common stock on December 11, 13, and 16, 2013.

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.

[Table of Contents](#)

Based on shareholder elections, the dividend consisted of approximately \$3.3 million in cash and 853,455 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.444 per share, which equaled the volume weighted average trading price per share of the common stock on December 14, 17, 19, 2012.

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, or 18.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$13.1171 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2011.

On November 12, 2010, we declared a dividend of \$4.40 per share payable on December 23, 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, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 10.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$17.8049 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2010. The financial statements for the period ended November 30, 2010 have been retroactively adjusted to reflect the increase in common stock as a result of the dividend in accordance with the provisions of ASC 505-20-S50 regarding disclosure of a capital structure change after the interim balance sheet but before the release of the financial statements.

The following tables summarize dividends declared during the years ended February 28, 2014, February 28, 2013, February 29, 2012 and February 28, 2011 (dollars in thousands except per share amounts):

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
October 30, 2013	November 13, 2013	December 27, 2013	\$ 2.65	\$ 12,535
Total dividends declared			<u>\$ 2.65</u>	<u>\$ 12,535</u>

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
November 9, 2012	November 20, 2012	December 31, 2012	\$ 4.25	\$ 16,476
Total dividends declared			<u>\$ 4.25</u>	<u>\$ 16,476</u>

[Table of Contents](#)

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
November 15, 2011	November 25, 2011	December 30, 2011	\$ 3.00	\$ 9,831
Total dividends declared			\$ 3.00	\$ 9,831

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
November 12, 2010	November 19, 2010	December 29, 2010	\$ 4.40	\$ 11,796
Total dividends declared			\$ 4.40	\$ 11,796

* Amount per share is calculated based on the number of shares outstanding at the date of declaration.

Note 13. Financial Highlights

The following is a schedule of financial highlights for the years ended February 28, 2014, February 28, 2013, February 29, 2012, February 28, 2011, and February 28, 2010:

For 2010, the amount per share has been adjusted to reflect a one-for-ten reverse stock split effectuated in August 2010.

	<u>February 28, 2014</u>	<u>February 28, 2013</u>	<u>February 29, 2012</u>	<u>February 28, 2011</u>	<u>February 28, 2010</u>
Per share data:(7)					
Net asset value at beginning of period	\$ 22.98	\$ 25.12	\$ 26.26	\$ 32.75	\$ 82.00
Net investment income(1)	1.85	1.71	1.66	2.15	5.40
Net realized and unrealized gains and losses on investments and derivatives	(0.07)	1.84	2.21	4.81	(15.30)
Net increase (decrease) in net assets from operations	1.78	3.55	3.87	6.96	(9.90)
Distributions declared from net investment income	(2.65)	(4.25)	(3.00)	(4.40)	(18.25)
Distributions declared from net realized capital gains	—	—	—	—	—
Total distributions to stockholders	(2.65)	(4.25)	(3.00)	(4.40)	(18.25)
Other(5)	(0.75)	(1.44)	(2.01)	(9.05)	(21.10)
Net asset value at end of period	\$ 21.36	\$ 22.98	\$ 25.12	\$ 26.26	\$ 32.75
Net assets at end of period	\$ 114,924,018	\$ 108,686,761	\$ 97,380,150	\$ 86,071,454	\$ 55,478,152
Shares outstanding at end of period	5,379,616	4,730,116	3,876,661	3,277,077	1,694,010
Per share market value at end of period(7)	\$ 15.85	\$ 17.02	\$ 15.88	\$ 21.25	\$ 19.20
Total return based on market value(2)	9.11%	36.67%	12.82%	38.25%	113.10%
Total return based on net asset value(3)	8.92%	16.65%	17.51%	0.16%	(11.92)%

[Table of Contents](#)

	<u>February 28, 2014</u>	<u>February 28, 2013</u>	<u>February 29, 2012</u>	<u>February 28, 2011</u>	<u>February 28, 2010</u>
Ratio/Supplemental data:(6)					
Ratio of net investment income to average, net assets(4)(6)	8.09%	6.73%	6.11%	6.53%	8.10%
Ratio of operating expenses to average net assets(4)	6.20%	5.17%	5.63%	12.05%	9.78%
Ratio of incentive management fees to average net assets	0.61%	1.96%	1.35%	2.45%	0.52%
Ratio of credit facility related expenses to average net assets	5.40%	2.43%	1.39%	3.42%	6.54%
Ratio of total expenses to average net assets(4)	12.21%	9.56%	8.36%	12.02%	16.84%
Portfolio turnover rate(8)	37.82%	17.30%	36.34%	10.14%	14.68%

- (1) Net investment income per share is calculated using the weighted average shares outstanding during the period. Net investment income excluding expense waiver and reimbursement equals \$2.05 and \$4.75 per share for the years ended February 28, 2011 and 2010, respectively.
- (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) For the year ended February 28, 2011, net of the expense waiver and reimbursement arrangement, the ratio of net investment income, operating expenses, total expenses to average net assets is 6.87%, 11.71%, and 11.68%, respectively. For the year ended February 28, 2010, net of the expense waiver and reimbursement arrangement, the ratio of net investment income, operating expenses, total expenses to average net assets is 9.12%, 8.71% and 15.77%, respectively.
- (5) Represents the dilutive effect of issuing common stock below net asset value per share during the period in connection with the satisfaction of the Company's annual RIC distribution requirement. See Note 12, Dividend.
- (6) The ratio for the year ended February 28, 2010 do not include the effect of the waiver of deferred incentive fees which is (3.83)% on a non-annualized basis as this is a one time waiver.
- (7) February 28, 2010 data has been adjusted to reflect a one-for-ten reverse stock split effectuated in August 2010.
- (8) 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 14. 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

[Table of Contents](#)

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 Credit 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 Credit Facility with Madison Capital Funding;
- 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 the 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 Credit 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.

[Table of Contents](#)**Note 15. Selected Quarterly Data (Unaudited)**

(\$ in thousands, except per share numbers)	2014			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio income	\$5,218	\$ 4,997	\$ 4,792	\$5,172
Net investment income	1,482	2,898	2,272	2,470
Net realized and unrealized gain (loss)	2,236	(1,630)	(2,313)	1,330
Net increase (decrease) in net assets resulting from operations	3,718	1,268	(41)	3,800
Net investment income per common share at end of each quarter	\$ 0.28	\$ 0.60	\$ 0.48	\$ 0.52
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.42	\$ (0.34)	\$ (0.49)	\$ 0.28
Dividends declared per common share	\$ —	\$ 2.65	\$ —	\$ —
Net asset value per common share	\$21.36	\$ 20.67	\$ 23.77	\$23.78

(\$ in thousands, except per share numbers)	2013			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio income	\$4,306	\$ 3,513	\$ 3,514	\$3,111
Net investment income	1,952	2,489	1,314	1,273
Net realized and unrealized gain (loss)	3,843	(1,744)	3,557	1,918
Net increase in net assets resulting from operations	5,795	745	4,871	3,191
Net investment income per common share at end of each quarter	\$ 0.42	\$ 0.63	\$ 0.34	\$ 0.33
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.81	\$ (0.44)	\$ 0.92	\$ 0.49
Dividends declared per common share	\$ —	\$ 4.25	\$ —	\$ —
Net asset value per common share	\$22.98	\$ 21.75	\$ 27.20	\$25.94

(\$ in thousands, except per share numbers)	2012			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio income	\$2,946	\$ 3,033	\$ 2,887	\$2,387
Net investment income	1,578	824	2,720	578
Net realized and unrealized gain (loss)	1,502	5,389	(4,448)	5,131
Net increase (decrease) in net assets resulting from operations	3,080	6,213	(1,728)	5,709
Net investment income per common share at end of each quarter	\$ 0.40	\$ 0.25	\$ 0.83	\$ 0.17
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.39	\$ 1.63	\$ (1.36)	\$ 1.57
Dividends declared per common share	\$ —	\$ 3.00	\$ —	\$ —
Net asset value per common share	\$25.12	\$ 24.32	\$ 27.48	\$28.01

Note 16. 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-K or would be required to be recognized in the consolidated financial statements as of and for the year ended February 28, 2014.

Saratoga Investment Corp.
Consolidated Statements of Assets and Liabilities

	As of	
	<u>August 31, 2014</u> (unaudited)	<u>February 28, 2014</u>
ASSETS		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$215,422,798 and \$185,266,607, respectively)	\$216,229,627	\$ 186,275,106
Control investments (cost of \$16,555,808 and \$16,555,808, respectively)	20,090,075	19,569,596
Total investments at fair value (amortized cost of \$231,978,606 and \$201,822,415, respectively)	236,319,702	205,844,702
Cash and cash equivalents	271,378	3,293,898
Cash and cash equivalents, reserve accounts	3,215,671	3,293,113
Interest receivable (net of reserve of \$184,818 and \$150,058, respectively)	3,314,407	2,571,853
Deferred debt financing costs, net	3,879,035	4,008,704
Management fee receivable	167,031	150,106
Other assets	62,769	14,461
Total assets	<u>\$247,229,993</u>	<u>\$ 219,176,837</u>
LIABILITIES		
Revolving credit facility	\$ 8,900,000	\$ —
SBA debentures payable	64,000,000	50,000,000
Notes payable	48,300,000	48,300,000
Management and incentive fees payable	4,221,591	3,856,962
Accounts payable and accrued expenses	536,355	824,568
Interest and debt fees payable	1,036,073	873,135
Due to manager	418,154	398,154
Total liabilities	<u>\$127,412,173</u>	<u>\$ 104,252,819</u>
Commitments and contingencies (See Note 7)		
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,379,616 and 5,379,616 common shares issued and outstanding, respectively	\$ 5,380	\$ 5,380
Capital in excess of par value	184,851,154	184,851,154
Distribution in excess of net investment income	(25,494,426)	(29,627,578)
Accumulated net realized loss from investments and derivatives	(43,885,384)	(44,327,225)
Net unrealized appreciation on investments and derivatives	4,341,096	4,022,287
Total Net Assets	<u>119,817,820</u>	<u>114,924,018</u>
Total liabilities and Net Assets	<u>\$247,229,993</u>	<u>\$ 219,176,837</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.27</u>	<u>\$ 21.36</u>

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Statements of Operations
(unaudited)

	For the three months ended		For the six months ended	
	August 31		August 31	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest from investments				
Non-control/Non-affiliate investments	\$5,047,571	\$ 3,385,362	\$ 9,755,465	\$ 7,254,826
Payment-in-kind interest income from Non-control/Non-affiliate investments	329,614	296,802	582,542	472,923
Control investments	660,031	1,109,535	1,301,369	2,235,539
Total interest income	6,037,216	4,791,699	11,639,376	9,963,288
Interest from cash and cash equivalents	1,120	3,959	1,714	5,865
Management fee income	375,459	480,750	767,493	978,841
Other income	61,495	111,300	210,830	457,476
Total investment income	6,475,290	5,387,708	12,619,413	11,405,470
EXPENSES				
Interest and debt financing expenses	1,809,516	1,603,581	3,597,103	2,731,436
Base management fees	1,037,186	811,106	2,005,665	1,547,822
Professional fees	275,933	235,191	711,307	566,255
Administrator expenses	250,000	250,000	500,000	500,000
Incentive management fees	789,714	(39,770)	1,170,617	781,352
Insurance	84,127	119,234	168,614	239,229
Directors fees and expenses	55,586	45,000	108,761	96,000
General & administrative	100,568	91,425	224,194	189,786
Other expense	—	75	—	12,035
Total expenses	4,402,630	3,115,842	8,486,261	6,663,915
NET INVESTMENT INCOME	2,072,660	2,271,866	4,133,152	4,741,555
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain from investments	360,161	545,642	441,841	1,074,942
Net unrealized appreciation (depreciation) on investments	703,506	(2,858,805)	318,809	(2,057,943)
Net gain/(loss) on investments	1,063,667	(2,313,163)	760,650	(983,001)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS				
	<u>\$3,136,327</u>	<u>\$ (41,297)</u>	<u>\$ 4,893,802</u>	<u>\$ 3,758,554</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE				
	\$ 0.58	\$ (0.01)	\$ 0.91	\$ 0.79
WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED				
	5,379,616	4,730,116	5,379,616	4,730,116

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Schedule of Investments
August 31, 2014
(unaudited)

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Non-control/Non-affiliated investments—180.5%(b)						
National Truck Protection Co., Inc.(d),(g)	Automotive	Common Stock	1,116	\$ 1,000,000	\$ 1,473,053	1.2%
National Truck Protection Co., Inc.(d)		First Lien Term Loan 15.50%				
	Automotive	Cash, 9/13/2018	\$ 7,737,848	7,737,848	7,737,848	6.5%
Take 5 Oil Change, L.L.C.(d),(g)	Automotive	Common Stock	7,128	712,800	1,460,954	1.2%
		Total Automotive		9,450,648	10,671,855	8.9%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting A-1	2,535	220,900	1,199,055	1.0%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting B-1	1,600	139,424	756,800	0.6%
		Total Building Products		360,324	1,955,855	1.6%
BMC Software, Inc.(d)	Business Services	First Lien Term Loan 5.00%				
		Cash, 9/10/2020	\$ 5,761,667	5,713,227	5,742,077	4.8%
Dispensing Dynamics International(d)	Business Services	Senior Secured Note 12.50%				
	Business Services	Cash, 1/1/2018	\$ 7,000,000	6,897,469	7,560,000	6.3%
Easy Ice, LLC(d)	Business Services	First Lien Term Loan 14.00%				
		(11.00% Cash/3.00% PIK), 3/29/2018	\$ 7,603,228	7,603,231	7,603,228	6.3%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 12.00%				
	Business Services	(11.00% Cash/1.00% PIK), 12/28/2017	\$ 5,792,538	5,709,596	5,792,538	4.8%
Emily Street Enterprises, L.L.C.(g)	Business Services	Warrant Membership Interests	49,318	400,000	385,174	0.3%
Help/Systems Holdings, Inc. (Help/Systems, LLC)(d)	Business Services	First Lien Term Loan 5.50%				
	Business Services	Cash, 6/28/2019	\$ 3,970,000	3,936,883	3,930,300	3.3%
Help/Systems Holdings, Inc. (Help/Systems, LLC)(d)	Business Services	Second Lien Term Loan 9.50% Cash, 6/28/2020	\$ 2,000,000	1,973,818	2,000,000	1.7%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 11.00%				
Vector Controls Holding Co., LLC(d)	Business Services	Cash, 11/29/2017	\$ 5,259,171	5,215,608	5,259,171	4.4%
	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 9,340,061	9,195,124	9,340,061	7.8%
Vector Controls Holding Co., LLC(d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	101	—	87,600	0.1%
		Total Business Services		46,644,956	47,700,149	39.8%
Targus Group International, Inc.(d)	Consumer Products	First Lien Term Loan 11.00%				
	Consumer Products	Cash, 5/24/2016	\$ 3,661,247	3,612,910	3,503,447	2.9%
Targus Holdings, Inc.(d),(g)	Consumer Products	Common Stock	62,413	566,765	—	0.0%
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 10.00% PIK, 6/14/2019	\$ 2,054,158	2,054,158	1,499,104	1.3%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 16.00% Cash, 10/26/2018	\$ 399,152	394,283	375,489	0.3%
		Total Consumer Products		6,628,116	5,378,040	4.5%
Avionte Holdings, LLC(g)	Consumer Services	Common Stock	100,000	100,000	139,000	0.1%
Avionte Holdings, LLC	Consumer Services	First Lien Term Loan 8.25% Cash, 1/8/2019	\$ 3,000,000	2,946,920	3,000,000	2.5%
CFE Acquisition L.L.C.(d)	Consumer Services	First Lien Term Loan 7.50% Cash, 7/31/2015	\$ 996,679	990,974	996,679	0.9%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 9.00% Cash, 12/28/2017	\$ 3,830,000	3,768,632	3,830,000	3.2%
PrePaid Legal Services, Inc.(d)	Consumer Services	First Lien Term Loan 6.25% Cash, 7/1/2019	\$ 3,951,613	3,917,123	3,950,427	3.3%
PrePaid Legal Services, Inc.(d)	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2020	\$ 5,000,000	4,933,418	5,047,000	4.2%
		Total Consumer Services		16,657,067	16,963,106	14.2%
M/C Acquisition Corp., L.L.C.(d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d)	Education	First Lien Term Loan 1.00% Cash, 3/13/14	\$ 2,444,027	1,295,285	100,597	0.1%
		Total Education		1,325,526	100,597	0.1%
Group Dekko, Inc.(d)	Electronics	Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016	\$ 6,935,934	6,935,934	6,554,458	5.5%
		Total Electronics		6,935,934	6,554,458	5.5%
USS Parent Holding Corp.(d),(g)	Environmental	Non Voting Common Stock	765	133,002	244,698	0.2%
USS Parent Holding Corp.(d),(g)	Environmental	Voting Common Stock	17,396	3,025,798	5,566,864	4.7%
		Total Environmental		3,158,800	5,811,562	4.9%
DS Waters of America, Inc.(d)	Food and Beverage	First Lien Term Loan 5.25% Cash, 8/30/2020	\$ 2,481,250	2,459,770	2,487,453	2.2%
TB Corp.(d)	Food and Beverage	First Lien Term Loan 5.75% Cash, 6/19/2018	\$ 5,076,203	5,064,962	5,076,203	4.2%
TB Corp.(d)	Food and Beverage	Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018	\$ 2,546,121	2,517,122	2,546,121	2.1%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 7.75% Cash, 7/16/2017	\$ 2,808,190	2,808,190	2,802,855	2.3%
		Total Food and Beverage		12,850,044	12,912,632	10.8%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00%(10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,486,532	5,390,528	5,486,532	4.6%
IDOC, LLC	Healthcare Services	First Lien Term Loan 9.75% Cash, 8/2/2017	\$13,831,583	13,831,583	13,831,583	11.5%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term A Loan 10.75% Cash, 12/27/2017	\$ 6,246,226	6,154,475	6,121,301	5.1%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term B Loan 10.75% Cash, 12/27/2017	\$ 1,000,000	991,202	980,000	0.8%
Roscoe Medical, Inc.(d),(g)	Healthcare Services	Common Stock	5,000	500,000	446,800	0.4%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,123,141	4,160,100	3.5%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Smile Brands Group Inc.(d)		First Lien Term Loan 7.50% Cash, 8/16/2019	\$ 4,466,250	4,390,964	4,354,594	3.6%
Surgical Specialties Corporation (US), Inc.(d)	Healthcare Services	First Lien Term Loan 7.25% Cash, 8/22/2018	\$ 2,375,000	2,355,380	2,369,063	2.0%
Zest Holdings, LLC(d)	Healthcare Services	First Lien Term Loan 6.50% Cash, 8/16/2020	\$ 4,466,250	4,377,323	4,477,416	3.7%
		Total Healthcare Services		42,114,596	42,227,389	35.2%
McMillin Companies L.L.C.(d),(g)	Homebuilding	Senior Secured Note 0% Cash, 12/31/2013	\$ 550,000	558,434	410,740	0.3%
		Total Homebuilding		558,434	410,740	0.3%
Distribution International, Inc.(d)	Manufacturing	First Lien Term Loan 7.50% Cash, 7/16/2019	\$ 5,940,000	5,888,342	5,940,000	5.0%
		Total Manufacturing		5,888,342	5,940,000	5.0%
HMN Holdco, LLC	Media	First Lien Term Loan 14.00% Cash, 5/16/2019	\$ 9,540,696	9,360,503	9,206,771	7.7%
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,783	—	179,127	0.1%
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests	8,139	—	67,798	0.1%
		Total Media		9,360,503	9,453,696	7.9%
Elyria Foundry Company, L.L.C.(d)	Metals	Senior Secured Note 17.00% (13.00% Cash/4.00% PIK), 9/14/2014	\$ 8,859,616	8,859,614	5,785,311	4.8%
Elyria Foundry Company, L.L.C.(d),(g)	Metals	Warrants to Purchase Limited Liability Company Interests (2008)	7,000	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	5,785,311	4.8%
Network Communications, Inc.(d),(g)	Publishing	Common Stock	380,572	—	—	0.0%
Network Communications, Inc.(d)	Publishing	Unsecured Notes 8.60% PIK, 1/14/2020	\$ 2,657,971	2,299,254	1,488,510	1.2%
		Total Publishing		2,299,254	1,488,510	1.2%
Community Investors, Inc.(g)	Software	Common Stock	1,282	1,282	2,449	0.0%
Community Investors, Inc.	Software	First Lien Term Loan 9.75% Cash, 5/9/2018	\$ 6,896,042	6,784,964	6,896,042	5.8%
Community Investors, Inc.	Software	Revolver Preferred Stock	\$ 166,667	—	—	0.0%
Community Investors, Inc.(g)	Software	Preferred Stock—A Shares	63,463	149,138	121,214	0.1%
Community Investors, Inc.(g)	Software	Preferred Stock—A Shares	135,584	135,584	258,965	0.2%
Identity Automation Systems(g)	Software	Common Stock Class A Units	232,616	232,616	232,616	0.2%
Identity Automation Systems	Software	First Lien Term Loan 10.25% Cash, 8/25/2019	\$ 5,000,000	4,950,321	5,000,000	4.2%
Pen-Link, Ltd.(d)	Software	Second Lien Term Loan 12.50% Cash, 5/26/2019	\$ 11,500,000	11,294,269	11,500,000	9.6%
		Total Software		23,548,174	24,011,286	20.1%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Censis Technologies, Inc.	Technology	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 12,000,000	11,761,173	11,760,000	9.8%
Censis Technologies, Inc.(g),(h)	Technology	Limited Partner Interests	999	999,000	999,000	0.8%
		Total Technology		12,760,173	12,759,000	10.6%
Advanced Air & Heat of Florida, LLC	Utilities	First Lien Term Loan 10.00% Cash, 1/31/2019	\$ 6,105,441	6,022,273	6,105,441	5.1%
		Total Utilities		6,022,273	6,105,441	5.1%
Sub Total Non-control/ Non-affiliated investments				215,422,798	216,229,627	180.5%
Control investments—16.8%(b)						
Saratoga Investment Corp. CLO 2013-1, Ltd.(a),(d),(e),(f)	Structured Finance Securities	Other/Structured Finance Securities 16.01%, 10/17/2023	\$ 30,000,000	16,555,808	20,090,075	16.8%
				16,555,808	20,090,075	16.8%
Sub Total Control investments						
TOTAL INVESTMENTS—197.3%(b)				\$231,978,606	\$ 236,319,702	197.3%

- (a) Represents a non-qualifying investment as defined under Section 55 (a) of the Investment Company Act of 1940, as amended. Non-qualifying assets represent 9.2% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.
- (b) Percentages are based on net assets of \$119,817,820 as of August 31, 2014.
- (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) This investment does not have a stated interest rate that is payable thereon. As a result, the 16.01% interest rate in the table above represents the annualized interest rate currently earned on the investment cost and is based on the current cash interest and other income generated by the investment for the six months ended August 31, 2014 (which was approximately \$1.3 million for the six-month period).
- (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)
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$1,301,369	\$ 767,493	\$ —	\$ 3,534,267

- (g) Non-income producing at August 31, 2014. All of the Company's non-income producing investments at August 31, 2014 were equity investments that did not carry any stated dividend or interest rate payable thereon except with respect to the Company's debt investment in McMillin Companies L.L.C., which was in default under the terms of the debt investment at August 31, 2014. Subsequently, a payment was received by McMillan Companies L.L.C. in excess of the August 31, 2014 fair value thereof.
- (h) Includes securities issued by an affiliate of the company.

Saratoga Investment Corp.
Consolidated Schedule of Investments
February 28, 2014

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Non-control/Non-affiliated investments— 162.1%(b)						
PATS Aircraft, LLC(d)(g)	Aerospace	Common Stock	51,813	\$ 89,636	\$ 89,636	0.1%
PATS Aircraft, LLC(d)	Aerospace	First Lien Term Loan 8.50% Cash, 10/6/2016	\$ 254,598	254,598	254,598	0.2%
		Total Aerospace		344,234	344,234	0.3%
National Truck Protection Co., Inc.(d),(g)	Automotive	Common Stock	1,116	1,000,000	1,152,531	1.0%
National Truck Protection Co., Inc.(d)	Automotive	First Lien Term Loan 15.50% Cash, 9/13/2018	\$ 8,250,000	8,250,000	8,250,000	7.2%
Take 5 Oil Change, L.L.C.(d),(g)	Automotive	Common Stock	7,128	712,800	1,217,747	1.1%
		Total Automotive		9,962,800	10,620,278	9.3%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting A-1	2,535	220,900	552,351	0.5%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting B-1	1,600	139,424	348,624	0.3%
		Total Building Products		360,324	900,975	0.8%
ARSloane Acquisition, LLC(d)	Business Services	First Lien Term Loan 7.50% Cash, 10/1/2019	\$ 997,500	988,200	1,004,981	0.9%
BMC Software, Inc.(d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 6,000,000	5,943,801	6,013,800	5.2%
Dispensing Dynamics International(d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$ 7,000,000	6,882,278	7,525,000	6.5%
Easy Ice, LLC(d)	Business Services	First Lien Term Loan 14.00% (11.00% Cash/3.00% PIK), 3/29/2018	\$ 7,507,024	7,387,970	7,507,024	6.5%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 12.00% (11.00% Cash/1.00% PIK), 12/28/2017	\$ 5,767,983	5,680,703	5,767,983	5.0%
Emily Street Enterprises, L.L.C.(g)	Business Services	Warrant Membership Interests	49,318	400,000	601,679	0.5%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	First Lien Term Loan 5.50% Cash, 6/28/2019	\$ 3,990,000	3,954,385	3,960,075	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	1,972,758	2,000,000	1.7%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 11.00% Cash, 11/29/2017	\$ 6,200,000	6,107,034	6,200,000	5.4%
Trinet HR Corporation (SOI Holdings, Inc.)(d)	Business Services	First Lien Term Loan 5.00% Cash, 8/20/2020	\$ 4,987,500	4,941,335	5,018,921	4.4%
Trinet HR Corporation(SOI Holdings, Inc.)(d)	Business Services	Second Lien Term Loan 8.75% Cash, 2/20/2021	\$ 2,500,000	2,453,145	2,518,750	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	\$ 9,261,074	9,115,415	9,075,853	7.9%
Vector Controls Holding Co., LLC (d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	101	—	136,217	0.1%
		Total Business Services		55,827,024	57,330,283	49.8%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Targus Group International, Inc.(d)	Consumer Products	First Lien Term Loan 11.00% Cash, 5/24/2016	\$ 3,738,369	3,704,766	3,663,602	3.2%
Targus Holdings, Inc.(d),(g)	Consumer Products	Common Stock	62,413	566,765	730,232	0.6%
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 10.00% PIK, 6/14/2019	\$ 2,054,158	2,054,158	1,387,848	1.2%
Targus Holdings, Inc.(d)	Consumer Products	Unsecured Note 16.00% Cash, 10/26/2018	\$ 384,577	379,471	336,505	0.3%
		Total Consumer Products		6,705,160	6,118,187	5.3%
Avionte Holdings, LL(g)	Consumer Services	Common Stock	\$ 100,000	100,000	100,000	0.1%
Avionte Holdings, LLC	Consumer Services	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 3,000,000	2,940,000	3,000,000	2.6%
CFF Acquisition L.L.C.(d)	Consumer Services	First Lien Term Loan 7.50% Cash, 7/31/2015	\$ 1,319,891	1,273,596	1,319,891	1.1%
		First Lien Term Loan 9.00% Cash, 12/28/2017	\$ 4,580,000	4,501,104	4,580,000	4.0%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 6.25% Cash, 7/1/2019	\$ 4,274,194	4,236,035	4,247,694	3.7%
PrePaid Legal Services, Inc.(d)	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2020	\$ 5,000,000	4,931,888	5,044,000	4.4%
		Total Consumer Services		17,982,623	18,291,585	15.9%
M/C Acquisition Corp., L.L.C.(d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d)	Education	First Lien Term Loan 1.00% Cash, 3/13/14	\$ 2,512,184	1,358,250	90,128	0.1%
		Total Education		1,388,491	90,128	0.1%
		Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016	\$ 6,901,547	6,901,547	6,741,431	5.9%
Group Dekko, Inc.(d)	Electronics	Total Electronics		6,901,547	6,741,431	5.9%
USS Parent Holding Corp.(d),(g)	Environmental	Non Voting Common Stock	765	133,002	220,992	0.2%
USS Parent Holding Corp.(d),(g)	Environmental	Voting Common Stock	17,396	3,025,798	5,027,574	4.4%
		Total Environmental		3,158,800	5,248,566	4.6%
DS Waters of America, Inc.(d)	Food and Beverage	First Lien Term Loan 5.25% Cash, 8/30/2020	\$ 2,493,750	2,470,506	2,531,156	2.2%
HOA Restaurant Group, L.L.C.(d)	Food and Beverage	Senior Secured Note 11.25% Cash, 4/1/2017	\$ 4,000,000	3,918,437	4,240,000	3.7%
		First Lien Term Loan 5.75% Cash, 6/19/2018	\$ 5,101,971	5,082,013	5,127,481	4.5%
TB Corp.(d)	Food and Beverage	Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018	\$ 2,543,154	2,513,130	2,555,870	2.2%
TB Corp.(d)	Food and Beverage	First Lien Term Loan 7.75% Cash, 7/16/2017	\$ 2,845,690	2,831,271	2,831,462	2.5%
TM Restaurant Group L.L.C.	Food and Beverage	Total Food and Beverage		16,815,357	17,285,969	15.1%

Table of Contents

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00%(10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,509,782	5,405,325	5,509,782	4.8%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term A Loan 10.75% Cash, 12/27/2017	\$ 6,373,113	6,273,020	6,373,113	5.6%
Oceans Acquisition, Inc.	Healthcare Services	First Lien Term B Loan 10.75% Cash, 12/27/2017	\$ 500,000	490,224	500,000	0.4%
Smile Brands Group Inc.(d)	Healthcare Services	First Lien Term Loan 7.50% Cash, 8/16/2019	\$ 4,488,750	4,406,559	4,488,750	3.9%
Surgical Specialties Corporation (US), Inc.(d)	Healthcare Services	First Lien Term Loan 7.25% Cash, 8/22/2018	\$ 2,437,500	2,415,591	2,449,688	2.1%
Zest Holdings, LLC(d)	Healthcare Services	First Lien Term Loan 6.50% Cash, 8/16/2020	\$ 4,488,750	4,405,073	4,488,750	3.9%
		Total Healthcare Services		23,395,792	23,810,083	20.7%
McMillin Companies L.L.C.(d),(g)	Homebuilding	Senior Secured Note 0% Cash, 12/31/2013	\$ 550,000	558,434	344,355	0.3%
		Total Homebuilding		558,434	344,355	0.3%
Distribution International, Inc.(d)	Manufacturing	First Lien Term Loan 7.50% Cash, 7/16/2019	\$ 5,970,000	5,916,094	5,970,000	5.2%
		Total Manufacturing		5,916,094	5,970,000	5.2%
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	6,644,711	5.8%
Elyria Foundry Company, L.L.C.(d),(g)	Metals	Warrants to Purchase Limited Liability Company Interests (2008)	7,000	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	6,644,711	5.8%
Network Communications, Inc.(d),(g)	Publishing	Common Stock	380,572	—	—	0.0%
Network Communications, Inc.(d)	Publishing	Unsecured Notes 8.60% PIK, 1/14/2020	\$ 2,601,736	2,202,168	1,190,888	1.0%
		Total Publishing		2,202,168	1,190,888	1.0%
Community Investors, Inc.(g)	Software	Common Stock	1,282	1,282	1,449	0.0%
Community Investors, Inc.	Software	First Lien Term Loan 9.75% Cash, 5/9/2018	\$ 6,983,333	6,863,915	6,983,333	6.1%
Community Investors, Inc.	Software	Revolver	\$ 166,667	—	—	0.0%
Community Investors, Inc.(g)	Software	Preferred Stock	135,584	135,584	153,210	0.1%
Pen-Link, Ltd.	Software	Second Lien Term Loan 12.50% Cash, 5/26/2019	\$ 11,500,000	11,280,887	11,500,000	10.0%
		Total Software		18,281,668	18,637,992	16.2%
Advanced Air & Heat of Florida, LLC	Utilities	First Lien Term Loan 10.00% Cash, 1/31/2019	\$ 6,705,441	6,606,457	6,705,441	5.8%
		Total Utilities		6,606,457	6,705,441	5.8%
Sub Total Non-control/ Non-affiliated investments				185,266,607	186,275,106	162.1%

Table of Contents

<u>Company</u>	<u>Industry</u>	<u>Investment Interest Rate / Maturity</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value (c)</u>	<u>% of Net Assets</u>
Control investments—17.0%(b)						
Saratoga Investment Corp. CLO 2013-1, Ltd.(a),(d),(e),(f)	Structured Finance Securities	Other/Structured Finance Securities 15.16%, 10/17/2023	\$30,000,000	16,555,808	19,569,596	17.0%
Sub Total Control investments				<u>16,555,808</u>	<u>19,569,596</u>	<u>17.0%</u>
TOTAL INVESTMENTS—179.1%(b)				<u>\$201,822,415</u>	<u>\$205,844,702</u>	<u>179.1%</u>

- (a) Represents a non-qualifying investment as defined under Section 55 (a) of the Investment Company Act of 1940, as amended. Non-qualifying assets represent 9.5% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.
- (b) Percentages are based on net assets of \$114,924,018 as of February 28, 2014.
- (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) This investment does not have a stated interest rate that is payable thereon. As a result, the 15.16% interest rate in the table above represents the interest rate currently earned on the investment cost and is based on the current cash interest and other income generated by 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:

<u>Company</u>	<u>Purchases</u>	<u>Redemptions</u>	<u>Sales (cost)</u>	<u>Interest Income</u>	<u>Management fee income</u>	<u>Net Realized gains/(losses)</u>	<u>Net Unrealized gains/(losses)</u>
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$3,410,868	\$ 1,775,141	\$ —	\$ 3,013,788

- (g) Non-income producing at February 28, 2014.
- (h) In connection with the restructuring of this investment, the Company agreed to forgo the receipt of any interest payments thereon.

Saratoga Investment Corp.
Consolidated Statements of Changes in Net Assets
(unaudited)

	For the six months ended August 31, 2014	For the six months ended August 31, 2013
INCREASE FROM OPERATIONS:		
Net investment income	\$ 4,133,152	\$ 4,741,555
Net realized gain from investments	441,841	1,074,942
Net unrealized appreciation (depreciation) on investments	318,809	(2,057,943)
Net increase in net assets from operations	<u>4,893,802</u>	<u>3,758,554</u>
Total increase in net assets	4,893,802	3,758,554
Net assets at beginning of period	114,924,018	108,686,761
Net assets at end of period	<u>\$ 119,817,820</u>	<u>\$ 112,445,315</u>
Net asset value per common share	\$ 22.27	\$ 23.77
Common shares outstanding at end of period	5,379,616	4,730,116
Distribution in excess of net investment income	\$ (25,494,426)	\$ (19,781,396)

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Statements of Cash Flows
(unaudited)

	<u>For the six months ended</u> <u>August 31, 2014</u>	<u>For the six months ended</u> <u>August 31, 2013</u>
Operating activities		
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 4,893,802	\$ 3,758,554
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:		
Paid-in-kind interest income	(371,527)	(472,923)
Net accretion of discount on investments	(382,571)	(224,598)
Amortization of deferred debt financing costs	512,481	419,294
Net realized gain from investments	(441,841)	(1,074,942)
Net unrealized (appreciation) depreciation on investments	(318,809)	2,057,943
Proceeds from sale and redemption of investments	24,387,382	54,849,577
Purchase of investments	(53,347,634)	(87,854,349)
(Increase) decrease in operating assets:		
Cash and cash equivalents, reserve accounts	77,442	(4,506,556)
Interest receivable	(742,554)	828,945
Due from manager	—	(4,929)
Management fee receivable	(16,925)	17,331
Other assets	(48,308)	(7,938)
Receivable from unsettled trades	—	316,489
Increase (decrease) in operating liabilities:		
Payable for unsettled trades	—	16,270,000
Management and incentive fees payable	364,629	977,424
Accounts payable and accrued expenses	(288,213)	66,602
Interest and debt fees payable	162,938	487,255
Due to manager	20,000	85,888
NET CASH USED BY OPERATING ACTIVITIES	<u>(25,539,708)</u>	<u>(14,010,933)</u>
Financing activities		
Borrowings on debt	27,600,000	4,000,000
Paydowns on debt	(4,700,000)	(24,300,000)
Issuance of notes	—	48,300,000
Debt financing cost	(382,812)	(2,579,309)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>22,517,188</u>	<u>25,420,691</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(3,022,520)</u>	<u>11,409,758</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	3,293,898	149,025
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 271,378</u>	<u>\$ 11,558,783</u>
Supplemental Information:		
Interest paid during the period	\$ 2,921,683	\$ 1,824,887
Supplemental non-cash information:		
Paid-in-kind interest income	\$ 371,527	\$ 472,923
Net accretion of discount on investments	\$ 382,571	\$ 224,598
Amortization of deferred debt financing costs	\$ 512,481	\$ 419,294

See accompanying notes to consolidated financial statements.

SARATOGA INVESTMENT CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
August 31, 2014
(unaudited)

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 13. Recapitalization Transaction” below.

We are externally managed and advised by our investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant an investment advisory and management agreement dated July 30, 2010 (the “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 (“U.S. 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 U.S. 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;
- 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 in 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.

[Table of Contents](#)

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
- 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 Saratoga Investment Corp. CLO 2013-1, 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.

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.

[Table of Contents](#)

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*, (“ASC 325-40”), based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated 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.

Deferred Debt Financing Costs

Financing costs incurred in connection with our credit facility are deferred and amortized using the straight line method over the life of their respective facilities. Financing costs incurred in connection with our SBA debentures are deferred and amortized using the effective yield method over the life of the debentures.

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

[Table of Contents](#)

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*, (“ASC 740”), 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. During the fiscal year ended February 28, 2014, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2011, 2012 and 2013 federal tax years for the Company remain subject to examination by the IRS. As of August 31, 2014 and February 28, 2014, 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 (“DRIP”) 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. We have the option to satisfy the share requirements of the DRIP through the issuance of new shares of common stock or through open market purchases of common stock by the DRIP plan administrator.

Capital Gains Incentive Fee

The Company records an expense accrual on the consolidated statements of operations, relating to the capital gains incentive fee payable on the consolidated statements of assets and liabilities, 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.

New Accounting Pronouncements

In June 2014, the FASB issued ASU 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*, (“ASU 2014-11”). ASU 2014-11 makes limited changes to the accounting for repurchase agreements, clarifies when repurchase agreements and securities lending transactions should be accounted for as secured borrowings, and requires additional disclosures regarding these types of transactions. The guidance is effective for fiscal years beginning on or after December 15, 2014, and for interim periods within those fiscal years. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statement disclosures.

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

Table of Contents

The following table presents fair value measurements of investments, by major class, as of August 31, 2014 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Middle market loans	\$ —	\$ —	\$ 26,814	\$ 26,814
First lien term loans	—	—	115,589	115,589
Second lien term loans	—	—	29,262	29,262
Senior secured notes	—	—	25,035	25,035
Unsecured notes	—	—	5,909	5,909
Structured finance securities	—	—	20,090	20,090
Equity interest	—	—	13,621	13,621
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 236,320</u>	<u>\$ 236,320</u>

The following table presents fair value measurements of investments, by major class, as of February 28, 2014 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Middle market loans	\$ —	\$ —	\$ 32,390	\$ 32,390
First lien term loans	—	—	80,246	80,246
Second lien term loans	—	—	27,804	27,804
Senior secured notes	—	—	30,032	30,032
Unsecured notes	—	—	5,471	5,471
Structured finance securities	—	—	19,570	19,570
Equity interest	—	—	10,332	10,332
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 205,845</u>	<u>\$ 205,845</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, 2014 (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, 2014	\$32,390	\$ 80,246	\$ 27,804	\$30,032	\$ 5,471	\$ 19,570	\$10,332	\$205,845
Net unrealized gains (losses)	(256)	(395)	(263)	(1,108)	322	520	1,499	319
Purchases and other adjustments to cost	28	40,446	11,175	76	116	—	2,260	54,101
Sales and redemptions	(5,383)	(5,155)	(9,500)	(4,253)	—	—	(96)	(24,387)
Net realized gains/(losses) from investments	35	447	46	288	—	—	(374)	442
Balance as of August 31, 2014	<u>\$26,814</u>	<u>\$115,589</u>	<u>\$ 29,262</u>	<u>\$25,035</u>	<u>\$ 5,909</u>	<u>\$ 20,090</u>	<u>\$13,621</u>	<u>\$236,320</u>

Table of Contents

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>

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) for the six months ended August 31, 2014 and 2013, on investments held as of August 31, 2014 and 2013, was \$734,740 and \$(2,349,502), 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, 2014 were as follows (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average Yield
Middle market loans	\$ 26,814	Market Comparables	Third-Party Bid	97.5 - 100.3	99.4%
First lien term loans	115,589	Market Comparables	Market Yield (%)	5.5% - 15.7%	11.2%
			EBITDA Multiples (x)	3.0x	3.0x
			Third-Party Bid	83.7 - 101.0	96.1%
Second lien term loans	29,262	Market Comparables	Market Yield (%)	8.8% - 14.8%	12.2%
			Third-Party Bid	100.0 - 101.9	101.3%
Senior secured notes	25,035	Market Comparables	Market Yield (%)	11.0% - 42.5%	12.6%
			EBITDA Multiples (x)	5.0x	5.0x
			Third-Party Bid	108.0	108.0%
Unsecured notes	5,909	Market Comparables	Market Yield (%)	13.2% - 22.2%	17.0%
Structured finance securities	20,090	Discounted Cash Flow	Discount Rate (%)	7.5%	7.5%
Equity interests	13,621	Market Comparables	EBITDA Multiples (x)	6.3x - 14.0x	8.1x

[Table of Contents](#)

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2014 were as follows (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average Yield
Middle market loans	\$ 32,390	Market Comparables	Third-Party Bid	99.5 - 100.6	100.1%
First lien term loans	80,246	Market Comparables	Market Yield (%)	5.1% - 15.5%	10.4%
			EBITDA Multiples (x)	3.0x	3.0x
			Third-Party Bid	83.3 - 101.5	97.0%
Second lien term loans	27,804	Market Comparables	Market Yield (%)	9.6% - 12.5%	11.7%
			Third-Party Bid	100.0 - 101.8	101.1%
Senior secured notes	30,032	Market Comparables	Market Yield (%)	11.0% - 42.5%	12.4%
			EBITDA Multiples (x)	5.0x	5.0x
			Third-Party Bid	106.0 - 107.5	107.0%
Unsecured notes	5,471	Market Comparables	Market Yield (%)	12.8% - 20.3%	16.5%
Structured finance securities	19,570	Discounted Cash Flow	Discount Rate (%)	9.0%	9.0%
Equity interests	10,332	Market Comparables	EBITDA Multiples (x)	6.3x - 12.0x	7.8x

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.

The composition of the Company's investments as of August 31, 2014, at amortized cost and fair value were as follows (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
Middle market loans	\$ 26,662	11.5%	\$ 26,814	11.3%
First lien term loans	116,473	50.2	115,589	48.9
Second lien term loans	29,261	12.6	29,262	12.4
Senior secured notes	27,416	11.8	25,035	10.6
Unsecured notes	7,265	3.2	5,909	2.5
Structured finance securities	16,556	7.1	20,090	8.5
Equity interest	8,346	3.6	13,621	5.8
Total	<u>\$ 231,979</u>	<u>100.0%</u>	<u>\$ 236,320</u>	<u>100.0%</u>

[Table of Contents](#)

The composition of the Company's investments as of February 28, 2014, 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	\$ 31,983	15.8%	\$ 32,390	15.7%
First lien term loans	80,734	40.0	80,246	39.0
Second lien term loans	27,540	13.6	27,804	13.5
Senior secured notes	31,304	15.6	30,032	14.6
Unsecured notes	7,149	3.5	5,471	2.7
Structured finance securities	16,556	8.2	19,570	9.5
Equity interest	6,556	3.3	10,332	5.0
Total	<u>\$ 201,822</u>	<u>100.0%</u>	<u>\$ 205,845</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 and partnership interests, 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 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

[Table of Contents](#)

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, 2014. The significant inputs for the valuation model include:

- Default rates: 2.0%
- Recovery rates: 35-75%
- Prepayment rate: 25.0%
- Reinvestment rate / price: L+375bps / \$99.75

The Company and SBIC are both considered to be investment companies for financial reporting purposes and have applied the guidance in Topic 946, “Financial Services — Investment Companies”. There have been no changes to the Company or SBIC’s status as investment companies during the quarterly period ended August 31, 2014.

Note 4. Investment in Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”)

On January 22, 2008, we invested \$30.0 million in all of the outstanding subordinated notes of GSC Investment Corp. CLO 2007, Ltd., a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with GSC Investment Corp. CLO 2007, Ltd. pursuant to which we act as collateral manager to it. The Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. The Saratoga CLO remains 100% owned and managed by Saratoga Investment Corp. We receive a base management fee of 0.25% and a subordinated management fee of 0.25% of the Fee Basis Amount at the beginning of the Collection Period, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of the remaining interest proceeds and principal proceeds, if any, after the subordinated notes have realized the incentive management fee target return of 12.0%, in accordance with the Priority of Payments after making the prior distributions on the relevant payment date. For the three months ended August 31, 2014 and August 31, 2013, we accrued \$0.4 million and \$0.5 million in management fee income, respectively, and \$0.7 million and \$1.1 million in interest income, respectively, from Saratoga CLO. For the six months ended August 31, 2014 and August 31, 2013, we accrued \$0.8 million and \$1.0 million in management fee income, respectively, and \$1.3 million and \$2.2 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, 2014, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$20.1 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, 2014, Saratoga CLO had investments with a principal balance of \$304.4 million and a weighted average spread over LIBOR of 4.1%, and had debt with a principal balance of \$282.4 million with a weighted average spread over LIBOR of 1.8%. 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, 2014, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$24.3 million, which had a present value of approximately \$20.9 million, using a 7.5% discount rate.

Below is certain financial information from the separate unaudited financial statements of Saratoga CLO as of August 31, 2014 and February 28, 2014, pursuant to Rule 3-09 of SEC rules Regulation S-X, and for the three and six months ended August 31, 2014 and August 31, 2013.

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Assets and Liabilities

	As of	
	August 31, 2014 (unaudited)	February 28, 2014
ASSETS		
Investments		
Fair Value Loans (amortized cost of \$302,554,790 and \$299,137,566, respectively)	\$301,019,691	\$ 300,491,077
Total investments at fair value (amortized cost of \$302,554,790 and \$299,137,566, respectively)	301,019,691	300,491,077
Cash and cash equivalents	2,809,601	8,018,933
Receivable from open trades	2,223,951	1,801,266
Interest receivable	1,293,973	1,450,952
Deferred debt financing costs, net	2,054,114	2,166,633
Other assets	91,331	91,336
Total assets	<u>\$309,492,661</u>	<u>\$ 314,020,197</u>
LIABILITIES		
Interest payable	\$ 668,293	\$ 622,476
Payable from open trades	7,427,661	9,445,000
Accrued base management fee	83,515	75,053
Accrued subordinated management fee	83,515	75,053
Class X Notes—SIC CLO 2013-1, Ltd.	—	1,666,666
Class A-1 Notes—SIC CLO 2013-1, Ltd.	170,000,000	170,000,000
Discount on Class A-1 Notes—SIC CLO 2013-1, Ltd.	(1,583,109)	(1,671,864)
Class A-2 Notes—SIC CLO 2013-1, Ltd.	20,000,000	20,000,000
Discount on Class A-2 Notes—SIC CLO 2013-1, Ltd.	(164,100)	(173,300)
Class B Notes—SIC CLO 2013-1, Ltd.	44,800,000	44,800,000
Discount on Class B Notes—SIC CLO 2013-1, Ltd.	(1,065,994)	(1,125,757)
Class C Notes—SIC CLO 2013-1, Ltd.	16,000,000	16,000,000
Discount on Class C Notes—SIC CLO 2013-1, Ltd.	(663,693)	(700,902)
Class D Notes—SIC CLO 2013-1, Ltd.	14,000,000	14,000,000
Discount on Class D Notes—SIC CLO 2013-1, Ltd.	(861,525)	(909,825)
Class E Notes—SIC CLO 2013-1, Ltd.	13,100,000	13,100,000
Discount on Class E Notes—SIC CLO 2013-1, Ltd.	(1,624,225)	(1,715,285)
Class F Notes—SIC CLO 2013-1, Ltd.	4,500,000	4,500,000
Discount on Class F Notes—SIC CLO 2013-1, Ltd.	(590,760)	(623,880)
Subordinated Notes	30,000,000	30,000,000
Total liabilities	<u>\$314,109,578</u>	<u>\$ 317,363,435</u>
Commitments and contingencies		
NET ASSETS		
Ordinary equity, par value \$1.00, 250 ordinary shares authorized, 250 and 250 issued and outstanding, respectively	\$ 250	\$ 250
Accumulated gain (loss)	(3,343,489)	838,567
Net loss	(1,273,678)	(4,182,055)
Total net assets	<u>(4,616,917)</u>	<u>(3,343,238)</u>
Total liabilities and net assets	<u>\$309,492,661</u>	<u>\$ 314,020,197</u>

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Operations

(unaudited)

	For the three months ended		For the six months ended	
	August 31		August 31	
	2014	2013	2014	2013
INVESTMENT INCOME				
Interest from investments	\$ 3,323,320	\$ 4,201,548	\$ 6,480,838	\$ 8,607,828
Interest from cash and cash equivalents	562	1,295	838	4,451
Other income	42,007	325,629	140,930	677,266
Total investment income	<u>3,365,889</u>	<u>4,528,472</u>	<u>6,622,606</u>	<u>9,289,545</u>
EXPENSES				
Interest expense	1,997,155	1,472,007	4,124,139	3,037,996
Professional fees	24,142	208,576	94,360	324,928
Miscellaneous fee expense	3,263	8,681	26,396	160,791
Base management fee	187,730	96,150	383,747	195,768
Subordinated management fee	187,730	384,601	383,747	783,073
Trustee expenses	27,313	23,839	53,928	48,371
Amortization expense	239,963	254,427	479,926	508,854
Total expenses	<u>2,667,296</u>	<u>2,448,281</u>	<u>5,546,243</u>	<u>5,059,781</u>
NET INVESTMENT INCOME	<u>698,593</u>	<u>2,080,191</u>	<u>1,076,363</u>	<u>4,229,764</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain on investments	147,951	213,058	528,570	451,600
Net unrealized depreciation on investments	(1,425,262)	(4,139,484)	(2,878,611)	(3,499,811)
Net loss on investments	<u>(1,277,311)</u>	<u>(3,926,426)</u>	<u>(2,350,041)</u>	<u>(3,048,211)</u>
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ (578,718)</u>	<u>\$ (1,846,235)</u>	<u>\$ (1,273,678)</u>	<u>\$ 1,181,553</u>

Saratoga Investment Corp. CLO 2013-1 Ltd.

Schedule of Investments

August 31, 2014

(unaudited)

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
24 Hour Holdings III LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	3.75%	5/28/2021	\$ 500,000	\$ 495,123	\$ 498,750
Academy, LTD.	Retailers (Except Food and Drugs)	Initial Term Loan (2012)	Loan	4.50%	8/3/2018	1,950,262	1,939,947	1,944,412
Acosta Holdco.	Media	Term B Loan	Loan	5.00%	8/13/2021	2,000,000	1,985,000	2,007,500
Acosta, Inc.	Food Products	Term B Loan (2013)	Loan	4.25%	3/1/2018	4,141,844	4,092,120	4,133,436
Aderant North America, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	5.25%	12/20/2018	3,260,898	3,260,898	3,264,974
Advantage Sales	Business Equipment and Services	Term Loan	Loan	4.25%	7/25/2021	1,935,484	1,934,245	1,916,129
Aegis Toxicology Science Corporation	Healthcare	Term B Loan	Loan	5.50%	2/24/2021	1,000,000	1,000,000	1,003,750
Aeroflex Incorporated	Aerospace and Defense	Tranche B-1 Term Loan	Loan	4.50%	1/18/2019	3,208,854	3,195,483	3,204,843
Akorn, Inc.	Healthcare	Term Loan B	Loan	4.50%	4/16/2021	500,000	497,769	498,750
Albertson's	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	5.50%	8/25/2021	1,000,000	985,000	1,002,080
Alere Inc. (fka IM US Holdings, LLC)	Healthcare	Incremental B-1 Term Loan	Loan	4.25%	6/30/2017	1,949,993	1,949,993	1,939,034
American Tire Distributors	Automotive	Term Loan	Loan	5.75%	6/1/2018	498,988	498,988	499,612
Anchor Glass	Containers/Glass Products	Term Loan	Loan	3.25%	5/16/2021	2,000,000	1,995,000	1,998,760
Applied Systems, Inc.	Business Equipment and Services	Initial Term Loan (First Lien)	Loan	4.25%	1/25/2021	497,500	496,392	494,545
Aramark Corporation	Food Products	LC-2 Facility	Loan	3.69%	7/26/2016	79,187	79,187	78,692
Aramark Corporation	Food Products	LC-3 Facility	Loan	3.69%	7/26/2016	43,961	43,961	43,686
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	3,198,521	3,198,521	3,148,944
ARG IH Corp	Food Services	Term Loan	Loan	4.75%	11/15/2020	497,500	496,469	497,500
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	5.00%	5/24/2019	5,480,487	5,434,635	5,481,638
Auction.Com, LLC	Business Equipment and Services	Term Loan A-4	Loan	4.40%	2/28/2017	914,567	913,866	905,422
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/26/2017	4,454,250	4,442,046	4,454,250
Avast Software	Electronics/Electric	Term Loan	Loan	4.00%	3/20/2020	1,975,000	1,972,619	1,975,000
AZ Chem US Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	12/22/2017	492,466	490,056	493,608
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	New Term Loan	Loan	3.75%	11/20/2019	496,174	495,632	492,041
Bayonne Energy Center	Oil & Gas	Term Loan B	Loan	4.50%	8/19/2021	1,000,000	995,008	1,000,000
Belmond Hotels	Lodging & Casinos	Term Loan	Loan	4.00%	3/19/2021	498,750	496,353	497,503
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	1,496,250	1,493,014	1,479,836
Big Heart Pet Brands (fka Del Monte Corporation)	Food/Drug Retailers	Initial Term Loan	Loan	3.50%	3/9/2020	2,992,500	3,013,405	2,937,648
Biomet, Inc.	Healthcare	Dollar Term B-2 Loan	Loan	3.65%	7/25/2017	1,840,718	1,840,718	1,836,116
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	1,497,500	1,496,307	1,483,558
Bombardier Recreational Products Inc.	Leisure Goods/Activities/Movies	Term B Loan	Loan	4.00%	1/30/2019	754,286	749,824	745,332

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Brickman Group Ltd. LLC, The	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	1,498,750	1,485,345	1,470,963
Brock Holdings III, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	6.00%	3/16/2017	1,949,171	1,966,066	1,950,399
Burlington Coat Factory Warehouse Corporation	Retailers (Except Food and Drugs)	Term B-2 Loan	Loan	4.25%	2/23/2017	2,000,000	1,990,010	1,990,000
BWAY	Leisure Goods/Activities/Movies	Term Loan B	Loan	5.50%	8/14/2020	1,000,000	990,072	1,004,170
Camp International Holding Company	Aerospace and Defense	2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	1,970,023	1,976,344	1,970,023
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	2,090,570	2,095,324	2,083,775
Capsugel Holdings US, Inc.	Drugs	Initial Term Loan	Loan	3.50%	8/1/2018	3,110,785	3,104,540	3,082,259
Catalent Pharma Solutions	Drugs	Initial Term B Loan	Loan	3.50%	9/15/2021	500,000	497,561	499,645
Ceasars Entertainment Corp.	Lodging & Casinos	Term B-7 Loan	Loan	6.25%	3/1/2017	1,000,000	993,142	973,910
Celanese US Holdings LLC	Chemicals/Plastics	Dollar Term C-2 Commitment	Loan	2.25%	10/31/2016	2,165,387	2,188,463	2,165,387
Cengage Learning	Publishing	Term Loan	Loan	7.00%	3/31/2020	2,244,375	2,275,315	2,251,669
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	2,669,226	2,659,702	2,581,996
CHS/Community Health Systems, Inc.	Healthcare	2017 Term E Loan	Loan	3.48%	1/25/2017	1,103,364	1,074,608	1,100,727
CHS/Community Health Systems, Inc.	Healthcare	2021 Term D Loan	Loan	4.25%	1/27/2021	2,940,830	2,853,404	2,939,418
Cinedigm Digital Funding I, LLC	Business Equipment and Services	Term Loan	Loan	3.75%	2/28/2018	702,747	697,657	702,747
CITGO Petroleum	Oil & Gas	Term Loan B	Loan	4.50%	7/29/2021	500,000	495,047	500,625
Covanta Energy Corporation	Ecological Services and Equipment	Term Loan	Loan	3.25%	3/28/2019	331,667	330,203	329,491
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	4.25%	4/7/2021	3,613,444	3,613,444	3,593,859
Crosby US Acquisition Corp.	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.00%	11/23/2020	746,250	745,404	739,720
Crown Castle Operating Company	Telecommunications/ Cellular	Extended Incremental Tranche B-2 Term Loan	Loan	3.00%	1/31/2021	2,447,895	2,445,617	2,422,657
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	783,162	740,581	773,204
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	783,650	741,308	730,299
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	492,315	487,783	489,484
Custom Sensors	Industrial Equipment	Term Loan	Loan	4.50%	6/18/2021	500,000	498,800	497,500
DaVita HealthCare Partners Inc. (fka DaVita Inc.)	Healthcare	Tranche B Term Loan	Loan	4.50%	10/20/2016	500,000	497,534	496,815
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	7.25%	3/19/2018	3,477,807	3,450,350	3,390,862
Dealertrack Technologies, Inc.	Leisure Goods/Activities/Movies	Term B Loan	Loan	3.50%	2/26/2021	477,011	475,941	474,425
Dell International LLC	Retailers (Except Food and Drugs)	Term B Loan	Loan	4.50%	4/29/2020	1,985,000	1,974,309	1,971,363
Delos Finance SARL	Financial Intermediaries	Term Loan	Loan	3.50%	3/6/2021	500,000	497,626	495,625
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	4.75%	7/30/2021	1,000,000	995,017	994,290
Deluxe Entertainment Service Group, Inc.	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	6.50%	2/28/2020	1,993,750	1,995,044	1,983,781
Devix	Chemicals/Plastics	Term Loan	Loan	4.25%	4/30/2021	250,000	247,593	250,000
Devix	Chemicals/Plastics	Term Loan (Second Lien)	Loan	8.00%	5/2/2022	500,000	497,630	498,000

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Diamond Resorts International	Lodging & Casinos	Term Loan	Loan	5.50%	5/9/2021	1,000,000	995,141	1,002,500
Drew Marine Group Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	11/19/2020	1,497,500	1,503,089	1,503,116
Dunkin' Brands, Inc.	Food Services	Term B-4 Loan	Loan	3.25%	2/7/2021	3,942,384	3,933,660	3,857,150
Education Management LLC	Leisure							
	Goods/Activities/Movies	Tranche C-2 Term Loan	Loan	4.25%	6/1/2016	3,860,726	3,759,583	2,440,172
EIG Investors Corp.	Business Equipment and Services	Term Loan	Loan	5.00%	11/8/2019	992,500	988,161	991,259
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	8/1/2021	500,000	497,515	497,500
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	7.75%	8/1/2022	500,000	497,500	496,250
EnergySolutions, LLC	Oil & Gas	Term Loan B	Loan	6.75%	5/29/2020	1,000,000	980,709	1,004,380
Enviromental Resources Management	Business Equipment and Services	Term Loan	Loan	5.00%	5/16/2021	1,000,000	990,621	1,000,000
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	980,044	976,268	979,799
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	995,000	990,648	991,687
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	4.75%	4/15/2021	3,000,000	2,985,847	2,986,260
First Data Corporation		2017 Second New Dollar						
	Financial Intermediaries	Term Loan	Loan	4.15%	3/24/2017	2,111,028	2,015,273	2,094,541
First Data Corporation	Financial Intermediaries	2018 Dollar Term Loan	Loan	4.15%	3/23/2018	2,290,451	2,228,007	2,254,674
Fitness International, LLC	Leisure							
	Goods/Activities/Movies	Term Loan B	Loan	5.50%	7/1/2020	1,500,000	1,488,994	1,483,125
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	3.75%	6/28/2019	1,992,500	1,992,008	1,972,954
Four Seasons Holdings Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	3.50%	6/29/2020	496,250	496,250	492,776
Garda World Security Corporation	Business Equipment and Services	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	202,176	201,269	200,787
Garda World Security Corporation	Business Equipment and Services	Term B Loan	Loan	4.00%	11/6/2020	790,324	786,877	784,895
Gardner Denver, Inc.	Oil & Gas	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	2,488,750	2,478,058	2,470,358
Gates Global LLC	Leisure							
	Goods/Activities/Movies	Term Loan (First Lien)	Loan	4.25%	7/2/2021	500,000	495,109	494,030
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.25%	5/29/2020	857,504	842,443	842,498
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	4,732,124	4,715,732	4,669,424
Global Tel*Link Corporation	Business Equipment and Services	Term Loan (First Lien)	Loan	5.00%	5/26/2020	2,770,614	2,761,855	2,749,834
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	4.75%	4/30/2019	4,000,000	3,951,481	4,006,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	3,482,500	3,466,019	3,449,138
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.00%	8/2/2019	493,750	491,629	499,922
HCA Inc.	Healthcare	Tranche B-4 Term Loan	Loan	2.94%	5/1/2018	5,691,680	5,400,424	5,664,132
Hertz Corporation, The	Automotive	Tranche B-1 Term Loan	Loan	3.75%	3/12/2018	2,955,000	2,989,719	2,938,393
Hologic, Inc.	Healthcare	Refinancing Tranche A Term Loan	Loan	2.15%	8/1/2017	2,250,000	2,245,260	2,240,865

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Hoofmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	5.25%	5/8/2020	2,000,000	1,980,684	1,995,000
Huntsman International LLC	Chemicals/Plastics	Extended Term B Loan	Loan	2.69%	4/19/2017	3,880,270	3,852,485	3,863,313
Husky Injection	Business Equipment and Services	Term Loan B	Loan	4.25%	6/30/2021	500,000	497,075	497,500
Ikaria, Inc.	Healthcare	Initial Term Loan (First Lien)	Loan	5.00%	2/12/2021	471,910	469,803	471,419
Infor (US), Inc. (fka Lawson Software Inc.)	Business Equipment and Services	Tranche B-5 Term Loan	Loan	3.75%	6/30/2020	2,222,406	2,203,207	2,188,514
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	4.00%	3/5/2021	970,069	970,068	939,269
Jazz Acquisition	Aerospace and Defense	First Lien 6/14	Loan	4.50%	6/19/2021	500,000	498,754	497,500
JFB Firth Rixson Inc.	Industrial Equipment	2013 Replacement Dollar Term Facility Loan	Loan	4.25%	6/30/2017	2,551,360	2,541,993	2,548,170
Kinetic Concepts, Inc. Koosharem, LLC	Healthcare Business Equipment and Services	Dollar Term D-1 Loan Term Loan	Loan	4.00%	5/4/2018	487,607	472,811	485,778
La Quinta Holdings, Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	4.00%	4/14/2021	480,952	478,688	477,648
Mauser Holdings, Inc.	Containers/Glass Products	Term Loan	Loan	4.50%	8/2/2021	500,000	497,526	496,250
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term B Loan	Loan	3.75%	1/28/2020	493,750	493,750	488,284
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	3.75%	1/28/2020	500,000	497,573	495,940
Microsemi Corporation	Electronics/Electric	Incremental Term Loan	Loan	3.50%	2/19/2020	2,393,981	2,389,500	2,376,027
Microsemi Corporation	Electronics/Electric	Term Loan	Loan	3.75%	2/19/2020	172,170	172,170	171,524
Millenium Laboratories	Drugs	Term Loan	Loan	5.25%	4/16/2021	1,500,000	1,485,513	1,492,500
Mitel US Holdings, Inc.	Telecommunications	Term Loan	Loan	5.25%	1/31/2020	214,164	213,177	214,431
MPH Acquisition Holdings LLC	Health Insurance	Term Loan	Loan	4.00%	3/31/2021	486,364	485,222	482,628
MSC Software Corp.	Business Equipment and Services	Term Loan	Loan	4.00%	5/29/2020	1,000,000	990,321	1,001,250
National CineMedia, LLC	Leisure Goods/Activities/Movies	Term Loan (2013)	Loan	2.95%	11/26/2019	1,086,207	1,056,330	1,064,483
National Veterinary Associates	Healthcare	Term Loan B	Loan	4.75%	8/14/2021	1,000,000	995,094	1,002,500
National Vision, Inc.	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	6.75%	3/11/2022	250,000	249,690	244,063
Newsday, LLC	Publishing	Term Loan	Loan	3.69%	10/12/2016	2,215,385	2,213,965	2,215,385
Nortek, Inc.	Electronics/Electric	Term B Loan	Loan	3.75%	10/30/2020	1,000,000	997,657	994,170
Novelis, Inc.	Conglomerate	Initial Term Loan	Loan	3.75%	3/10/2017	4,832,525	4,844,857	4,820,444
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	4.00%	12/28/2018	488,750	488,750	486,712
NRG Energy, Inc.	Utilities	Term Loan (2013)	Loan	2.75%	7/2/2018	3,880,875	3,858,512	3,820,062
NuSil Technology LLC.	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	802,457	802,457	786,408
OEP Pearl Dutch Acquisition B.V.	Chemicals/Plastics	Initial BV Term Loan	Loan	6.50%	3/30/2018	136,371	135,141	136,882
Ollie's Bargain Outlet	Retailers (Except Food and Drugs)	Term Loan	Loan	6.00%	9/30/2019	982,101	977,482	982,101
On Assignment, Inc.	Business Equipment and Services	Initial Term B Loan	Loan	3.50%	5/15/2020	1,311,364	1,302,764	1,305,633
Onex Carestream Finance LP	Healthcare	Term Loan (First Lien 2013)	Loan	5.00%	6/7/2019	4,282,361	4,263,330	4,279,021
OpenLink International LLC	Business Equipment and Services	Term B Loan	Loan	6.25%	10/27/2017	975,000	975,000	975,000
Orbitz Worldwide, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	4.50%	4/15/2021	500,000	498,785	498,905
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Borrowing	Loan	4.25%	6/24/2019	1,455,477	1,443,484	1,419,090

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Business Equipment and Services	Term Loan (First Lien)	Loan	5.00%	10/30/2020	995,000	990,753	998,313
Paragon Offshore Finance	Oil & Gas	Term Loan B	Loan	3.75%	7/18/2021	750,000	746,314	738,750
Patheon Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	4.25%	3/11/2021	3,000,000	2,992,669	2,960,640
PetCo Animal Supplies, Inc.	Retailers (Except Food and Drugs)	New Loans	Loan	4.00%	11/24/2017	1,477,041	1,476,121	1,471,502
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Conglomerate	2013 Term Loan	Loan	4.00%	12/5/2018	1,950,300	1,925,362	1,941,251
Phillips-Medisize Corporation	Healthcare	Term Loan	Loan	4.75%	6/16/2021	500,000	497,575	498,125
Pinnacle Foods Finance LLC	Food Products	New Term Loan G	Loan	3.25%	4/29/2020	2,581,332	2,575,965	2,551,337
Planet Fitness Holdings LLC	Leisure	Term Loan	Loan	4.75%	3/31/2021	1,496,250	1,489,018	1,492,973
Polymer Group, Inc.	Goods/Activities/Movies	Initial Loan	Loan	5.25%	12/19/2019	497,500	495,282	497,500
Prestige Brands, Inc.	Chemicals/Plastics	Term B-1 Loan	Loan	3.75%	1/31/2019	435,606	430,604	434,081
Prestige Brands, Inc.	Leisure	Term Loan	Loan	4.50%	9/3/2021	1,000,000	1,000,000	1,005,000
Pro Mach, Inc.	Goods/Activities/Movies	Term Loan	Loan	4.50%	7/6/2017	1,891,863	1,883,473	1,895,420
Progressive Waste Solutions Ltd.	Industrial Equipment	Term Loan	Loan	4.50%	7/6/2017	1,891,863	1,883,473	1,895,420
QoL Meds	Ecological Services and Equipment	Term B Loan	Loan	3.00%	10/24/2019	496,222	496,222	496,013
Quintiles Transnational Corp.	Healthcare	Term Loan B	Loan	5.50%	7/15/2020	2,000,000	1,990,049	2,005,000
Redtop Acquisitions Limited	Conglomerate	Term B-3 Loan	Loan	3.75%	6/8/2018	3,681,541	3,649,943	3,652,383
Rexnord LLC/RBS Global, Inc.	Initial Dollar Term Loan (First Lien)	Loan	Loan	4.50%	12/3/2020	497,500	494,218	497,913
Reynolds Group Holdings Inc.	Electronics/Electric	Term B Loan	Loan	4.00%	8/21/2020	1,655,137	1,655,137	1,646,630
Rocket Software, Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.00%	12/1/2018	1,970,100	1,970,100	1,962,929
Rovi Solutions Corporation / Rovi Guides, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	5.75%	2/8/2018	1,916,674	1,896,090	1,916,080
RPI Finance Trust	Electronics/Electric	Tranche B-3 Term Loan	Loan	3.50%	3/29/2019	1,500,000	1,492,617	1,486,245
SBP Holdings LP	Drugs	Term B-2 Term Loan	Loan	3.25%	5/9/2018	5,233,797	5,212,118	5,219,091
Scitor Corporation	Industrial Equipment	Term Loan (First Lien)	Loan	5.00%	3/27/2021	1,000,000	995,167	1,001,670
Sensata Technologies B.V./Sensata Technology Finance Company, LLC	Business Equipment and Services	Term Loan	Loan	5.00%	2/15/2017	463,977	462,503	459,337
Sensata Technologies B.V./Sensata Technology Finance Company, LLC	Industrial Equipment	Term Loan	Loan	3.25%	5/13/2019	1,517,088	1,517,088	1,515,540
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	4.75%	5/9/2017	1,935,040	1,929,701	1,934,228
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.40%	1/31/2017	2,000,000	1,980,369	1,970,000
Shearers Foods	Food Services	Term Loan (First Lien)	Loan	4.50%	6/30/2021	1,000,000	997,522	995,000
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	6.50%	3/30/2018	772,768	759,467	775,666
Sophia, L.P.	Electronics/Electric	Term B Loan	Loan	4.00%	7/19/2018	923,543	912,021	917,771
Southwire Company, LLC (f.k.a Southwire Company)	Building and Development	Initial Term Loan	Loan	3.25%	2/10/2021	498,750	497,580	493,972
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	5.25%	4/10/2020	3,138,397	3,123,509	3,067,783
SS&C Technologies Holdings Europe S.A.R.L.	Business Equipment and Services	2013 Replacement Term B-2 Loan	Loan	3.25%	6/7/2019	523,600	518,916	522,291
SS&C Technologies, Inc., /Sunshine Acquisition II, Inc.	Business Equipment and Services	2013 Replacement Term B-1 Loan	Loan	3.25%	6/7/2019	54,165	53,675	54,030

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	4.75%	3/19/2021	997,500	987,960	996,672
STHI Holding	Healthcare	Term Loan	Loan	4.50%	8/6/2021	1,000,000	995,003	995,630
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche C Term Loan	Loan	3.90%	2/28/2017	285,352	282,591	285,232
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche E Term Loan	Loan	4.00%	3/9/2020	3,707,953	3,610,543	3,689,413
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	252,782	244,705	218,183
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	479,913	475,748	474,816
Taminco Global Chemical Corporation	Chemicals/Plastics	Initial Tranche B-3 Dollar Term Loan	Loan	3.25%	2/15/2019	1,466,493	1,457,915	1,455,495
Team Health, Inc.	Healthcare	Tranche B Term Loan	Loan	3.75%	6/29/2018	4,365,000	4,349,553	4,343,175
TGI Friday's	Food Services	Term Loan B	Loan	5.25%	7/15/2020	1,000,000	995,076	995,630
TransDigm Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	4,871,784	4,881,456	4,818,341
TransUnion	Financial Intermediaries	Term Loan	Loan	4.00%	4/9/2021	498,750	497,586	495,508
Tricorbraun Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	1,902,083	1,893,866	1,897,328
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare	New Tranche B Term Loan	Loan	4.50%	6/6/2019	490,047	481,472	485,759
Twin River Management	Lodging & Casinos	Term Loan B	Loan	5.25%	7/10/2020	1,000,000	1,002,256	999,170
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Delayed Draw Loan	Loan	6.00%	7/28/2017	159,332	158,264	158,536
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Term B Loan	Loan	6.00%	7/28/2017	935,857	930,087	931,177
United Surgical Partners International, Inc.	Healthcare	New Tranche B Term Loan	Loan	4.75%	4/3/2019	2,444,124	2,418,323	2,431,904
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	5.00%	6/30/2017	3,864,954	3,864,526	3,854,325
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	2,962,612	2,945,669	2,938,290
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	3.75%	2/13/2019	2,545,588	2,536,761	2,532,861
Verint Systems Inc.	Business Equipment and Services	Term Loan	Loan	3.50%	9/6/2019	1,264,058	1,259,071	1,258,370
Vertafore, Inc.	Business Equipment and Services	Term Loan (2013)	Loan	4.25%	10/3/2019	2,881,003	2,881,003	2,873,800
Visant Corporation (fka Jostens)	Leisure	Tranche B Term Loan (2011)	Loan	5.25%	12/22/2016	3,604,551	3,604,551	3,584,726
Vouvray	Industrial Equipment	Term Loan	Loan	5.00%	6/28/2021	500,000	497,539	500,000
Washington Inventory Service	Business Equipment and Services	U.S. Term Loan (First Lien)	Loan	6.75%	12/20/2018	1,896,034	1,918,563	1,888,924
Wendy's International, Inc	Food Services	Term B Loan	Loan	3.25%	5/15/2019	677,050	670,886	673,184
West Corporation	Telecommunications	Term B-10 Loan	Loan	3.25%	6/30/2018	2,571,560	2,610,717	2,535,738
						\$ 302,544,790	\$ 301,019,691	

Saratoga Investment Corp. CLO 2013-1, Ltd.

Schedule of Investments

February 28, 2014

<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal</u>	<u>Cost</u>	<u>Fair Value</u>
Academy, LTD.	Retailers (Except Food and Drugs)	Initial Term Loan (2012)	Loan	4.50%	8/3/2018	\$1,960,187	\$1,948,853	\$1,969,969
Acosta, Inc.	Food Products	Term B Loan (2013)	Loan	4.25%	3/2/2018	4,162,740	4,101,035	4,177,310
Aderant North America, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	6.25%	12/20/2018	3,473,750	3,470,186	3,482,434
Aegis Toxicology Sciences Corporation	Healthcare	Initial Term Loan (First Lien)	Loan	5.50%	2/24/2021	1,000,000	990,000	990,000
Aegis Toxicology Sciences Corporation	Healthcare	Initial Term Loan (Second Lien)	Loan	9.50%	8/24/2021	500,000	492,500	492,500
Aeroflex Incorporated	Aerospace and Defense	Tranche B-1 Term Loan	Loan	4.50%	11/9/2019	3,208,854	3,194,690	3,223,550
Akorn, Inc.	Healthcare	Term Loan B	Loan	4.50%	11/13/2020	500,000	497,500	503,125
Alere Inc. (fka IM US Holdings, LLC)	Healthcare	Incremental B-1 Term Loan	Loan	4.25%	6/30/2017	1,960,000	1,930,566	1,968,173
Applied Systems, Inc.	Business Equipment and Services	Term Loan	Loan	4.25%	12/8/2016	500,000	498,750	498,750
Aramark Corporation	Food Products	LC-2 Facility	Loan	3.69%	7/26/2016	79,187	79,187	79,206
Aramark Corporation	Food Products	LC-3 Facility	Loan	3.69%	7/26/2016	43,961	43,961	43,971
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	3,206,537	3,206,537	3,207,307
Ardagh Holdings USA Inc. (Ardagh Packaging Finance S.A.)	Containers/Glass Products	Dollar Term Loan	Loan	4.25%	12/17/2019	1,000,000	995,109	1,002,500
ARG IH Corporation	Food Services	Term Loan	Loan	5.00%	11/15/2020	500,000	498,797	502,500
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	4.50%	5/24/2019	5,508,783	5,462,695	5,516,660
Auction.Com, LLC	Business Equipment and Services	Term Loan A-4	Loan	4.66%	2/28/2017	980,651	979,812	970,845
Autotrader.com, Inc.	Automotive	Tranche B-1 Term Loan	Loan	4.00%	12/15/2016	3,791,778	3,791,778	3,805,997
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/24/2017	4,875,000	4,861,403	4,875,000
AZ Chem US Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	12/22/2017	1,355,941	1,329,859	1,362,720
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	New Term Loan	Loan	3.75%	11/20/2019	498,725	498,126	500,715
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	1,500,000	1,496,250	1,495,500
Big Heart Pet Brands (fka Del Monte Corporation)	Food/Drug Retailers	Initial Term Loan	Loan	3.50%	3/9/2020	3,000,000	3,022,866	2,999,250
Biomet, Inc.	Healthcare	Dollar Term B-2 Loan	Loan	3.65%	7/25/2017	1,970,137	1,970,137	1,972,797
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	500,000	497,592	502,750
Bombardier Recreational Products Inc.	Leisure Goods/Activities/Movies	Term B Loan	Loan	4.00%	1/30/2019	754,286	748,080	756,647
Brickman Group Ltd. LLC, The	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	250,000	248,750	250,937

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Brock Holdings III, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	6.75%	3/16/2017	1,959,839	1,976,826	1,967,188
Burlington Coat Factory Warehouse Corporation	Retailers (Except Food and Drugs)	Term B-2 Loan	Loan	4.25%	2/23/2017	2,660,377	2,653,889	2,675,675
C.H.I. Overhead Doors, Inc.	Building and Development	Term Loan (First Lien)	Loan	5.50%	3/18/2019	2,739,013	2,692,934	2,745,861
Camp International Holding Company	Aerospace and Defense	2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	990,000	990,000	999,900
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	2,137,369	2,141,920	2,142,712
Capstone Logistics, LLC	Business Equipment and Services	Term Note A	Loan	6.50%	9/16/2016	2,658,626	2,637,550	2,618,899
Capsugel Holdings US, Inc.	Drugs	Initial Term Loan	Loan	3.50%	8/1/2018	3,145,521	3,138,959	3,141,589
Celanes US Holdings LLC	Chemicals/Plastics	Dollar Term C-2 Commitment	Loan	2.25%	10/31/2016	2,176,323	2,201,894	2,192,254
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	2,682,707	2,672,727	2,666,369
CHS/Community Health Systems, Inc.	Healthcare	2017 Term E Loan	Loan	3.48%	1/25/2017	1,108,908	1,082,718	1,113,987
CHS/Community Health Systems, Inc.	Healthcare	2021 Term D Loan	Loan	4.25%	1/27/2021	2,955,608	2,862,024	2,980,228
Cinedigm Digital Funding I, LLC	Business Equipment and Services	Term Loan	Loan	3.75%	2/28/2018	825,121	820,892	825,121
Covanta Energy Corporation	Ecological Services and Equipment	Term Loan	Loan	3.50%	3/28/2019	491,250	489,468	492,788
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	5.00%	2/13/2017	4,622,500	4,611,092	4,622,500
Crosby US Acquisition Corp.	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.00%	11/23/2020	750,000	749,094	748,312
Crown Castle Operating Company	Telecommunications/ Cellular	Extended Incremental Tranche B-2 Term Loan	Loan	3.25%	1/31/2019	2,460,196	2,441,025	2,460,316
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	787,658	738,102	734,491
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	783,162	732,061	657,856
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	500,000	495,000	502,815
DaVita HealthCare Partners Inc. (fka DaVita Inc.)	Healthcare	Tranche B Term Loan	Loan	4.50%	10/20/2016	3,909,320	3,909,320	3,927,655
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	7.25%	3/19/2018	3,831,595	3,792,824	3,735,805
DealerTrack Technologies, Inc.	Computers & Electronics	Term Loan	Loan	3.50%	2/28/2021	500,000	498,750	498,750
Dell International LLC	Retailers (Except Food and Drugs)	Term B Loan	Loan	4.50%	4/29/2020	1,995,000	1,982,818	1,988,935
Delos Finance S.à r.l.	Leasing	Loan	Loan	3.50%	2/26/2021	500,000	497,500	497,500
Deluxe Entertainment Services Group Inc.	Media	Initial Term Loan	Loan	6.50%	2/28/2020	1,000,000	1,000,000	1,000,000
Digitalglobe, Inc.	Ecological Services and Equipment	Term Loan	Loan	3.75%	1/31/2020	248,125	248,125	247,815
Drew Marine Group Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	11/19/2020	500,000	499,397	502,500

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Dunkin' Brands, Inc.	Food Services	Term B-4 Loan	Loan	3.25%	2/7/2021	3,956,731	3,946,925	3,936,948
DynCorp International Inc.	Aerospace and Defense	Term Loan	Loan	6.25%	7/7/2016	486,442	482,619	488,573
Education Management LLC	Leisure Goods/Activities/Movies	Tranche C-2 Term Loan	Loan	4.31%	6/1/2016	3,882,152	3,746,734	3,544,405
EIG Investors Corp.	Business Equipment and Services	Term Loan	Loan	5.00%	11/9/2019	997,500	992,713	1,003,734
Energy Transfer Equity, L.P.	Oil & Gas	Loan	Loan	3.25%	12/2/2019	1,000,000	997,599	998,750
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	492,516	488,615	493,900
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	1,000,000	995,084	1,002,500
Federal-Mogul Corporation	Automotive	Tranche B Term Loan	Loan	2.14%	12/29/2014	2,220,981	2,187,068	2,202,747
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	2.14%	12/28/2015	1,307,032	1,270,847	1,296,301
First Data Corporation	Financial Intermediaries	2017 Second New Dollar Term Loan	Loan	4.20%	3/24/2017	2,111,028	2,010,799	2,109,276
First Data Corporation	Financial Intermediaries	2018 Dollar Term Loan	Loan	4.20%	3/23/2018	2,290,451	2,231,370	2,292,741
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	4.25%	6/28/2019	997,500	995,122	1,006,438
Four Seasons Holdings Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	3.50%	6/27/2020	498,750	498,750	498,750
Garda World Security Corporation	Business Equipment and Services	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	203,194	202,218	203,363
Garda World Security Corporation	Business Equipment and Services	Term B Loan	Loan	4.00%	11/6/2020	794,306	790,489	794,965
Gardner Denver, Inc.	Oil & Gas	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	1,496,250	1,485,394	1,489,337
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.50%	5/31/2020	868,414	852,908	868,258
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	4,740,112	4,722,664	4,725,892
Global Tel*Link Corporation	Business Equipment and Services	Term Loan (First Lien)	Loan	5.00%	5/23/2020	1,920,175	1,915,905	1,900,014
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	4.75%	4/30/2019	4,000,000	3,941,039	4,037,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	3,500,000	3,482,803	3,489,080
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.00%	8/4/2019	500,000	497,500	500,780
HCA Inc.	Healthcare	Tranche B-4 Term Loan	Loan	2.94%	5/1/2018	5,720,353	5,390,148	5,713,947
Hertz Corporation, The	Automotive	Tranche B-1 Term Loan	Loan	3.75%	3/11/2018	2,970,000	3,005,791	2,973,683
Hologic, Inc.	Healthcare	Refinancing Tranche A Term Loan	Loan	2.19%	8/1/2017	2,312,500	2,307,973	2,313,425
Hunter Defense Technologies, Inc.	Aerospace and Defense	Term Loan	Loan	3.45%	8/22/2014	3,470,285	3,460,723	3,262,068

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Huntsman International LLC		Extended Term B Loan	Loan	2.73%	4/19/2017	3,920,000	3,892,467	3,919,020
Ikaria, Inc.	Chemicals/Plastics Healthcare	Initial Term Loan (First Lien)	Loan	5.00%	2/12/2021	500,000	497,515	502,815
Infor (US), Inc. (fka Lawson Software Inc.)	Business Equipment and Services	Tranche B-5 Term Loan	Loan	3.75%	6/3/2020	1,776,183	1,758,861	1,772,488
Inventiv Health, Inc. (fka Ventive Health, Inc)	Conglomerate	Consolidated Term Loan	Loan	7.50%	8/4/2016	492,090	492,090	491,105
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	4.00%	3/7/2018	972,500	972,500	972,656
JFB Firth Rixson Inc.	Industrial Equipment	2013 Replacement Dollar Term Facility Loan	Loan	4.25%	6/30/2017	2,564,311	2,554,534	2,568,054
Kinetic Concepts, Inc.	Healthcare	Dollar Term D-1 Loan	Loan	4.00%	5/4/2018	490,057	475,404	492,508
La Quinta Intermediate Holdings L.L.C.		Initial Term Loan	Loan	4.00%	2/19/2021	500,000	500,000	500,000
Michaels Stores, Inc.	Gaming And Hotels Retailers (Except Food and Drugs)	Term B Loan	Loan	3.75%	1/28/2020	496,250	496,250	497,302
Microsemi Corporation	Electronics/Electric	Incremental Term Loan	Loan	3.75%	2/19/2020	498,750	498,750	499,373
Microsemi Corporation	Electronics/Electric	Term Loan	Loan	3.50%	2/19/2020	2,393,981	2,389,463	2,398,482
Mitel US Holdings, Inc.	Telecommunications	Term Loan	Loan	5.25%	1/31/2020	250,000	248,753	252,083
National CineMedia, LLC	Leisure Goods/Activities/Movies	Term Loan (2013)	Loan	2.95%	11/26/2019	1,086,207	1,054,177	1,082,134
Newsday, LLC	Publishing	Term Loan	Loan	3.69%	10/12/2016	2,215,385	2,213,416	2,215,385
Novelis, Inc.	Conglomerate	Initial Term Loan	Loan	3.75%	3/10/2017	4,857,520	4,868,347	4,873,452
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	4.00%	12/28/2018	490,833	490,833	493,597
NRG Energy, Inc.	Utilities	Term Loan (2013)	Loan	2.75%	7/1/2018	3,900,525	3,875,534	3,872,168
NuSil Technology LLC	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	809,163	809,163	799,558
OEP Pearl Dutch Acquisition B.V.		Initial BV Term Loan	Loan	6.50%	3/30/2018	142,422	140,466	143,846
On Assignment, Inc.	Chemicals/Plastics Business Equipment and Services	Initial Term B Loan	Loan	3.50%	5/15/2020	1,311,364	1,303,125	1,312,190
Onex Carestream Finance LP		Term Loan (First Lien 2013)	Loan	5.00%	2/25/2017	4,531,159	4,511,264	4,582,135
OpenLink International, Inc.	Healthcare Computers & Electronics	Replacement Term Loan	Loan	6.25%	10/30/2017	980,000	980,000	980,000
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Loan	Loan	5.50%	6/22/2019	1,496,212	1,488,641	1,509,675
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Business Equipment and Services	Borrowing Term Loan (First Lien)	Loan	5.00%	10/30/2020	1,000,000	995,186	1,008,750
Patheon Inc.	Healthcare	Term Loan	Loan	4.25%	3/11/2021	3,000,000	2,992,500	2,990,640
PetCo Animal Supplies, Inc.	Retailers (Except Food and Drugs)	New Loans	Loan	4.00%	11/24/2017	1,484,694	1,483,250	1,489,103
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Conglomerate	2013 Term Loan	Loan	4.00%	12/5/2018	1,960,200	1,936,226	1,967,845
Pinnacle Foods Finance LLC		New Term Loan G	Loan	3.25%	4/29/2020	4,962,500	4,951,514	4,942,352
Polymer Group, Inc.	Food Products	Initial Loan	Loan	5.25%	12/19/2019	500,000	497,500	501,875
Prestige Brands, Inc.	Chemicals/Plastics Drugs	Term B-1 Loan	Loan	3.75%	1/31/2019	435,606	430,195	437,022
Pro Mach, Inc.	Industrial Equipment	Term Loan	Loan	4.50%	7/6/2017	1,945,655	1,934,699	1,955,383

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Progressive Waste Solutions Ltd.	Ecological Services and Equipment	Term B Loan	Loan	3.00%	10/24/2019	498,741	498,741	500,486
Quintiles Transnational Corp.	Conglomerate	Term B-3 Loan	Loan	3.75%	6/8/2018	3,681,541	3,646,328	3,685,186
Redtop Acquisitions Limited	Electronics/Electric	Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	500,000	496,369	502,915
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	1,663,476	1,663,476	1,667,035
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.00%	12/1/2018	1,980,000	1,980,000	1,993,365
Rocket Software, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	5.75%	2/8/2018	1,960,025	1,934,083	1,960,515
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche A-2 Loan	Loan	2.45%	3/29/2017	1,562,552	1,552,098	1,562,552
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	3.50%	3/29/2019	1,344,450	1,339,560	1,341,088
RPI Finance Trust	Drugs	Term B-2 Term Loan	Loan	3.25%	5/9/2018	5,308,218	5,283,397	5,339,165
Scitor Corporation	Business Equipment and Services	Term Loan	Loan	5.00%	2/15/2017	463,977	462,831	460,354
Sensata Technologies B.V./Sensata Technology Finance Company, LLC	Industrial Equipment	Term Loan	Loan	3.25%	5/12/2019	1,524,730	1,524,730	1,529,106
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	5.75%	5/9/2017	1,945,013	1,939,821	1,957,987
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.45%	1/31/2017	2,822,729	2,830,165	2,825,552
SI Organization, Inc., The	Aerospace and Defense	New Tranche B Term Loan	Loan	5.50%	11/22/2016	3,880,675	3,863,008	3,800,655
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	6.50%	3/30/2018	807,059	795,976	815,130
Sophia, L.P.	Electronics/Electric	Term B Loan	Loan	4.50%	7/19/2018	928,389	917,174	934,191
Southwire Company, LLC (f.k.a Southwire Company)	Building and Development	Initial Term Loan	Loan	3.25%	2/10/2021	500,000	498,758	499,730
SRA International Inc.	Aerospace and Defense	Term Loan	Loan	6.50%	7/20/2018	3,268,571	3,184,532	3,276,743
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	4.01%	4/10/2020	3,304,614	3,278,551	3,304,614
SS&C Technologies Holdings Europe S.A.R.L.	Business Equipment and Services	2013 Replacement Term B-2 Loan	Loan	3.25%	6/7/2019	64,638	64,070	64,839
SS&C Technologies, Inc., /Sunshine Acquisition II, Inc.	Business Equipment and Services	2013 Replacement Term B-1 Loan	Loan	3.25%	6/7/2019	624,838	619,344	626,782
SunCoke Energy, Inc.	Nonferrous Metals/Minerals	Tranche B Term Loan	Loan	4.00%	7/26/2018	1,367,311	1,359,200	1,367,311
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche C Term Loan	Loan	3.95%	2/28/2017	304,311	302,167	305,452
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche E Term Loan	Loan	4.00%	3/8/2020	4,221,845	4,096,936	4,238,944
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	264,330	257,131	196,762
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	479,913	476,371	480,911
Taminco Global Chemical Corporation	Chemicals/Plastics	Initial Tranche B-3 Dollar Term Loan	Loan	3.25%	2/15/2019	1,473,863	1,464,165	1,473,406

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Team Health, Inc.	Healthcare	Tranche B Term Loan	Loan	3.75%	6/29/2018	4,387,500	4,373,856	4,387,500
TECTUM HOLDINGS INC.	Industrial Equipment	Term Loan	Loan	6.50%	12/3/2015	3,800,160	3,788,706	3,762,159
Tomkins, LLC / Tomkins, Inc. (f/k/a Pinafore, LLC / Pinafore, Inc.)	Conglomerate	Term B-2 Loan	Loan	3.75%	9/29/2016	2,356,680	2,360,795	2,361,982
TransDigm Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	4,896,514	4,904,843	4,914,876
Tricorbraun Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	1,902,083	1,895,432	1,903,282
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare	New Tranche B Term Loan	Loan	4.50%	6/6/2019	492,528	484,755	493,513
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Delayed Draw Loan	Loan	6.00%	7/28/2017	160,148	159,235	160,348
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Term B Loan	Loan	6.00%	7/28/2017	122,494	122,109	122,648
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Term B Loan	Loan	6.00%	7/28/2017	818,172	813,513	819,195
U.S. Silica Company	Nonferrous Metals/Minerals	Term Loan	Loan	4.00%	7/23/2020	1,950,200	1,941,292	1,954,256
U.S. Xpress Enterprises, Inc.	Industrial Equipment	Extended Term Loan	Loan	9.38%	11/13/2016	2,805,278	2,766,405	2,777,225
United Surgical Partners International, Inc.	Healthcare	New Tranche B Term Loan	Loan	4.75%	4/3/2019	2,456,500	2,429,626	2,470,821
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	5.00%	6/30/2017	3,884,944	3,884,238	3,859,225
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	2,977,500	2,959,200	2,984,467
UPC Financing Partnership	Broadcast Radio and Television	Facility AF Series D2	Loan	4.00%	1/31/2021	1,000,000	974,618	1,002,500
Valeant Pharmaceuticals International, Inc.	Drugs	Term Loan B	Loan	3.75%	2/13/2019	2,947,688	2,936,432	2,955,528
Verint Systems Inc.	Business Equipment and Services	Term Loan	Loan	4.00%	9/6/2019	1,900,800	1,892,737	1,904,602
Verint Systems Inc.	Business Equipment and Services	Tranche B Incremental Term Loan	Loan	3.50%	9/6/2019	1,000,000	997,521	1,000,000
Vertafore, Inc.	Business Equipment and Services	Term Loan (2013)	Loan	4.25%	10/3/2019	2,899,621	2,899,621	2,909,770
Visant Corporation (fka Jostens)	Leisure Goods/Activities/Movies	Tranche B Term Loan (2011)	Loan	5.25%	12/22/2016	3,658,446	3,658,446	3,607,008
W.R. Grace & Co.-CONN	Chemicals/Plastics	Delayed Draw Term Loan	Loan	0.00%	2/3/2021	—	(328)	—
W.R. Grace & Co.-CONN	Chemicals/Plastics	U.S. Term Loan	Loan	3.00%	2/3/2021	368,421	367,502	367,828
Washington Inventory Service	Business Equipment and Services	U.S. Term Loan (First Lien)	Loan	6.75%	12/20/2018	1,980,000	2,004,187	1,965,150
Wendy's International, Inc.	Food Services	Term B Loan	Loan	3.25%	5/15/2019	680,470	674,563	679,197
Wesco Aircraft Hardware Corp.	Aerospace/Defense	Tranche B Term Loan	Loan	4.75%	2/28/2021	500,000	498,750	498,750
West Corporation	Telecommunications	Term B-10 Loan	Loan	3.25%	6/30/2018	2,926,111	2,976,179	2,909,666
							<u>\$299,137,566</u>	<u>\$300,491,077</u>

Note 5. Agreements and Related Party Transactions

On July 30, 2010, the Company entered into the Management Agreement with our Manager. The initial term of the Management Agreement is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. On July 10, 2014, 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, 2014 and 2013, we incurred \$1.0 million and \$0.8 million in base management fees, respectively. For the three months ended August 31, 2014 and 2013, we accrued \$0.6 million and \$0.1 million in incentive fees related to pre-incentive fee net investment income. For the three months ended August 31, 2014, we accrued \$0.2 million in incentive fees related to capital gains. 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 six months ended August 31, 2014 and 2013, we incurred \$2.0 million and \$1.5 million in base management fees, respectively. For the six months ended August 31, 2014 and 2013, we accrued \$0.9 million and \$0.8 million in incentive fees related to pre-incentive fee net investment income. For the six months ended August 31, 2014, we accrued \$0.3 million in incentive management fees related to capital gains. For the six months ended August 31, 2013, we did not accrue incentive management fees related to capital gains. The accrual is calculated

[Table of Contents](#)

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, 2014, the base management fees accrual was \$1.0 million, and the incentive fees accrual was \$3.2 million and is included in management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 28, 2014, the base management fees accrual was \$0.9 million and the incentive fees accrual was \$3.0 million and is 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 is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. The amount of expenses payable or reimbursable thereunder by the Company is capped at \$1.0 million for the initial two year term of the administration agreement. On July 10, 2014, our board of directors approved the renewal of the Administration Agreement for an 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, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and February 28, 2014, \$0.4 million and \$0.4 million, respectively, 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 market wide 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%.

[Table of Contents](#)

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 “Credit 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 Credit 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 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
- 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, 2014 and February 28, 2014, there was \$8.9 million and \$0.0 million outstanding under the Credit Facility, respectively, and the Company was in compliance with all of the limitations and requirements of the Credit Facility. The carrying amount of the amount outstanding under the Credit Facility approximates its fair value. \$2.3 million of financing costs related to the Credit Facility have been capitalized and are being amortized over the term of the facility. For the three months ended August 31, 2014 and 2013, we recorded \$0.2 million and \$0.1 million of interest expense related to the Credit Facility, respectively. For the three months ended August 31, 2014 and 2013, we recorded \$0.1 million and \$0.1 million of amortization of deferred financing costs related to the Credit Facility, respectively. The interest rates during the three and six months ended August 31, 2014 on the outstanding borrowings under the Credit Facility were 7.50% and 7.50%, respectively. The interest rates during the three and six months ended August 31, 2013 on the outstanding borrowings under the Credit Facility were 7.50% and 7.50%, respectively. For the six months ended August 31, 2014 and 2013, we recorded \$0.4 million and \$0.6 million of interest expense related to the Credit Facility, respectively. For the six months ended August 31, 2014 and 2013, we recorded \$0.2 million and \$0.2 million of amortization of deferred financing costs related to the Credit Facility, respectively.

The Credit 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

[Table of Contents](#)

Credit 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 Credit 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 Credit 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 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 will pay the lenders a commitment fee of 0.75% per year on the unused amount of the Credit Facility for the duration of the Revolving Period.

Our borrowing base under the Credit Facility was \$42.2 million subject to the Credit Facility cap of \$45.0 million at August 31, 2014. 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, 2014 borrowing base relies upon the valuations set forth in the Annual Report on Form 10-K for the year ended February 28, 2014. 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, 2014, we have funded SBIC LP with \$45.5 million of equity capital, and have \$64.0 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 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 debtholders 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.

[Table of Contents](#)

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, 2014 and February 28, 2014, there was \$64.0 million and \$50.0 million outstanding of SBA debentures, respectively. The carrying amount of the amount outstanding of SBA debentures approximates its fair value. \$2.1 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, 2014, the Company recorded \$0.4 million and \$0.8 million, respectively, of interest expense related to the SBA debentures. 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, 2014, the Company recorded \$0.1 million and \$0.1 million, respectively, of amortization of deferred financing costs 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, 2014 and 2013 on the outstanding borrowings of the SBA debentures was 3.16% and 2.90%, respectively.

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, 2014, the carrying amount and fair value of the Notes was \$48.3 million and \$49.4 million, respectively. The fair value of the Notes, which are publicly traded, is based upon closing market quotes as of the measurement date and would be classified as a level 1 liability within the fair value hierarchy. As of August 31, 2014, \$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, 2014, we recorded \$0.9 million and \$1.8 million, respectively, of interest expense and \$0.1 million and \$0.2 million, respectively, of amortization of deferred financing costs related to 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. Commitments and Contingencies

Contractual obligations

The following table shows our payment obligations for repayment of debt and other contractual obligations at August 31, 2014:

	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	\$ 121,200	\$ 8,900	\$—	\$—	\$ 112,300

Off-balance sheet arrangements

The Company's off-balance sheet arrangements consisted of \$13.1 million and \$12.2 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of August 31, 2014 and February 28, 2014, respectively. Such commitments are generally up to the Company's discretion to approve, or the satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company's Consolidated Statement of Assets and Liabilities and are not reflected in the Company's Consolidated Statements of Assets and Liabilities.

Note 8. 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, 2014 and 2013, we accrued \$0.05 million and \$0.05 million for directors' fees expense, respectively. For the six months ended August 31, 2014 and 2013, we accrued \$0.1 million and \$0.1 million for directors' fees expense, respectively. As of August 31, 2014 and February 28, 2014, \$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, 2014, we had not issued any common stock to our directors as compensation for their services.

Note 9. 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.

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."

[Table of Contents](#)

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.

On October 30, 2013, the Company declared a dividend of \$2.65 per share payable on December 27, 2013. 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 \$2.5 million or \$0.53 per share. Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock.

Note 10. 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, 2014 and 2013 (dollars in thousands except share and per share amounts):

Basic and diluted	For the three months ended		For the six months ended	
	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Net increase (decrease) in net assets from operations	\$ 3,136	\$ (41)	\$ 4,894	\$ 3,759
Weighted average common shares outstanding	5,379,616	4,730,116	5,379,616	4,730,116
Earnings (loss) per common share-basic and diluted	\$ 0.58	\$ (0.01)	\$ 0.91	\$ 0.79

[Table of Contents](#)

Note 11. Dividend

The Company did not declare any dividend payments during the quarters ended August 31, 2014 and August 31, 2013.

Note 12. Financial Highlights

The following is a schedule of financial highlights for the six months ended August 31, 2014 and 2013:

	For the six months ended	
	August 31, 2014	August 31, 2013
Per share data:		
Net asset value at beginning of period	\$ 21.36	\$ 22.98
Net investment income(1)	0.77	1.00
Net realized and unrealized gains and (losses) on investments and derivatives	0.14	(0.21)
Net increase in net assets from operations	0.91	0.79
Net asset value at end of period	\$ 22.27	\$ 23.77
Net assets at end of period	\$119,817,820	\$112,445,315
Shares outstanding at end of period	5,379,616	4,730,116
Per share market value at end of period	\$ 16.06	\$ 18.31
Total return based on market value(2)	1.31%	7.58%
Total return based on net asset value(3)	4.26%	3.45%
Ratio/Supplemental data:		
Ratio of net investment income to average, net assets(4)	7.09%	8.62%
Ratio of operating expenses to average net assets(4)	6.38%	5.73%
Ratio of incentive management fees to average net assets(4)	2.01%	1.42%
Ratio of debt related expenses to average net assets(4)	6.17%	4.97%
Ratio of total expenses to average net assets(4)	14.56%	12.11%
Portfolio turnover rate(5)	11.35%	32.41%

(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 13. 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

[Table of Contents](#)

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 Credit 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 Credit Facility with Madison Capital Funding;
- 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 the 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 Credit 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 14. Subsequent Events

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no further 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, 2014, except as disclosed below.

[Table of Contents](#)

On September 17, 2014, the Company entered into a second amendment to the Revolving Facility with Madison Capital Funding LLC to, among other things, (1) extend the commitment termination date from February 24, 2015 to September 17, 2017; (2) extend the maturity date of the Revolving Facility from February 24, 2020 to September 17, 2022 (unless terminated sooner upon certain events); (3) reduce the applicable margin rate on base rate borrowings from 4.50% to 3.75%; (4) reduce the applicable margin rate on LIBOR borrowings from 5.50% to 4.75%; (5) reduce the floor on base rate borrowings from 3.00% to 2.25%; and (6) reduce the floor on LIBOR borrowings from 2.00% to 1.25%.

On September 24, 2014, the Company announced that its Board of Directors adopted a new dividend policy to pay a regular quarterly cash dividend to shareholders. The Company will pay a quarterly dividend of \$0.18 per share for the quarter ended August 31, 2014, which will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014. The second dividend of \$0.22 per share for the quarter ended November 30, 2014, will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.

On September 24, 2014, the Board of Directors also adopted a new dividend reinvestment plan (“DRIP”) that provides for the reinvestment of dividends on behalf of its stockholders, unless a stockholder has elected to receive dividends in cash. If the Company declares a dividend, its stockholders who have not “opted out” of the DRIP by the dividend record date will have their dividend automatically reinvested into additional shares of the Company’s common stock.

On the same day, the Company also announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of its common stock at prices below its NAV as reported in its then most recently published financial statements.

INDEX TO OTHER FINANCIAL STATEMENTS

Saratoga Investment Corp. CLO 2013-1, Ltd.

Report of Independent Auditors	S-2
Statements of Assets and Liabilities as of February 28, 2014 and 2013	S-3
Statements of Operations for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	S-4
Schedules of Investments as of February 28, 2014 and 2013	S-5
Statements of Changes in Net Assets for the years ended February 28, 2014, February 28, 2013 and February 29, 2012	S-17
Statements of Cash Flows for the years ended February 28, 2014, February 28, 2013 and February 29, 2012	S-18
Notes to Financial Statements	S-19

IMPORTANT NOTE

In accordance with certain SEC rules, Saratoga Investment Corp. (the “Company”) is providing additional information regarding one of its portfolio companies, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”). The Company owns 100% of the subordinated notes of the Saratoga CLO. The additional financial information regarding the Saratoga CLO does not directly impact the Company’s financial position, results of operations or cash flows.

Report of Independent Auditors

The Collateral Manager and Directors,

Saratoga Investment Corp. CLO 2013-1, Ltd.

We have audited the accompanying financial statements of Saratoga Investment Corp. CLO 2013-1, Ltd. (the “Issuer”), which comprise the statements of assets and liabilities, as of February 28, 2014 and February 28, 2013, including the schedules of investments, and the statements of operations, changes in net assets, and cash flows for the years ended February 28, 2014, February 28, 2013 and February 29, 2012, and the related notes to the financial statements.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Issuer’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Issuer’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Saratoga Investment Corp. CLO 2013-1, Ltd. at February 28, 2014 and February 28, 2013, and the results of its operations, changes in its net assets and its cash flows for the years ended February 28, 2014, February 28, 2013 and February 29, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

New York, NY
May 27, 2014

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Assets and Liabilities

	As of	
	February 28, 2014	February 28, 2013
ASSETS		
Investments		
Fair Value Loans (amortized cost of \$299,137,566 and \$366,099,395, respectively)	\$ 300,491,077	\$ 362,494,006
Fair Value Other/Structured finance securities (amortized cost of \$0 and \$13,743,946, respectively)	—	11,925,973
Total investments at fair value (amortized cost of \$299,137,566 and \$379,843,341, respectively)	300,491,077	374,419,979
Cash and cash equivalents	8,018,933	28,804,871
Receivable from open trades	1,801,266	5,131,538
Interest receivable	1,450,952	1,584,985
Deferred debt financing costs, net	2,166,633	2,092,787
Other assets	91,336	—
Total assets	<u>\$ 314,020,197</u>	<u>\$ 412,034,160</u>
LIABILITIES		
Interest payable	\$ 622,476	\$ 666,121
Payable from open trades	9,445,000	16,346,250
Accrued base management fee	75,053	43,171
Accrued subordinated management fee	75,053	172,682
Class A notes—GSCIC CLO 2007, Ltd.	—	296,000,000
Class B notes—GSCIC CLO 2007, Ltd.	—	22,000,000
Discount on class B notes—GSCIC CLO 2007, Ltd.	—	(417,011)
Class C notes—GSCIC CLO 2007, Ltd.	—	14,000,000
Class D notes—GSCIC CLO 2007, Ltd.	—	16,000,000
Discount on class D notes—GSCIC CLO 2007, Ltd.	—	(441,136)
Class E notes—GSCIC CLO 2007, Ltd.	—	17,960,044
Discount on class E notes—GSCIC CLO 2007, Ltd.	—	(1,134,778)
Class X Notes—SIC CLO 2013-1, Ltd.	1,666,666	—
Class A-1 Notes—SIC CLO 2013-1, Ltd.	170,000,000	—
Discount on Class A-1 Notes—SIC CLO 2013-1, Ltd.	(1,671,864)	—
Class A-2 Notes—SIC CLO 2013-1, Ltd.	20,000,000	—
Discount on Class A-2 Notes—SIC CLO 2013-1, Ltd.	(173,300)	—
Class B Notes—SIC CLO 2013-1, Ltd.	44,800,000	—
Discount on Class B Notes—SIC CLO 2013-1, Ltd.	(1,125,757)	—
Class C Notes—SIC CLO 2013-1, Ltd.	16,000,000	—
Discount on Class C Notes—SIC CLO 2013-1, Ltd.	(700,902)	—
Class D Notes—SIC CLO 2013-1, Ltd.	14,000,000	—
Discount on Class D Notes—SIC CLO 2013-1, Ltd.	(909,825)	—
Class E Notes—SIC CLO 2013-1, Ltd.	13,100,000	—
Discount on Class E Notes—SIC CLO 2013-1, Ltd.	(1,715,285)	—
Class F Notes—SIC CLO 2013-1, Ltd.	4,500,000	—
Discount on Class F Notes—SIC CLO 2013-1, Ltd.	(623,880)	—
Subordinated Notes	30,000,000	30,000,000
Total liabilities	<u>\$ 317,363,435</u>	<u>\$ 411,195,343</u>
Commitments and contingencies (See Note 6)		
NET ASSETS		
Ordinary equity, par value \$1.00, 250 ordinary shares authorized, 250 and 250 issued and outstanding, respectively	\$ 250	\$ 250
Accumulated gain (loss)	838,567	(5,963,092)
Net income (loss)	(4,182,055)	6,801,659
Total net assets	<u>(3,343,238)</u>	<u>838,817</u>
Total liabilities and net assets	<u>\$ 314,020,197</u>	<u>\$ 412,034,160</u>

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1, Ltd.**Statements of Operations**

	For the year ended February 28, 2014	For the year ended February 28, 2013	For the year ended February 29, 2012
INVESTMENT INCOME			
Interest from investments	\$ 15,486,413	\$ 19,328,855	\$ 20,032,687
Interest from cash and cash equivalents	6,792	16,587	12,165
Other income	945,441	967,991	509,365
Total investment income	16,438,646	20,313,433	20,554,217
EXPENSES			
Interest expense	11,678,514	15,613,003	14,480,621
Professional fees	433,073	417,086	400,628
Misc. Fee Expense	175,283	133,794	176,768
Base management fee	517,563	400,014	402,303
Subordinated management fee	1,257,578	1,600,057	1,609,213
Trustee expenses	83,221	100,820	100,551
Amortization expense	994,602	1,015,332	1,016,124
Loss on extinguishment of debt	3,442,442	—	—
Total expenses	18,582,276	19,280,106	18,186,208
NET INVESTMENT INCOME (LOSS)	(2,143,630)	1,033,327	2,368,009
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain (loss) on investments	(8,815,296)	2,532,558	(4,547,952)
Net unrealized appreciation/(depreciation) on investments	6,776,871	3,235,774	(650,241)
Net gain (loss) on investments	(2,038,425)	5,768,332	(5,198,193)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ (4,182,055)	\$ 6,801,659	\$ (2,830,184)

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1 Ltd.
Schedule of Investments
February 28, 2014

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Academy, LTD.		Initial Term Loan (2012)	Loan	4.50%	8/3/2018	\$1,960,187	\$1,948,853	\$1,969,969
Acosta, Inc.	Retailers (Except Food and Drugs)	Term B Loan (2013)	Loan	4.25%	3/2/2018	4,162,740	4,101,035	4,177,310
Aderant North America, Inc.	Business Equipment and Services	Term Loan (First Lien)	Loan	6.25%	12/20/2018	3,473,750	3,470,186	3,482,434
Aegis Toxicology Sciences Corporation		Initial Term Loan (First Lien)	Loan	5.50%	2/24/2021	1,000,000	990,000	990,000
Aegis Toxicology Sciences Corporation	Healthcare	Initial Term Loan (Second Lien)	Loan	9.50%	8/24/2021	500,000	492,500	492,500
Aeroflex Incorporated	Aerospace and Defense	Tranche B-1 Term Loan	Loan	4.50%	11/9/2019	3,208,854	3,194,690	3,223,550
Akorn, Inc.	Healthcare	Term Loan B	Loan	4.50%	11/13/2020	500,000	497,500	503,125
Alere Inc. (fka IM US Holdings, LLC)		Incremental B-1 Term Loan	Loan	4.25%	6/30/2017	1,960,000	1,930,566	1,968,173
Applied Systems, Inc.	Business Equipment and Services	Term Loan	Loan	4.25%	12/8/2016	500,000	498,750	498,750
Aramark Corporation	Food Products	LC-2 Facility	Loan	3.69%	7/26/2016	79,187	79,187	79,206
Aramark Corporation	Food Products	LC-3 Facility	Loan	3.69%	7/26/2016	43,961	43,961	43,971
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	3,206,537	3,206,537	3,207,307
Ardagh Holdings USA Inc. (Ardagh Packaging Finance S.A.)	Containers/Glass Products	Dollar Term Loan	Loan	4.25%	12/17/2019	1,000,000	995,109	1,002,500
ARG IH Corporation	Food Services	Term Loan	Loan	5.00%	11/15/2020	500,000	498,797	502,500
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	4.50%	5/24/2019	5,508,783	5,462,695	5,516,660
Auction.Com, LLC	Business Equipment and Services	Term Loan A-4	Loan	4.66%	2/28/2017	980,651	979,812	970,845
Autotrader.com, Inc.	Automotive	Tranche B-1 Term Loan	Loan	4.00%	12/15/2016	3,791,778	3,791,778	3,805,997
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/24/2017	4,875,000	4,861,403	4,875,000
AZ Chem US Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	12/22/2017	1,355,941	1,329,859	1,362,720
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	New Term Loan	Loan	3.75%	11/20/2019	498,725	498,126	500,715
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	1,500,000	1,496,250	1,495,500
Big Heart Pet Brands (fka Del Monte Corporation)	Food/Drug Retailers	Initial Term Loan	Loan	3.50%	3/9/2020	3,000,000	3,022,866	2,999,250
Biomet, Inc.	Healthcare	Dollar Term B-2 Loan New 2013 (November)	Loan	3.65%	7/25/2017	1,970,137	1,970,137	1,972,797
BJ's Wholesale Club, Inc.	Food/Drug Retailers	Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	500,000	497,592	502,750
Bombardier Recreational Products Inc.	Leisure Goods/Activities/Movies	Term B Loan	Loan	4.00%	1/30/2019	754,286	748,080	756,647
Brickman Group Ltd. LLC, The		Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	250,000	248,750	250,937
Brock Holdings III, Inc.	Brokers/Dealers/Investment Houses	Term Loan (First Lien)	Loan	6.75%	3/16/2017	1,959,839	1,976,826	1,967,188
	Industrial Equipment							

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Burlington Coat Factory Warehouse Corporation	Retailers (Except Food and Drugs)	Term B-2 Loan	Loan	4.25%	2/23/2017	2,660,377	2,653,889	2,675,675
C.H.I. Overhead Doors, Inc.	Building and Development	Term Loan (First Lien)	Loan	5.50%	3/18/2019	2,739,013	2,692,934	2,745,861
Camp International Holding Company	Aerospace and Defense	2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	990,000	990,000	999,900
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	2,137,369	2,141,920	2,142,712
Capstone Logistics, LLC	Business Equipment and Services	Term Note A	Loan	6.50%	9/16/2016	2,658,626	2,637,550	2,618,899
Capsugel Holdings US, Inc.	Drugs	Initial Term Loan	Loan	3.50%	8/1/2018	3,145,521	3,138,959	3,141,589
Celanese US Holdings LLC	Chemicals/Plastics	Dollar Term C-2 Commitment	Loan	2.25%	10/31/2016	2,176,323	2,201,894	2,192,254
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	2,682,707	2,672,727	2,666,369
CHS/Community Health Systems, Inc.	Healthcare	2017 Term E Loan	Loan	3.48%	1/25/2017	1,108,908	1,082,718	1,113,987
CHS/Community Health Systems, Inc.	Healthcare	2021 Term D Loan	Loan	4.25%	1/27/2021	2,955,608	2,862,024	2,980,228
Cinedigm Digital Funding I, LLC	Business Equipment and Services	Term Loan	Loan	3.75%	2/28/2018	825,121	820,892	825,121
Covanta Energy Corporation	Ecological Services and Equipment	Term Loan	Loan	3.50%	3/28/2019	491,250	489,468	492,788
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan (Initial Term Loan (First Lien))	Loan	5.00%	2/13/2017	4,622,500	4,611,092	4,622,500
Crosby US Acquisition Corp.	Industrial Equipment	Extended Incremental Tranche B-2 Term Loan	Loan	4.00%	11/23/2020	750,000	749,094	748,312
Crown Castle Operating Company	Telecommunications/Cellular	Dollar Loan (First Lien)	Loan	3.25%	1/31/2019	2,460,196	2,441,025	2,460,316
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	6.25%	12/19/2017	787,658	738,102	734,491
Culligan International Company	Conglomerate	Term Loan	Loan	9.50%	6/19/2018	783,162	732,061	657,856
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	500,000	495,000	502,815
DaVita HealthCare Partners Inc. (fka DaVita Inc.)	Healthcare	Tranche B Term Loan	Loan	4.50%	10/20/2016	3,909,320	3,909,320	3,927,655
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	7.25%	3/19/2018	3,831,595	3,792,824	3,735,805
DealerTrack Technologies, Inc.	Computers & Electronics	Term Loan	Loan	3.50%	2/28/2021	500,000	498,750	498,750
Dell International LLC	Retailers (Except Food and Drugs)	Term B Loan	Loan	4.50%	4/29/2020	1,995,000	1,982,818	1,988,935
Delos Finance S.à r.l.	Leasing	Loan	Loan	3.50%	2/26/2021	500,000	497,500	497,500
Deluxe Entertainment Services Group Inc.	Media	Initial Term Loan	Loan	6.50%	2/28/2020	1,000,000	1,000,000	1,000,000
Digitalglobe, Inc.	Ecological Services and Equipment	Term Loan	Loan	3.75%	1/31/2020	248,125	248,125	247,815
Drew Marine Group Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	11/19/2020	500,000	499,397	502,500
Dunkin' Brands, Inc.	Food Services	Term B-4 Loan	Loan	3.25%	2/7/2021	3,956,731	3,946,925	3,936,948
DynCorp International Inc.	Aerospace and Defense	Term Loan	Loan	6.25%	7/7/2016	486,442	482,619	488,573
Education Management LLC	Leisure Goods/Activities/Movies	Tranche C-2 Term Loan	Loan	4.31%	6/1/2016	3,882,152	3,746,734	3,544,405

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
EIG Investors Corp.	Business Equipment and Services	Term Loan	Loan	5.00%	11/9/2019	997,500	992,713	1,003,734
Energy Transfer Equity, L.P.	Oil & Gas	Loan	Loan	3.25%	12/2/2019	1,000,000	997,599	998,750
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	492,516	488,615	493,900
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	1,000,000	995,084	1,002,500
Federal-Mogul Corporation	Automotive	Tranche B Term Loan	Loan	2.14%	12/29/2014	2,220,981	2,187,068	2,202,747
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	2.14%	12/28/2015	1,307,032	1,270,847	1,296,301
First Data Corporation	Financial Intermediaries	2017 Second New Dollar Term Loan	Loan	4.20%	3/24/2017	2,111,028	2,010,799	2,109,276
First Data Corporation	Financial Intermediaries	2018 Dollar Term Loan	Loan	4.20%	3/23/2018	2,290,451	2,231,370	2,292,741
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	4.25%	6/28/2019	997,500	995,122	1,006,438
Four Seasons Holdings Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	3.50%	6/27/2020	498,750	498,750	498,750
Garda World Security Corporation	Business Equipment and Services	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	203,194	202,218	203,363
Garda World Security Corporation	Business Equipment and Services	Term B Loan	Loan	4.00%	11/6/2020	794,306	790,489	794,965
Gardner Denver, Inc.	Oil & Gas	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	1,496,250	1,485,394	1,489,337
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.50%	5/31/2020	868,414	852,908	868,258
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	4,740,112	4,722,664	4,725,892
Global Tel*Link Corporation	Business Equipment and Services	Term Loan (First Lien)	Loan	5.00%	5/23/2020	1,920,175	1,915,905	1,900,014
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	4.75%	4/30/2019	4,000,000	3,941,039	4,037,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	3,500,000	3,482,803	3,489,080
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.00%	8/4/2019	500,000	497,500	500,780
HCA Inc.	Healthcare	Tranche B-4 Term Loan	Loan	2.94%	5/1/2018	5,720,353	5,390,148	5,713,947
Hertz Corporation, The	Automotive	Tranche B-1 Term Loan	Loan	3.75%	3/11/2018	2,970,000	3,005,791	2,973,683
Hologic, Inc.	Healthcare	Refinancing Tranche A Term Loan	Loan	2.19%	8/1/2017	2,312,500	2,307,973	2,313,425
Hunter Defense Technologies, Inc.	Aerospace and Defense	Term Loan	Loan	3.45%	8/22/2014	3,470,285	3,460,723	3,262,068
Huntsman International LLC	Chemicals/Plastics	Extended Term B Loan	Loan	2.73%	4/19/2017	3,920,000	3,892,467	3,919,020
Ikaria, Inc.	Healthcare	Initial Term Loan (First Lien)	Loan	5.00%	2/12/2021	500,000	497,515	502,815
Infor (US), Inc. (fka Lawson Software Inc.)	Business Equipment and Services	Tranche B-5 Term Loan	Loan	3.75%	6/3/2020	1,776,183	1,758,861	1,772,488
Inventiv Health, Inc. (fka Ventive Health, Inc)	Conglomerate	Consolidated Term Loan	Loan	7.50%	8/4/2016	492,090	492,090	491,105

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	4.00%	3/7/2018	972,500	972,500	972,656
JFB Firth Rixson Inc.	Industrial Equipment	2013 Replacement Dollar Term Facility						
Kinetic Concepts, Inc.	Healthcare	Loan	Loan	4.25%	6/30/2017	2,564,311	2,554,534	2,568,054
La Quinta Intermediate Holdings L.L.C.	Gaming And Hotels	Dollar Term D-1 Loan	Loan	4.00%	5/4/2018	490,057	475,404	492,508
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Initial Term Loan	Loan	4.00%	2/19/2021	500,000	500,000	500,000
Microsemi Corporation	Electronics/Electric	Term B Loan	Loan	3.75%	1/28/2020	496,250	496,250	497,302
Microsemi Corporation	Electronics/Electric	Incremental Term Loan	Loan	3.75%	2/19/2020	498,750	498,750	499,373
Mitel US Holdings, Inc.	Telecommunications	Term Loan	Loan	3.50%	2/19/2020	2,393,981	2,389,463	2,398,482
National CineMedia, LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	5.25%	1/31/2020	250,000	248,753	252,083
Newsday, LLC	Publishing	Term Loan (2013)	Loan	2.95%	11/26/2019	1,086,207	1,054,177	1,082,134
Novelis, Inc.	Conglomerate	Term Loan	Loan	3.69%	10/12/2016	2,215,385	2,213,416	2,215,385
NPC International, Inc.	Food Services	Initial Term Loan	Loan	3.75%	3/10/2017	4,857,520	4,868,347	4,873,452
NRG Energy, Inc.	Utilities	Term Loan (2013)	Loan	4.00%	12/28/2018	490,833	490,833	493,597
NuSil Technology LLC.	Chemicals/Plastics	Term Loan (2013)	Loan	2.75%	7/1/2018	3,900,525	3,875,534	3,872,168
OEP Pearl Dutch Acquisition B.V.	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	809,163	809,163	799,558
On Assignment, Inc.	Business Equipment and Services	Initial BV Term Loan	Loan	6.50%	3/30/2018	142,422	140,466	143,846
Onex Carestream Finance LP	Healthcare	Initial Term B Loan	Loan	3.50%	5/15/2020	1,311,364	1,303,125	1,312,190
OpenLink International, Inc.	Computers & Electronics	Term Loan (First Lien 2013)	Loan	5.00%	2/25/2017	4,531,159	4,511,264	4,582,135
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Replacement Term Loan	Loan	6.25%	10/30/2017	980,000	980,000	980,000
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Business Equipment and Services	Term Borrowing	Loan	5.50%	6/22/2019	1,496,212	1,488,641	1,509,675
Patheon Inc.	Healthcare	Term Loan (First Lien)	Loan	5.00%	10/30/2020	1,000,000	995,186	1,008,750
PetCo Animal Supplies, Inc.	Retailers (Except Food and Drugs)	Term Loan	Loan	4.25%	3/11/2021	3,000,000	2,992,500	2,990,640
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Conglomerate	New Loans	Loan	4.00%	11/24/2017	1,484,694	1,483,250	1,489,103
Pinnacle Foods Finance LLC	Food Products	2013 Term Loan	Loan	4.00%	12/5/2018	1,960,200	1,936,226	1,967,845
Polymer Group, Inc.	Chemicals/Plastics	New Term Loan G	Loan	3.25%	4/29/2020	4,962,500	4,951,514	4,942,352
Prestige Brands, Inc.	Drugs	Initial Loan	Loan	5.25%	12/19/2019	500,000	497,500	501,875
Pro Mach, Inc.	Industrial Equipment	Term B-1 Loan	Loan	3.75%	1/31/2019	435,606	430,195	437,022
Progressive Waste Solutions Ltd.	Ecological Services and Equipment	Term Loan	Loan	4.50%	7/6/2017	1,945,655	1,934,699	1,955,383
Quintiles Transnational Corp.	Conglomerate	Term B Loan	Loan	3.00%	10/24/2019	498,741	498,741	500,486
Redtop Acquisitions Limited	Electronics/Electric	Term B-3 Loan	Loan	3.75%	6/8/2018	3,681,541	3,646,328	3,685,186
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	500,000	496,369	502,915
Reynolds Group Holdings Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	1,663,476	1,663,476	1,667,035
Rocket Software, Inc.	Business Equipment and Services	Incremental U.S. Term Loan	Loan	4.00%	12/1/2018	1,980,000	1,980,000	1,993,365
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Term Loan (First Lien)	Loan	5.75%	2/8/2018	1,960,025	1,934,083	1,960,515
		Tranche A-2 Loan	Loan	2.45%	3/29/2017	1,562,552	1,552,098	1,562,552

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
Rovi Solutions Corporation / Rovi Guides, Inc.		Tranche B-3 Term Loan	Loan	3.50%	3/29/2019	1,344,450	1,339,560	1,341,088
RPI Finance Trust	Electronics/Electric Drugs	Term B-2 Term Loan	Loan	3.25%	5/9/2018	5,308,218	5,283,397	5,339,165
Scitor Corporation	Business Equipment and Services	Term Loan	Loan	5.00%	2/15/2017	463,977	462,831	460,354
Sensata Technologies B.V./Sensata Technology Finance Company, LLC	Industrial Equipment	Term Loan	Loan	3.25%	5/12/2019	1,524,730	1,524,730	1,529,106
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	5.75%	5/9/2017	1,945,013	1,939,821	1,957,987
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.45%	1/31/2017	2,822,729	2,830,165	2,825,552
SI Organization, Inc., The	Aerospace and Defense	New Tranche B Term Loan	Loan	5.50%	11/22/2016	3,880,675	3,863,008	3,800,655
Soneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	6.50%	3/30/2018	807,059	795,976	815,130
Sophia, L.P.	Electronics/Electric	Term B Loan	Loan	4.50%	7/19/2018	928,389	917,174	934,191
Southwire Company, LLC (f.k.a Southwire Company)	Building and Development	Initial Term Loan	Loan	3.25%	2/10/2021	500,000	498,758	499,730
SRA International Inc.	Aerospace and Defense	Term Loan	Loan	6.50%	7/20/2018	3,268,571	3,184,532	3,276,743
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	4.01%	4/10/2020	3,304,614	3,278,551	3,304,614
SS&C Technologies Holdings Europe S.A.R.L.		2013 Replacement Term B-2 Loan	Loan	3.25%	6/7/2019	64,638	64,070	64,839
SS&C Technologies, Inc., /Sunshine Acquisition II, Inc.	Business Equipment and Services	2013 Replacement Term B-1 Loan	Loan	3.25%	6/7/2019	624,838	619,344	626,782
SunCoke Energy, Inc.	Business Equipment and Services Nonferrous Metals/Minerals	Tranche B Term Loan	Loan	4.00%	7/26/2018	1,367,311	1,359,200	1,367,311
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche C Term Loan	Loan	3.95%	2/28/2017	304,311	302,167	305,452
SunGard Data Systems Inc (Solar Capital Corp.)	Conglomerate	Tranche E Term Loan	Loan	4.00%	3/8/2020	4,221,845	4,096,936	4,238,944
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	264,330	257,131	196,762
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	479,913	476,371	480,911
Taminco Global Chemical Corporation	Chemicals/Plastics	Initial Tranche B-3 Dollar Term Loan	Loan	3.25%	2/15/2019	1,473,863	1,464,165	1,473,406
Team Health, Inc.	Healthcare	Tranche B Term Loan	Loan	3.75%	6/29/2018	4,387,500	4,373,856	4,387,500
TECTUM HOLDINGS INC	Industrial Equipment	Term Loan	Loan	6.50%	12/3/2015	3,800,160	3,788,706	3,762,159
Tomkins, LLC / Tomkins, Inc. (f/k/a Pinafore, LLC / Pinafore, Inc.)	Conglomerate	Term B-2 Loan	Loan	3.75%	9/29/2016	2,356,680	2,360,795	2,361,982
TransDigm Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	4,896,514	4,904,843	4,914,876
Tricorbraun Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	1,902,083	1,895,432	1,903,282
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare	New Tranche B Term Loan	Loan	4.50%	6/6/2019	492,528	484,755	493,513

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal	Cost	Fair Value
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Delayed Draw Loan	Loan	6.00%	7/28/2017	160,148	159,235	160,348
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Term B Loan	Loan	6.00%	7/28/2017	122,494	122,109	122,648
U.S. Security Associates Holdings, Inc.	Business Equipment and Services	Term B Loan	Loan	6.00%	7/28/2017	818,172	813,513	819,195
U.S. Silica Company	Nonferrous Metals/Minerals	Term Loan	Loan	4.00%	7/23/2020	1,950,200	1,941,292	1,954,256
U.S. Xpress Enterprises, Inc.	Industrial Equipment	Extended Term Loan	Loan	9.38%	11/13/2016	2,805,278	2,766,405	2,777,225
United Surgical Partners International, Inc.	Healthcare	New Tranche B						
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	4.75%	4/3/2019	2,456,500	2,429,626	2,470,821
Univision Communications Inc.		Replacement						
	Telecommunications	First-Lien Term						
UPC Financing Partnership	Broadcast Radio and Television	Loan	Loan	4.00%	3/1/2020	2,977,500	2,959,200	2,984,467
Valeant Pharmaceuticals International, Inc.		Facility AF	Loan	4.00%	1/31/2021	1,000,000	974,618	1,002,500
		Series D2 Term						
	Drugs	Loan B	Loan	3.75%	2/13/2019	2,947,688	2,936,432	2,955,528
Verint Systems Inc.	Business Equipment and Services	Term Loan	Loan	4.00%	9/6/2019	1,900,800	1,892,737	1,904,602
Verint Systems Inc.	Business Equipment and Services	Tranche B						
		Incremental Term						
		Loan	Loan	3.50%	9/6/2019	1,000,000	997,521	1,000,000
Vertafore, Inc.	Business Equipment and Services	Term Loan (2013)	Loan	4.25%	10/3/2019	2,899,621	2,899,621	2,909,770
Visant Corporation (fka Jostens)		Tranche B Term						
	Leisure Goods/Activities/Movies	Loan (2011)	Loan	5.25%	12/22/2016	3,658,446	3,658,446	3,607,008
W.R. Grace & Co.-CONN		Delayed Draw Term						
	Chemicals/Plastics	Loan	Loan	0.00%	2/3/2021	—	(328)	—
W.R. Grace & Co.-CONN	Chemicals/Plastics	U.S. Term Loan	Loan	3.00%	2/3/2021	368,421	367,502	367,828
Washington Inventory Service		U.S. Term Loan						
	Business Equipment and Services	(First Lien)	Loan	6.75%	12/20/2018	1,980,000	2,004,187	1,965,150
Wendy's International, Inc	Food Services	Term B Loan	Loan	3.25%	5/15/2019	680,470	674,563	679,197
Wesco Aircraft Hardware Corp.		Tranche B Term						
	Aerospace/Defense	Loan	Loan	4.75%	2/28/2021	500,000	498,750	498,750
West Corporation	Telecommunications	Term B-10 Loan	Loan	3.25%	6/30/2018	2,926,111	2,976,179	2,909,666
							\$299,137,566	\$300,491,077

Table of Contents

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 All, 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 (Extending)	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 Goods/Activities/Movies	Term B Loan	Loan	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

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
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		Refinanced Term Loan						
Capital Automotive L.P.	Aerospace and Defense	(First Lien)	Loan	5.25%	5/31/2019	\$ 997,500	988,136	1,005,400
Capstone Logistics, LLC	Conglomerate	Tranche B Term Loan	Loan	5.25%	3/11/2017	\$ 2,811,086	2,817,777	2,823,961
Capsugel Holdings US, Inc.	Business Equipment and Services	Term Note A	Loan	7.50%	9/16/2016	\$ 2,699,305	2,669,394	2,658,816
Celanese US Holdings LLC	Drugs	Initial Term Loan (New)	Loan	4.75%	8/1/2018	\$ 3,605,198	3,595,976	3,641,214
		Dollar Term C Loan						
	Chemicals/Plastics	(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						
		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 Goods/Activities/Movies	Tranche C-2 Term Loan	Loan	4.31%	6/1/2016	\$ 3,925,006	3,727,372	3,263,878
eInstruction Corporation	Electronics/Electric	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

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
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
Freescale Semiconductor, Inc.	Electronics/Electric	Tranche B-1 Term 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	530,356
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

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
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 Goods/Activities/Movies	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	490,833	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.	Chemicals/Plastics	Initial BV Term Loan	Loan	6.50%	3/30/2018	\$ 148,875	146,330	149,992
On Assignment, Inc.	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
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	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

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
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
Taminco 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

Table of Contents

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
Tricorbraun 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 BABS N 2007-1A	Retailers (Except Food and Drugs)	Initial Term Loan	Loan	5.25%	4/2/2019	\$2,256,466	2,236,833	2,268,877
GALE 2007-3A	Financial Intermediaries	Floating-01/2021-D1-05617AAA9	ABS	3.55%	1/18/2021	\$1,500,000	1,258,888	1,050,000
KATO 2006-9A	Financial Intermediaries	Floating-04/2021-E-363205AA3	ABS	3.80%	4/19/2021	\$4,000,000	3,386,571	2,800,000
STCLO 2007-6A	Financial Intermediaries	Floating-01/2019-B2L-486010AA9	ABS	3.80%	1/25/2019	\$5,000,000	4,339,337	3,500,000
	Financial Intermediaries	Floating-04/2021-D-86176YAG7	ABS	3.90%	4/17/2021	\$5,000,000	4,054,244	3,500,000
							\$379,843,341	\$374,419,979

Saratoga Investment Corp. CLO 2013-1, Ltd.**Statements of Changes in Net Assets**

	<u>For the year ended February 28, 2014</u>	<u>For the year ended February 28, 2013</u>	<u>For the year ended February 29, 2012</u>
INCREASE FROM OPERATIONS:			
Net investment income (loss)	\$ (2,143,630)	\$ 1,033,327	\$ 2,368,009
Net realized gain (loss) from investments	(8,815,296)	2,532,558	(4,547,952)
Net unrealized appreciation (depreciation) on investments	6,776,871	3,235,774	(650,241)
Net increase (decrease) in net assets from operations	<u>(4,182,055)</u>	<u>6,801,659</u>	<u>(2,830,184)</u>
Total increase (decrease) in net assets	(4,182,055)	6,801,659	(2,830,184)
Net assets at beginning of period	838,817	(5,962,842)	(3,132,658)
Net assets at end of period	<u>\$ (3,343,238)</u>	<u>\$ 838,817</u>	<u>\$ (5,962,842)</u>

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Cash Flows

	For the year ended February 28, 2014	For the year ended February 28, 2013	For the year ended February 29, 2012
Operating activities			
NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS	\$ (4,182,055)	\$ 6,801,659	\$ (2,830,184)
ADJUSTMENTS TO RECONCILE NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES:			
Paid-in-kind interest income	(10,122)	—	(223,448)
Net accretion of discount on investments	(568,674)	(1,383,978)	(2,997,514)
Amortization of deferred debt financing costs	994,602	1,015,332	1,016,124
Loss on extinguishment of debt	3,442,442	—	—
Net realized (gain) loss from investments	8,815,296	(2,532,558)	4,547,952
Net unrealized (appreciation) depreciation on investments	(6,776,871)	(3,235,774)	650,241
Proceeds from sale and redemption of investments	128,190,654	165,363,963	216,319,521
Purchase of investments	(55,721,381)	(151,267,166)	(208,491,101)
(Increase) decrease in operating assets:			
Interest receivable	134,033	(3,547)	155,579
Receivable from open trades	3,330,272	4,915,102	(10,046,640)
Other Assets	(91,336)	—	—
Increase (decrease) in operating liabilities:			
Interest Payable	(43,645)	(160,620)	125,101
Payable for open trades	(6,901,250)	(8,510,897)	(293,957)
Accrued base management fee	31,882	(2,345)	(835)
Accrued subordinated management fee	(97,629)	(9,382)	(3,338)
NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES	<u>70,546,218</u>	<u>10,989,789</u>	<u>(2,072,499)</u>
Financing activities			
Borrowings on debt	277,711,620	—	—
Paydowns on debt	(366,793,378)	—	—
Deferred debt financing costs	(2,250,398)	—	—
NET CASH USED BY FINANCING ACTIVITIES	<u>(91,332,156)</u>	<u>—</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(20,785,938)	10,989,789	(2,072,499)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,804,871	17,815,082	19,887,581
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 8,018,933</u>	<u>\$ 28,804,871</u>	<u>\$ 17,815,082</u>
Supplemental Information:			
Interest paid during the period	\$ 11,722,159	\$ 15,773,621	\$ 14,355,520
Supplemental non-cash information:			
Paid-in-kind interest income	\$ 10,122	\$ —	\$ 223,448
Net accretion of discount on investments	\$ 568,674	\$ 1,383,978	\$ 2,997,514
Amortization of deferred debt financing costs	\$ 994,602	\$ 1,015,332	\$ 1,016,124

See accompanying notes to financial statements.

SARATOGA INVESTMENT CORP. CLO 2013-1, LTD.

NOTES TO FINANCIAL STATEMENTS

1. Organization and Purpose

Saratoga Investment Corp. CLO 2013-1, Ltd. (the “Issuer”, “we”, “our”, “us”, “CLO” and “Saratoga CLO”), an exempted company with limited liability incorporated under the laws of the Cayman Islands was formed on November 28, 2007 and commenced operations on January 22, 2008. The Issuer was established to acquire or participate in U.S. dollar-denominated corporate debt obligations.

On January 22, 2008, the Issuer issued \$400.0 million of notes, consisting of Class A Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes (collectively the “Secured Notes”), and Subordinated Notes. The notes were issued pursuant to an indenture, dated January 22, 2008 (the “Indenture”), with U.S. Bank National Association (the “Trustee”) servicing as the Trustee there under.

On October 17, 2013, in a refinancing transaction, the Issuer issued \$284.9 million of notes (the “2013-1 CLO Notes”), consisting of Class X Floating Rate Senior Notes, Class A-1 Floating Rate Senior Notes, Class A-2 Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes, and Class F Deferrable Floating Rate Notes. The 2013-1 CLO Notes were issued pursuant to the Indenture with the same Trustee. Proceeds of the issuance of the 2013-1 CLO Notes were used, along with existing assets held by the Trustee, to redeem all of the Secured Notes issued in 2008. As of February 28, 2014, Saratoga Investment Corp. owned 100% of the Subordinated Notes of the CLO.

Pursuant to an investment management agreement (the “Investment Management Agreement”), Saratoga Investment Corp. (the “Investment Manager”), provides investment management services to the Issuer, and makes day-to-day investment decisions concerning the assets of the Issuer. The Investment Manager also performs certain administrative services on behalf of the Issuer under the Investment Management Agreement.

2. Significant Accounting Policies

Basis of Presentation

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and are stated in U.S. dollars. The following is a summary of the significant accounting policies followed by the Issuer in the preparation of its financial statements.

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires the Investment Manager to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, including the fair value of investments, and the amounts of income and expenses during the reporting period. Actual results could differ from these estimates and such differences could be material.

Cash and Cash Equivalents

The Issuer defines cash and cash equivalents as highly liquid financial instruments with original maturities of three months or less. Cash and cash equivalents may include investments in money market mutual funds, which are carried at fair value. At February 28, 2014 and February 28, 2013, cash and cash equivalents amounted to \$8.0 million and \$28.8 million, respectively, and are swept on an overnight basis into a money market deposit account and invested in shares of JP Morgan Liquidity Institutional fund held at the Trustee.

[Table of Contents](#)

Valuation of Investments

The Issuer 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 Issuer 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 the Investment Manager to approve a fair value determination to reflect significant events affecting the value of these investments. The Investment Manager values investments for which market quotations are not readily available at fair value. Determinations of fair value may involve significant judgments and estimates. The types of factors that may be considered in determining the fair value of 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.

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 are ultimately realized upon the disposal of such investments.

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 Issuer 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 the Investment Manager’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.

Paid-in-Kind Interest

The Issuer holds debt investments in its portfolio that contain a 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.

[Table of Contents](#)

Deferred Debt Financing Costs, net

Included in deferred debt financing costs of \$2.2 million as of February 28, 2014 are structuring fees of the investment bank, rating agency fees and legal fees associated with the issuance of the 2013-1 CLO Notes on October 17, 2013. Such costs have been capitalized and amortized using an effective yield method, over the life of the related notes.

Deferred debt financing costs of \$1.6 million, incurred in connection with the issuance of the Secured Notes, were expensed when the Secured Notes were extinguished on October 17, 2013.

Deferred debt financing cost of \$2.1 million as of February 28, 2013 included structuring fees of the investment bank, rating agency fees and legal fees associated with the associated with the establishment of the Issuer in 2007. Such costs have been capitalized and amortized using an effective yield method, over the life of the facility.

Management Fees

The Issuer is externally managed by the Investment Manager pursuant to the Investment Management Agreement. As compensation for the performance of its obligations under the Investment Management Agreement, the Investment Manager is entitled to receive from the Issuer a base management fee (the "Base Management Fee"), a subordinated management fee (the "Subordinated Management Fee") and an incentive management fee (the "Incentive Management Fee"). The Base Management Fee is payable in arrears quarterly (subject to availability of funds and to the satisfaction of payment obligations on the debt obligations of the Issuer (the "Priority of Payments") in an amount equal to 0.25% per annum of the Fee Basis Amount at the beginning of the Collection Period. The Subordinated Management Fee is payable in arrears quarterly (subject to availability of funds and to the Priority of Payments) in an amount equal to 0.25% per annum of the Fee Basis Amount at the beginning of the Collection Period. The Incentive Management Fee equals 20% of the remaining interest proceeds and principal proceeds, if any, after the Subordinated Notes have realized the incentive management fee target return of 12.0%, in accordance with the Priority of Payments after making the prior distributions on the relevant payment date. For the years ended February 28, 2014 and 2013, and February 29, 2012, no Incentive Management Fee's have been paid.

Expenses

The Issuer bears its own organizational and offering expenses, all expenses related to its investment program and expenses incurred in connection with its operations including, but not limited to, external legal, administrative, trustee, accounting, tax and audit expenses, costs related to trading, acquiring, monitoring or disposing of investments of the Issuer, and interest and other borrowing expenses, expenses of preparing and distributing reports, financial statements, and litigation or other extraordinary expenses. The Issuer has retained the Trustee to provide trustee services. Additionally, the Trustee performs loan administration, debt covenant compliance calculations, and monitoring and reporting services. For the years ended February 28, 2014 and 2013, and February 29, 2012, the Issuer paid \$0.1 million, \$0.1 million and \$0.1 million, respectively, for trustee services provided and is included in other expenses in the Statement of Operations.

Interest Expense

The Issuer has issued rated and unrated notes to finance its operations. Interest on debt is calculated by the Trustee for the Issuer. Interest is accrued and generally paid quarterly. For the years ended February 28, 2014 and 2013, and February 29, 2012, \$5.7 million, \$8.8 million and \$7.9 million of payments to the Subordinated Notes were included in interest expense in the Statement of Operations, respectively.

Risk Management

In the ordinary course of its business, the Issuer 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 Issuer 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.

The Issuer 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.

3. Fair Value Measurements

As noted above, the Issuer 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 Issuer 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 Issuer 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 Level 3 asset, assuming no additional corroborating evidence.

In addition to using the above inputs in investment valuations, the Issuer continues to employ the valuation policy that is consistent with ASC 820 and the 1940 Act.

[Table of Contents](#)

The following table presents fair value measurements of investments, by major class, as of February 28, 2014, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$297,872,178	\$2,618,899	\$300,491,077
Structured finance securities	—	—	—	—
Equity interest	—	—	—	—
Total	\$ —	\$297,872,178	\$2,618,899	\$300,491,077

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

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$ 358,237,074	\$ 4,256,932	\$ 362,494,006
Structured finance securities	—	—	10,850,000	10,850,000
Equity interest	5,410	—	1,070,563	1,075,973
Total	\$5,410	\$ 358,237,074	\$ 16,177,495	\$ 374,419,979

Transfers into or out of Level 1, 2 or 3 are recognized at the reporting date.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 28, 2014:

	Term Loans	Structured Finance Securities	Equity Interest
Balance as of February 28, 2013	\$ 4,256,932	\$ 10,850,000	\$ 1,070,563
Net unrealized gains (losses)	(45,982)	2,189,036	(394,438)
Purchases and other adjustments to cost	34,872	203,167	—
Sales and redemptions	(408,133)	(13,846,450)	(181,476)
Net realized gain (loss) from investments	102,394	604,247	(494,649)
Net transfers in and/or out of Level 3(1)	(1,321,184)	—	—
Balance as of February 28, 2014	\$ 2,618,899	\$ —	\$ —

- (1) The Issuer's investment in Tectum Holdings Inc. was transferred into Level 2 during the year ended February, 28, 2014, as the reliability of market quotes became available for this investment and have been subsequently used for valuation purposes.

Table of Contents

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 28, 2013:

	<u>Term Loans</u>	<u>Structured Finance Securities</u>	<u>Equity Interest</u>
Balance as of February 29, 2012	\$ —	\$ 14,507,600	\$1,070,563
Net unrealized gains (losses)	(102,541)	(126,657)	—
Purchases and other adjustments to cost	4,018,668	219,455	—
Sales and redemptions	(74,141)	(4,000,000)	—
Net realized gain (loss) from investments	26,621	249,602	—
Net transfers in and/or out of Level 3(2)	388,325	—	—
Balance as of February 28, 2013	<u>\$4,256,932</u>	<u>\$ 10,850,000</u>	<u>\$1,070,563</u>

- (2) The Issuer's investment in PATS Aircraft, LLC was transferred into Level 3 during the year ended February, 28, 2013 due to changes in liquidity. These changes impacted the Investment Manager's ability to obtain observable market information. Accordingly, the determination of fair value for this investment required significant management judgment and estimation, resulting in a Level 3 classification for the year ended February 28, 2013.

Transfers into or out of Level 3 are recognized at the reporting date.

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 unrealized loss on level 3 investments held as of February 28, 2014 and February 28, 2013, was \$0.02 million and \$1.8 million, respectively, and is included in net unrealized appreciation on investments in the Statements of Operations.

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:

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Term loans	\$ 4,256,932	Yield Analysis	Market Yield	7.7% - 17.0%
Structured finance securities	\$ 10,850,000	Yield Analysis	Market Yield	8.9% - 10.7%
Equity interest	\$ 1,070,563	Market Comparable	EBITDA Multiples	5.5x - 8.0x

Significant unobservable inputs used in the fair value measurement of the Issuer's term loans and structured finance securities include comparable market yields. For investments utilizing a yield analysis valuation technique, a significant increase (decrease) in the market yield, in isolation, would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption for comparable yields is accompanied by a directionally opposite change in the assumption used for pricing.

Significant unobservable inputs used in the fair value measurement of the Issuer's equity interests include EBITDA multiples. For investments utilizing EBITDA multiples, a significant increase (decrease) in the EBITDA multiple, in isolation, would result in a significant higher (lower) fair value measurement.

[Table of Contents](#)

4. Financing

On January 22, 2008, the Issuer issued \$400.0 million of notes, consisting of Class A Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes (collectively the “Secured Notes”), and Subordinated Notes. The notes were issued pursuant to the Indenture.

The Secured Notes are limited recourse obligations of the Issuer. The Subordinated Notes are unsecured, limited recourse debt obligations of the Issuer.

On October 17, 2013, the Issuer issued \$284.9 million of notes (the “2013-1 CLO Notes”), consisting of Class X Floating Rate Senior Notes, Class A-1 Floating Rate Senior Notes, Class A-2 Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes, and Class F Deferrable Floating Rate Notes. The 2013-1 CLO Notes were issued pursuant to the Indenture with the same Trustee. Proceeds of the issuance of the 2013-1 CLO Notes were used along with existing assets held by the Trustee to redeem all of the Secured Notes issued in 2008. The Subordinated Notes were not included in the refinancing transaction.

The 2013-1 CLO Notes are limited recourse obligations of the Issuer. The Subordinated Notes are unsecured, limited recourse debt obligations of the Issuer.

The relative order of seniority of payment of each class of securities is, as follows: first, Class X Notes, second, Class A-1 Notes, third, Class A-2 Notes, fourth, Class B Notes, fifth, Class C Notes, sixth, Class D Notes, seventh, Class E Notes, eighth, Class F Notes, and ninth, the Subordinated Notes, with (a) each class of securities (other than the Subordinated Notes) in such list being senior to each other class of securities that follows such class of securities in such list and (b) each class of securities (other than the Class X Notes) in such list being subordinate to each other class of securities that precedes such class of securities in such list. The Subordinated Notes are subordinated to the 2013-1 CLO Notes and are entitled to periodic payments from interest proceeds available in accordance with the Priority of Payments.

The table below sets forth certain information for each outstanding class of notes issued, pursuant to the Indenture on October 17, 2013, at February 28, 2014:

<u>Debt Security</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Amount Outstanding</u>
Class X Floating Rate Senior Notes	LIBOR + 1.05%	October 20, 2023	\$ 2,500,000	\$ 1,666,666
Class A-1 Floating Rate Senior Notes	LIBOR + 1.30%	October 20, 2023	170,000,000	170,000,000
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	October 20, 2023	20,000,000	20,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.00%	October 20, 2023	44,800,000	44,800,000
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	October 20, 2023	16,000,000	16,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	October 20, 2023	14,000,000	14,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	October 20, 2023	13,100,000	13,100,000
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	October 20, 2023	4,500,000	4,500,000
Subordinated Notes	N/A	October 20, 2023	30,000,000	30,000,000
			<u>\$ 314,900,000</u>	<u>\$ 314,066,666</u>

[Table of Contents](#)

The table below sets forth certain information for each outstanding class of notes issued, pursuant to the Indenture on January 22, 2008, at February 28, 2013:

<u>Debt Security</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Amount Outstanding</u>
Class A Floating Rate Senior Notes	LIBOR + 0.75%	January 21, 2020	\$ 296,000,000	\$ 296,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.50%	January 21, 2020	22,000,000	22,000,000
Class C Deferrable Floating Rate Notes	LIBOR + 3.75%	January 21, 2020	14,000,000	14,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	January 21, 2020	16,000,000	16,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 6.45%	January 21, 2020	22,000,000	17,960,044
Subordinated Notes	N/A	January 21, 2020	30,000,000	30,000,000
			<u>\$ 400,000,000</u>	<u>\$ 395,960,044</u>

The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 28, 2014:

<u>Debt Security</u>	<u>February 28, 2014</u>
Class X Floating Rate Senior Notes	\$ 1,664,666
Class A-1 Floating Rate Senior Notes	168,878,000
Class A-2 Floating Rate Senior Notes	20,000,000
Class B Floating Rate Senior Notes	44,679,040
Class C Deferrable Floating Rate Notes	15,944,000
Class D Deferrable Floating Rate Notes	13,766,200
Class E Deferrable Floating Rate Notes	12,481,680
Class F Deferrable Floating Rate Notes	4,398,300
Subordinated Notes	19,569,596
	<u>\$ 301,381,482</u>

These notes are fair valued based on a discounted cash flow model, specifically using Intex cash flow models, to form the basis for the valuation and would be classified as level 3 liabilities within the fair value hierarchy.

The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 28, 2013:

<u>Debt Security</u>	<u>February 28, 2013</u>
Class A Floating Rate Senior Notes	\$ 292,879,007
Class B Floating Rate Senior Notes	22,900,917
Class C Deferrable Floating Rate Notes	14,592,983
Class D Deferrable Floating Rate Notes	16,414,949
Class E Deferrable Floating Rate Notes	17,999,348
Subordinated Notes	25,516,959
	<u>\$ 390,304,163</u>

[Table of Contents](#)

The following table provides the weighted average interest rate for the years ended February 28, 2014, February 28, 2013 and February 29, 2012:

Debt Security	Interest Rate	Weighted Average Interest Rate		
		February 28, 2014	February 28, 2013	February 29, 2012
2013-1 CLO Notes				
Class X Floating Rate Senior Notes	LIBOR + 1.05%	1.29%	N/A	N/A
Class A-1 Floating Rate Senior Notes	LIBOR + 1.30%	1.54%	N/A	N/A
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	1.74%	N/A	N/A
Class B Floating Rate Senior Notes	LIBOR + 2.00%	2.24%	N/A	N/A
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	3.14%	N/A	N/A
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	3.74%	N/A	N/A
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	4.74%	N/A	N/A
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	5.99%	N/A	N/A
Subordinated Notes	N/A	N/A	N/A	N/A
Secured Notes				
Class A Floating Rate Senior Notes	LIBOR + 0.75%	1.03%	1.15%	1.12%
Class B Floating Rate Senior Notes	LIBOR + 2.50%	2.78%	2.90%	2.87%
Class C Deferrable Floating Rate Notes	LIBOR + 3.75%	4.03%	4.15%	4.12%
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	4.98%	5.10%	5.07%
Class E Deferrable Floating Rate Notes	LIBOR + 6.45%	6.73%	6.85%	6.82%

The Indenture provides that payments on the Subordinated Notes shall rank subordinate in priority of payment to payments due on all classes of 2013-1 CLO Notes and subordinate in priority of payment to the payment of fees and expenses. Distributions on the Subordinated Notes are limited to the assets of the Issuer remaining after payment of all of the liabilities of the Issuer that rank senior in priority of payment to the Subordinated Notes. To the extent that the proceeds from the collateral are not sufficient to make distributions on the Subordinated Notes the Issuer will have no further obligation in respect of the Subordinated Notes.

Interest proceeds and, after the 2013-1 CLO Notes have been paid in full, principal proceeds, in each case will be distributed to the holders of the Subordinated Notes in accordance with the Indenture.

Distributions, if any, on the Subordinated Notes will be payable quarterly on the 20th day of each January, April, July and October of each calendar year or, if any such day is not a business day, on the next succeeding business day (each, a "Payment Date"), commencing on the first Payment Date, and on January 21, 2020 (or if any such day is not a business day, the next succeeding business day) (the "Stated Redemption Date") (if not redeemed prior to such date) sequentially in order of seniority. At the Stated Redemption Date, the Subordinated Notes will be redeemed after payment in full of all of the 2013-1 CLO Notes and the payment of all administrative and other fees and expenses. The failure to pay interest proceeds or principal proceeds to the holders of the Subordinated Notes will not be an event of default under the Indenture.

In May of 2009, the Issuer defaulted on its Class E overcollateralization ratio of 105.10%, at which point, \$4.0 million of interest proceeds were used to repay the Class E Notes through November 2009. Interest on the

[Table of Contents](#)

Class C, Class D, and Class E Notes was deferred and repaid in January of 2010 upon the Issuer's return to compliance. Distributions to the Subordinated Notes resumed in April of 2010.

As of February 28, 2014, the remaining unamortized discount on the Class X, Class A-1 Notes, Class A-2 Notes, Class B Notes, Class C Notes, Class D Notes, Class E Notes, and Class F Notes were \$0.0 million, \$1.7 million, \$0.2 million, \$1.1 million, \$0.7 million, \$0.9 million, \$1.7 million and \$0.6 million, respectively.

The remaining unamortized deferred debt financing costs, on the Secured Notes, of \$1.6 million, and unamortized discount on the Secured Notes of \$1.8 million, were recognized as additional amortization expense when the related notes were extinguished and recorded within loss on extinguishment of debt in the Statement of Operations.

5. Income Tax

Under the current laws, the Issuer is not subject to net income taxation in the United States or the Cayman Islands. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Pursuant to ASC Topic 740, *Accounting for Uncertainty in Income Taxes*, the Issuer adopted the provisions of FASB relating to accounting for uncertainty in income taxes which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position must meet before being recognized in the financial statements and applies to all open tax years as of the effective date. The Investment Manager has analyzed such tax positions for uncertain tax positions for tax years that may be open (2011 - 2014). The Issuer identifies its major tax jurisdictions as U.S. Federal, state and foreign jurisdictions where the Issuer makes investments. As of February 28, 2014 and 2013, there was no impact to the financial statements as a result of the Issuer's accounting for uncertainty in income taxes. The Issuer does not have any unrecognized tax benefits or liabilities for the years ended February 28, 2014 and 2013, and February 29, 2012. Also, the Issuer recognizes interest and, if applicable, penalties for any uncertain tax positions, as a component of income tax expense. No interest or penalty expense was recorded by the Issuer for the years ended February 28, 2014 and 2013, and February 29, 2012.

6. Commitments and Contingencies

In the ordinary course of its business, the Issuer 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 Issuer. Based on its history and experience, the Investment Manager feels that the likelihood of such an event is remote.

In the ordinary course of business, the Issuer 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 Issuer. As of February 28, 2014 and 2013, the Issuer is not subject to any material legal proceedings.

The terms of Collateralized Debt Investments may require the Issuer to provide funding for any unfunded portion of a Collateralized Debt Investment at the request of the borrower. At February 28, 2014 and 2013, the Issuer had no unfunded commitments.

7. Related-Party Transactions

In the ordinary course of business and as permitted per the terms of the Indenture, the Issuer may acquire or sell investments to or from related parties at the fair value at such time. For the years ended February 28, 2014 and 2013, and February 29, 2012, the Issuer bought no investments from related parties and sold investments fair valued at \$0.3 million, \$0.0 million and \$15.6 million, respectively, to the Investment Manager.

[Table of Contents](#)

The Subordinated Notes are wholly owned by the Investment Manager. The Subordinated Notes do not have a stated coupon rates, but are entitled to residual cash flows from the CLO's investments after all of the other tranches of debt and certain other fees and expenses are paid. For the years ended February 28, 2014 and 2013, and February 29, 2012, \$5.7 million, \$8.8 million, and \$7.9 million of payments to the Subordinated Notes were included in interest expense in the Statement of Operations, respectively.

8. Shareholders' Capital

Capital contributions and distributions shall be made at such time and in such amounts as determined by the Investment Manager and the Indenture.

The majority holder of the Subordinated Notes has various control rights over the CLO, including the ability to call the CLO prior to its legal maturity, replace the Investment Manager under certain circumstances, and refinance any of the outstanding debt tranches. The voting structure of the Subordinated Notes may require either majority or unanimous approval depending upon the issue.

The authorized share capital of the Issuer consists of 50,000 ordinary shares, 250 of which are owned by Maples Finance Limited and are held under the terms of a declaration of trust.

As of February 28, 2014 and February 28, 2013, net assets were \$(3.3) million and \$0.8 million, respectively. These amounts include accumulated gains of \$0.8 million and accumulated losses of \$(6.0) million, respectively, which includes cumulative net investment income or loss, cumulative amounts of gains and losses realized from investment transactions, net unrealized appreciation or depreciation of investments, as well as the cumulative effect of accounting mismatches between investments accounted for at fair value and amortized cost or accrual-basis assets and liabilities as discussed in Significant Accounting Policies, above. The Issuer's investments continue to generate sufficient liquidity to satisfy its obligations on periodic payment dates as well as comply with all performance criteria as of the Statements of Assets and Liabilities date.

9. Financial Highlights

The following is a schedule of financial highlights for the years ended February 28, 2014 and 2013 and February 29, 2012:

	February 28, 2014	February 28, 2013	February 29, 2012
Average subordinated notes' capital balance(1)	\$ 28,471,910	\$ 27,165,497	\$ 20,808,673
Ratio and supplemental data:			
Total Return(2)	4.65%	73.51%	41.28%
Net investment income(3)	(7.53)%	3.80%	11.38%
Total expenses(3)	65.27%	70.97%	87.40%
Base management fee(3)	1.82%	1.47%	1.93%
Subordinated management fee(3)	4.42%	5.89%	7.73%

- (1) Subordinated notes' capital balance is calculated based on the sum of the subordinated notes outstanding amount and total net assets, net of ordinary equity.
- (2) Total return is calculated based on a time-weighted rate of return methodology. Quarterly rates of return are compounded to derive the total return reflected above. Total return is calculated for the subordinated notes' capital taken as a whole and assumes the purchase of the subordinated notes' capital on the first day of the period and the sale of the last day of the period.
- (3) Calculated based on the average subordinated notes' capital balance.

10. Subsequent Events

The Investment Manager has evaluated events or transactions that have occurred since February 28, 2014 through May 27, 2014, the date the financial statements were available for issuance. The Investment Manager has determined that there are no material events that would require the disclosure in the financial statements.

\$50,000,000

SARATOGA INVESTMENT CORP.

Prospectus

, 2014

PART C—OTHER INFORMATION**Item 25. Financial Statements and Exhibits**1. *Financial Statements*

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	F-2
Consolidated Statements of Assets and Liabilities as of February 28, 2014 and February 28, 2013	F-3
Consolidated Statements of Operations for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-4
Consolidated Schedules of Investments as of February 28, 2014 and February 28, 2013	F-5
Consolidated Statements of Changes in Net Assets for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-12
Consolidated Statements of Cash Flows for the years ended February 28, 2014, February 28, 2013, and February 29, 2012	F-13
Notes to Consolidated Financial Statements	F-14
Consolidated Statements of Assets and Liabilities as of August 31, 2014 (unaudited) and February 28, 2014	F-39
Consolidated Statements of Operations for the three and six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-40
Consolidated Schedules of Investments as of August 31, 2014 (unaudited) and February 28, 2014	F-41
Consolidated Statements of Changes in Net Assets for the six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-49
Consolidated Statements of Cash Flows for the six months ended August 31, 2014 and August 31, 2013 (unaudited)	F-50
Notes to Consolidated Financial Statements as of August 31, 2014 (unaudited)	F-51

2. **Exhibits**

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

<u>Exhibit Number</u>	<u>Description</u>
(a)(1)	Articles of Incorporation of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Form 10-Q for the quarterly period ended May 31, 2007).
(a)(2)	Articles of Amendment of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed August 3, 2010).
(a)(3)	Articles of Amendment of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed August 13, 2010).
(b)	Amended and Restated Bylaws of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on March 5, 2008).
(c)	Not applicable.
(d)(1)	Specimen certificate of Saratoga Investment Corp.'s common stock, par value \$0.001 per share. (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-169135, filed on September 1, 2010).
(d)(2)	Registration Rights Agreement dated July 30, 2010 between Saratoga Investment Corp., GSC CDO III L.L.C., and the investors party thereto (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(d)(4)	Form of Indenture by and between the Company and U.S. Bank National Association, as trustee (incorporated by reference to the registrant's Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>
(d)(5)	Statement of Eligibility of Trustee on Form T-1.**
(d)(6)	Form of First Supplemental Indenture between the Company and U.S. Bank National Association (incorporated by reference to the registrant's Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).
(d)(7)	Form of Note (Filed as Exhibit A to First Supplemental Indenture referred to in Exhibit (d)(6)) (incorporated by reference to the registrant's Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).
(d)(8)	Form of Warrant Certificate and Warrant Agreement*
(d)(9)	Form of Subscription Certificate and Subscription Agreement*
(d)(10)	Form of Articles Supplementary Establishing and Fixing the Rights and Preferences of Preferred Stock.**
(e)	Dividend Reinvestment Plan (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on September 24, 2014).
(f)	Not applicable.
(g)	Investment Advisory and Management Agreement dated July 30, 2010 between Saratoga Investment Corp. and Saratoga Investment Advisors, LLC.**
(h)	Form of Underwriting Agreement.*
(i)	Not applicable.
(j)	Custodian Agreement dated March 21, 2007 between Saratoga Investment LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Form 10-Q for the quarterly period ended May 31, 2007).
(k)(1)	Administration Agreement dated July 30, 2010 between Saratoga Investment Corp. and Saratoga Investment Advisors, LLC (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(k)(2)	Trademark License Agreement dated July 30, 2010 between Saratoga Investment Advisors, LLC and Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(k)(3)	Credit, Security and Management Agreement dated July 30, 2010 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(k)(4)	Amendment No. 1 to Credit, Security and Management Agreement dated February 24, 2012 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on February 29, 2012).
(k)(5)	Form of Indemnification Agreement between Saratoga Investment Corp. and each officer and director of Saratoga Investment Corp. (incorporated by reference to Amendment No. 2 to Saratoga Investment Corp.'s Registration Statement on Form N-2 filed on January 12, 2007).
(k)(6)	Indenture, dated as of October 17, 2013, among Saratoga Investment Corp. CLO 2013-1, Ltd., Saratoga Investment Corp. CLO 2013-1, Inc. and U.S. Bank National Association.**
(k)(7)	Amended and Restated Collateral Management Agreement, dated October 17, 2013, by and between Saratoga Investment Corp. and Saratoga Investment Corp. CLO 2013-1, Ltd.**

Table of Contents

<u>Exhibit Number</u>	<u>Description</u>
(k)(8)	Amendment No. 2 to Credit, Security and Management Agreement dated September 17, 2014 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on September 18, 2014).
(l)	Opinion and Consent of Sutherland Asbill & Brennan LLP, counsel for Saratoga Investment Corp.**
(m)	Not applicable.
(n)(1)	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm, relating to Saratoga Investment Corp. and Saratoga Investment Corp. CLO 2013-1, Ltd.**
(n)(2)	Report of Ernst & Young LLP regarding the senior securities table contained herein (incorporated by reference to the registrant's Registration Statement on Form N-2, File No. 333-196526, filed on June 4, 2014).
(o)	Not applicable.
(p)	Not applicable.
(q)	Not applicable.
(r)	Code of Ethics of the Company adopted under Rule 17j-1 (incorporated by reference to Amendment No. 7 to the registrant's Registration Statement on Form N-2, File No. 333-138051, filed on March 22, 2007).
99.1	Statement of Computation of Ratios of Earnings to Fixed Charges.**
99.2	Form of prospectus supplement for common stock offerings.**
99.3	Form of prospectus supplement for preferred stock offerings.**
99.4	Form of prospectus supplement for subscription rights offering.**
99.5	Form of prospectus supplement for warrant offerings.**
99.6	Form of prospectus supplement for retail note offerings.**
99.7	Form of prospectus supplement for institutional note offerings.**

* To be filed by pre- or post-effective amendment, if applicable.

** Filed herewith.

Item 26. Marketing Arrangements

The information contained under the heading "Plan of Distribution" on this Registration Statement is incorporated herein by reference.

[Table of Contents](#)

Item 27. Other Expenses of Issuance and Distribution

Securities and Exchange Commission registration fee	\$ 6,440
FINRA filing fee	8,000
New York Stock Exchange listing fees	29,600
Printing expenses(1)	25,000
Accounting fees and expenses(1)	80,000
Legal fees and expenses(1)	150,000
Miscellaneous(1)	10,000
Total	<u>\$309,040</u>

(1) The amounts set forth above, with the exception of the Securities and Exchange Commission fee, are in each case estimated. All expenses set forth above will be borne by the Registrant.

Item 28. Persons Controlled by or Under Common Control

The Registrant has two subsidiaries, Saratoga Investment Funding LLC, a Delaware limited liability company and Saratoga Investment Corp. SBIC LP, a Delaware limited partnership. The Registrant owns 100% of the outstanding equity interests of Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP.

In addition, the Registrant may be deemed to control Saratoga Investment Corp. CLO 2013-1 Ltd. one of the Registrant's portfolio companies.

Item 29. Number of Holders of Securities

The following table sets forth the approximate number of record holders of the Company's common stock as of December 1, 2014.

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, \$0.001 par value	19

Item 30. Indemnification

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant's charter and Article XI of the Registrant's Amended and Restated Bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant's charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the "1940 Act").

The Registrant's charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant's bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the

[Table of Contents](#)

requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant's employees or agents or any employees or agents of the Registrant's predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

Maryland law requires a corporation (unless its charter provides otherwise, which the Registrant's charter does not) to indemnify a director or officer who has been successful in the defense of any proceeding to which he or she is made, or threatened to be made, a party by reason of his or her service in that capacity. Maryland law permits a corporation to indemnify its present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made, or threatened to be made, a party by reason of their service in those or other capacities unless it is established that (a) the act or omission of the director or officer was material to the matter giving rise to the proceeding and (1) was committed in bad faith or (2) was the result of active and deliberate dishonesty, (b) the director or officer actually received an improper personal benefit in money, property or services or (c) in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful. However, under Maryland law, a Maryland corporation may not indemnify for an adverse judgment in a suit by or in the right of the corporation or for a judgment of liability on the basis that a personal benefit was improperly received unless, in either case, a court orders indemnification, and then only for expenses. In addition, Maryland law permits a corporation to advance reasonable expenses to a director or officer in advance of final disposition of a proceeding upon the corporation's receipt of (a) a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by the corporation and (b) a written undertaking by him or her or on his or her behalf to repay the amount paid or reimbursed by the corporation if it is ultimately determined that the standard of conduct was not met.

Adviser and Administrator

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Saratoga Investment Advisors, LLC (the "investment adviser") and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the investment adviser's services under the investment advisory agreement or otherwise as an investment adviser of the Registrant.

The administration agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Saratoga Investment Advisors, LLC and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Saratoga Investment Advisors, LLC's services under the administration agreement or otherwise as administrator for the Registrant.

The law also provides for comparable indemnification for corporate officers and agents. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the "Securities Act") may be

Table of Contents

permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant has entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Registrant's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Registrant shall indemnify the director who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Registrant.

Item 31. Business and Other Connections of Investment Adviser

A description of any other business, profession, vocation or employment of a substantial nature in which the Adviser, and each managing director, director or executive officer of the Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Management." Additional information regarding the Adviser and its officers and directors will be set forth in its Form ADV to be filed with the Securities and Exchange Commission.

Item 32. Location of Accounts and Records

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Saratoga Investment Corp., 535 Madison Avenue, New York, New York 20022;
- (2) the Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, Plaza Level, New York, New York 10038;
- (3) the Custodian, U.S. Bank National Association, 214 N. Tryon Street, 12th Floor, Charlotte, North Carolina 28202; and
- (4) the Adviser, Saratoga Investment Advisors, LLC, 535 Madison Avenue, New York, New York 20022.

Item 33. Management Services

Not Applicable.

Item 34. Undertakings

- (1) Registrant undertakes to suspend the offering of the securities covered hereby until it amends the prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value declines more than 10% from its net asset value as of the effective date of this Registration Statement, or (b) its net asset value increases to an amount greater than its net proceeds as stated in the prospectus contained herein.
- (2) Not applicable.
- (3) Registrant undertakes in the event that the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by shareholders are to be reoffered

Table of Contents

to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent underwriting thereof. Registrant further undertakes that if any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, the Registrant shall file a post-effective amendment to set forth the terms of such offering.

- (4) Registrant undertakes:
- (a) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
 - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
 - (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
 - (iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement.
 - (b) that, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at the time shall be deemed to be the initial *bona fide* offering thereof;
 - (c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
 - (d) that, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act of 1933 as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act of 1933, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however,* that no statement made in a registration statement or prospectus that is part of the Registration Statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and
 - (e) that for the purpose of determining liability of the Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of securities:

the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

 - (i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act of 1933;
 - (ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act of 1933 relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
 - (iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

[Table of Contents](#)

- (5) The Registrant hereby undertakes to file a post-effective amendment to the registration statement under Section 8(a) of the Securities Act if the cumulative dilution to its net asset value (“NAV”) per share arising from an offering from the effective date of the current registration statement through and including any follow-on offering would exceed 15% based on the anticipated pricing of such follow-on offering. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the anticipated percentage dilution from each subsequent offering. If the Registrant files a new post-effective amendment, the threshold would reset.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Amendment No. 1 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in The City of New York, in the State of New York, on the 5th day of December 2014.

SARATOGA INVESTMENT CORP.

By:

Name: Christian L. Oberbeck
Title: *Chief Executive Officer*

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Christian L. Oberbeck</u> Christian L. Oberbeck	Chief Executive Officer and Director (Principal Executive Officer)	December 5, 2014
<u>/s/ Henri J. Steenkamp</u> Henri J. Steenkamp	Chief Compliance Officer and Secretary (Principal Financial and Accounting Officer)	December 5, 2014
<u>*</u> Michael J. Grisius	President and Director	December 5, 2014
<u>*</u> Steven M. Looney	Director	December 5, 2014
<u>*</u> Charles S. Whitman III	Director	December 5, 2014
<u>*</u> G. Cabell Williams	Director	December 5, 2014

* Signed by Henri J. Steenkamp pursuant to power of attorney granted on June 4, 2014.

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM T-1

**STATEMENT OF ELIGIBILITY
UNDER THE TRUST INDENTURE ACT OF 1939
OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE**

Check if an Application to Determine Eligibility of a Trustee Pursuant to Section 305(b)(2)

U.S. BANK NATIONAL ASSOCIATION

(Exact name of Trustee as specified in its charter)

31-0841368

I.R.S. Employer Identification No.

800 Nicollet Mall
Minneapolis, Minnesota
(Address of principal executive offices)

55402
(Zip Code)

Karen R. Beard
U.S. Bank National Association
One Federal Street
Boston, MA 02110
(617) 603-6565

(Name, address and telephone number of agent for service)

SARATOGA INVESTMENT CORP.
(Issuer with respect to the Securities)

New York
(State or other jurisdiction of
incorporation or organization)

20-8700615
(I.R.S. Employer
Identification No.)

535 Madison Avenue
New York, NY
(Address of Principal Executive Offices)

10022
(Zip Code)

Debt Securities
(Title of the Indenture Securities)

FORM T-1

Item 1. GENERAL INFORMATION. Furnish the following information as to the Trustee.

a) *Name and address of each examining or supervising authority to which it is subject.*

Comptroller of the Currency
Washington, D.C.

b) *Whether it is authorized to exercise corporate trust powers.*

Yes

Item 2. AFFILIATIONS WITH OBLIGOR. *If the obligor is an affiliate of the Trustee, describe each such affiliation.*

None

Items 3-15 *Items 3-15 are not applicable because to the best of the Trustee's knowledge, the obligor is not in default under any Indenture for which the Trustee acts as Trustee.*

Item 16. LIST OF EXHIBITS: *List below all exhibits filed as a part of this statement of eligibility and qualification.*

1. A copy of the Articles of Association of the Trustee.*
2. A copy of the certificate of authority of the Trustee to commence business, attached as Exhibit 2.
3. A copy of the certificate of authority of the Trustee to exercise corporate trust powers, attached as Exhibit 3.
4. A copy of the existing bylaws of the Trustee.**
5. A copy of each Indenture referred to in Item 4. Not applicable.
6. The consent of the Trustee required by Section 321(b) of the Trust Indenture Act of 1939, attached as Exhibit 6.
7. Report of Condition of the Trustee as of June 30, 2014 published pursuant to law or the requirements of its supervising or examining authority, attached as Exhibit 7.

* Incorporated by reference to Exhibit 25.1 to Amendment No. 2 to registration statement on S-4, Registration Number 333-128217 filed on November 15, 2005.

** Incorporated by reference to Exhibit 25.1 to registration statement on S-4, Registration Number 333-166527 filed on May 5, 2010.

SIGNATURE

Pursuant to the requirements of the Trust Indenture Act of 1939, as amended, the Trustee, U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Boston, Commonwealth of Massachusetts on the 6th of August, 2014.

By: /s/ Karen R. Beard
Karen R. Beard
Vice President



CERTIFICATE OF CORPORATE EXISTENCE

I, Thomas J. Curry, Comptroller of the Currency, do hereby certify that:

1. The Comptroller of the Currency, pursuant to Revised Statutes 324, et seq, as amended, and 12 USC 1, et seq, as amended, has possession, custody, and control of all records pertaining to the chartering, regulation, and supervision of all national banking associations.
2. "U.S. Bank National Association," Cincinnati, Ohio (Charter No. 24), is a national banking association formed under the laws of the United States and is authorized thereunder to transact the business of banking on the date of this certificate.

IN TESTIMONY WHEREOF, today, May 1, 2014, I have hereunto subscribed my name and caused my seal of office to be affixed to these presents at the U.S. Department of the Treasury, in the City of Washington, District of Columbia.



A handwritten signature in black ink, appearing to read "Thomas J. Curry".

Comptroller of the Currency



CERTIFICATION OF FIDUCIARY POWERS

I, Thomas J. Curry, Comptroller of the Currency, do hereby certify that:

1. The Office of the Comptroller of the Currency, pursuant to Revised Statutes 324, et seq, as amended, and 12 USC 1, et seq, as amended, has possession, custody, and control of all records pertaining to the chartering, regulation, and supervision of all national banking associations.
2. "U.S. Bank National Association," Cincinnati, Ohio (Charter No. 24), was granted, under the hand and seal of the Comptroller, the right to act in all fiduciary capacities authorized under the provisions of the Act of Congress approved September 28, 1962, 76 Stat. 668, 12 USC 92a, and that the authority so granted remains in full force and effect on the date of this certificate.

IN TESTIMONY WHEREOF, today, May 1, 2014, I have hereunto subscribed my name and caused my seal of office to be affixed to these presents at the U.S. Department of the Treasury, in the City of Washington, District of Columbia.



A handwritten signature in black ink, appearing to read "Thomas J. Curry".

Comptroller of the Currency

Exhibit 6

CONSENT

In accordance with Section 321(b) of the Trust Indenture Act of 1939, the undersigned, U.S. BANK NATIONAL ASSOCIATION hereby consents that reports of examination of the undersigned by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon its request therefor.

Dated: August 6, 2014

By: /s/ Karen R. Beard
Karen R. Beard
Vice President

Exhibit 7
U.S. Bank National Association
Statement of Financial Condition
As of 6/30/2014

(\$000's)

	6/30/2014
Assets	
Cash and Balances Due From Depository Institutions	\$ 12,591,901
Securities	89,882,232
Federal Funds	109,925
Loans & Lease Financing Receivables	241,450,255
Fixed Assets	4,561,715
Intangible Assets	13,335,806
Other Assets	22,261,774
Total Assets	\$ 384,193,608
Liabilities	
Deposits	\$ 286,193,358
Fed Funds	1,264,138
Treasury Demand Notes	0
Trading Liabilities	382,290
Other Borrowed Money	37,760,161
Acceptances	0
Subordinated Notes and Debentures	5,023,000
Other Liabilities	12,274,098
Total Liabilities	\$ 342,897,048
Equity	
Common and Preferred Stock	18,200
Surplus	14,266,407
Undivided Profits	26,159,120
Minority Interest in Subsidiaries	\$ 852,836
Total Equity Capital	\$ 41,296,563
Total Liabilities and Equity Capital	\$ 384,193,608

SARATOGA INVESTMENT CORP.

**FORM OF ARTICLES SUPPLEMENTARY
ESTABLISHING AND FIXING THE RIGHTS AND PREFERENCES
OF TERM PREFERRED SHARES**

Saratoga Investment Corp. (the "Corporation"), a Maryland corporation, certifies to the State Department of Assessments and Taxation of Maryland that:

RECITALS

FIRST: The Corporation is authorized under Article VI of the Corporation's Articles of Incorporation of the Corporation (which, as amended or hereafter restated or amended from time to time, are herein called the "Articles"), to issue up to 100,000,000 shares of stock, with an aggregate par value of \$10,000 ("Capital Stock").

SECOND: Pursuant to Article VI of the Articles, all 100,000,000 such shares of Capital Stock were initially classified as Common Stock (as defined in the Articles); and

THIRD: Pursuant to the authority expressly vested in the Board of Directors of the Corporation (the "Board of Directors" which term as used herein shall include any duly authorized committee of the Board of Directors) by Article VI of the Articles, the Board of Directors has, by resolution, reclassified from the unissued Common Stock and authorized the issuance of [] Preferred Shares, par value \$0.0001 per share, such class of stock to be classified as "Term Preferred Shares," and such Term Preferred Shares to be issued in one or more series.

FOURTH: The preferences, voting powers, restrictions, limitations as to dividends, qualifications, and terms and conditions of redemption, of each Series of Term Preferred Shares are set forth in these Articles Supplementary, as modified, amended or supplemented from time to time in any Appendix (each an "Appendix" and collectively the "Appendices") to these Articles Supplementary specifically relating to such Series (each such Series being referred to herein as a "Series of Term Preferred Shares", "Term Preferred Shares of a Series" or a "Series" and shares of all such Series being referred to herein individually as a "Term Preferred Share" and collectively as the "Term Preferred Shares").

FIFTH: These Articles Supplementary shall become effective as of _____ Eastern time on _____, 20__.

Article I. DEFINITIONS

Section 1.01 Definitions. Unless the context or use indicates another or different meaning or intent and except with respect to any Series as specifically provided in the Appendix applicable to such Series, each of the following terms when used in these Articles Supplementary shall have the meaning ascribed to it below, whether such term is used in the singular or plural and regardless of tense:

“1940 Act” means the Investment Company Act of 1940, as amended, or any successor statute.

“1940 Act Asset Coverage” means the asset coverage specified in Section 18(a)(2)(B) of the 1940 Act as in effect on the date hereof.

“Appendices” and “Appendix” shall have the respective meanings as set forth in the Recitals of these Articles Supplementary.

“Articles” shall have the meaning as set forth in the Recitals of these Articles Supplementary.

“Articles Supplementary” means these Saratoga Investment Corp. Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares, as they may be amended from time to time in accordance with their terms.

“Asset Coverage” means “asset coverage” of a class of senior security which is stock, as specified in Section 18 of the 1940 Act as in effect on the date hereof.

“Asset Coverage Cure Date” means, with respect to the failure by the Corporation to maintain Asset Coverage as of the close of business on the last Business Day of a Calendar Quarter (as required by Section 2.04(a)), the date that is thirty (30) calendar days following the Filing Date with respect to such Calendar Quarter.

“Board of Directors” shall have the meaning as set forth in the Recitals of these Articles Supplementary.

“Business Day” means any calendar day on which the New York Stock Exchange is open for trading.

“Calendar Quarter” shall mean any of the three month periods ending March 31, June 30, September 30, or December 31, of each year.

“Capital Stock” shall have the meaning as set forth in the Recitals of these Articles Supplementary.

“Common Stock” means the shares of common stock, with a par value of (\$0.0001) per share, of the Corporation.

“Corporation” shall have the meaning as set forth in the Preamble to these Articles Supplementary.

“Custodian” means a bank, as defined in Section 2(a)(5) of the 1940 Act, that has the qualifications prescribed in paragraph 1 of Section 26(a) of the 1940 Act, or such other entity as shall be providing custodian services to the Corporation as permitted by the 1940 Act or any rule, regulation, or order thereunder, and shall include, as appropriate, any similarly qualified sub-custodian duly appointed by the Custodian.

“Custodian Agreement” means, with respect to any Series, the Custodian Agreement by and among the Custodian and the Corporation with respect to such Series.

“Date of Original Issue” means, with respect to any Series, the date specified as the Date of Original Issue for such Series in the Appendix for such Series.

“Default” shall have the meaning as set forth in Section 2.02(g)(i).

“Default Period” shall have the meaning as set forth in Section 2.02(g)(i).

“Default Rate” shall have the meaning as set forth in Section 2.02(g)(i).

“*Deposit Securities*” means, as of any date, any United States dollar-denominated security or other investment of a type described below that either (i) is a demand obligation payable to the holder thereof on any Business Day or (ii) has a maturity date, mandatory redemption date or mandatory payment date, on its face or at the option of the holder, preceding the relevant Redemption Date, Dividend Payment Date or other payment date in respect of which such security or other investment has been deposited or set aside as a Deposit Security:

- 1) cash or any cash equivalent;
- 2) any U.S. Government Obligation;
- 3) any Short-Term Money Market Instrument;
- 4) any investment in any money market fund registered under the 1940 Act that qualifies under Rule 2a-7 under the 1940 Act, or similar investment vehicle described in Rule 12d1-1(b)(2) under the 1940 Act, that invests principally in Short-Term Money Market Instruments or U.S. Government Obligations or any combination thereof; or
- 5) any letter of credit from a bank or other financial institution that has a credit rating from at least one rating agency that is the highest applicable rating generally ascribed by such rating agency to bank deposits or short-term debt of similar banks or other financial institutions as of the date of these Articles Supplementary (or such rating’s future equivalent).

“*Dividend Default*” shall have the meaning as set forth in Section 2.02(g)(i).

“*Dividend Payment Date*” means, with respect to any Series, each of the Dividend Payment Dates for such Series set forth in the Appendix for such Series.

“*Dividend Period*” means, with respect to any Series, the Dividend Period for such Series set forth in the Appendix for such Series.

“*Dividend Rate*” means, with respect to any Series and as of any date, the Fixed Dividend Rate for that Series as adjusted, if a Default Period shall be in existence on such date, in accordance with the provisions of Section 2.02(g).

“*Electronic Means*” means email transmission, facsimile transmission or other similar electronic means of communication providing evidence of transmission (but excluding online communications systems covered by a separate agreement) acceptable to the sending party and the receiving party, in any case if operative as between any two parties, or, if not operative, by telephone (promptly confirmed by any other method set forth in this definition), which, in the case of notices to the Redemption and Paying Agent and the Custodian, shall be sent by such means to each of its representatives set forth in the Redemption and Paying Agent Agreement and the Custodian Agreement, respectively.

“*Filing Date*” means, with respect to any Calendar Quarter, the date of filing of the Corporation’s SEC Report with respect to such Calendar Quarter.

“*Fixed Dividend Rate*” means, with respect to any Series, the rate per annum specified as the Fixed Dividend Rate for such Series in the Appendix for such Series.

“*Holder*” means, with respect to the Term Preferred Shares of any Series or any other security issued by the Corporation, a Person in whose name such security is registered in the registration books of the Corporation maintained by the Redemption and Paying Agent or otherwise.

“*Liquidation Preference*” means, with respect to any Series, the amount specified as the liquidation preference per share for that Series in the Appendix for such Series.

“*Mandatory Redemption Price*” shall have the meaning as set forth in Section 2.05(b)(i)(A).

“*Market Value*” of any asset of the Corporation means, for securities for which market quotations are readily available, the market value thereof determined by an independent third-party pricing service designated from time to time by the Board of Directors. Market Value of any asset shall include any interest accrued thereon. The pricing service values portfolio securities at the mean between the quoted bid and asked price or the yield equivalent when quotations are readily available. Securities for which quotations are not readily available are valued at fair value as determined by the pricing service using methods that include consideration of: yields or prices of securities of comparable quality, type of issue, coupon, maturity and rating; indications as to value from dealers; and general market conditions. The pricing service may employ electronic data processing techniques or a matrix system, or both, to determine recommended valuations.

“*Non-Call Period*” means, with respect to any Series, the period (if any) during which such Series shall not be subject to redemption at the option of the Corporation, as set forth in the Appendix for such Series.

“*Notice of Redemption*” shall have the meaning as set forth in Section 2.05(d).

“*Optional Redemption Date*” shall have the meaning as set forth in Section 2.05(c)(i).

“*Optional Redemption Premium*” means, with respect to any Series, the premium (expressed as a percentage of the Liquidation Preference of the shares of such Series), if any, payable by the Corporation upon the redemption of Term Preferred Shares of such Series at the option of the Corporation, as set forth in the Appendix for such Series.

“*Optional Redemption Price*” shall have the meaning as set forth in Section 2.05(c)(i).

“*Outstanding*” means, as of any date with respect to Term Preferred Shares of any Series, the number of Term Preferred Shares of such Series theretofore issued by the Corporation except (without duplication):

- 1) any shares of such Series theretofore cancelled or redeemed or delivered to the Redemption and Paying Agent for cancellation or redemption in accordance with the terms hereof;
- 2) any shares of such Series as to which the Corporation shall have given a Notice of Redemption and irrevocably deposited with the Redemption and Paying Agent sufficient Deposit Securities to redeem such shares in accordance with Section 2.05 hereof;
- 3) any shares of such Series as to which the Corporation shall be the Holder or the beneficial owner; and
- 4) any shares of such Series represented by any certificate in lieu of which any new certificate has been executed and delivered by the Corporation.

“*Person*” means and includes an individual, a partnership, a trust, a corporation, a limited liability company, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

“*Preferred Stock*” means any Capital Stock of the Corporation classified as preferred stock, including shares of each Series of Term Preferred Shares, shares of any other series of such preferred stock now or hereafter issued by the Corporation, and any other shares of Capital Stock hereafter authorized and issued by the Corporation of a class having priority over any other class as to distribution of assets or payments of dividends.

“*Redemption and Paying Agent*” means, with respect to any Series, [] and its successors or any other redemption and paying agent appointed by the Corporation with respect to such Series.

“*Redemption and Paying Agent Agreement*” means, with respect to any Series, the Redemption and Paying Agent Agreement or other similarly titled agreement by and among the Redemption and Paying Agent for such Series and the Corporation with respect to such Series.

“*Redemption Date*” shall have the meaning as set forth in Section 2.05(d).

“*Redemption Default*” shall have the meaning as set forth in Section 2.02(g)(i).

“*Redemption Price*” shall mean the Term Redemption Price, the Mandatory Redemption Price or the Optional Redemption Price, as applicable.

“*SEC Report*” means, with respect to any Calendar Quarter, the Corporation’s Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed by the Corporation with the Securities and Exchange Commission with respect to such Calendar Quarter (or, in the case of the Calendar Quarter that is the last Calendar Quarter in the Corporation’s fiscal year, with respect to the fiscal year that includes such Calendar Quarter).

“*Securities Depository*” shall mean [] and its successors and assigns or any other securities depository selected by the Corporation that agrees to follow the procedures required to be followed by such securities depository as set forth in these Articles Supplementary with respect to the Term Preferred Shares.

“*Series*” shall have the meaning as set forth in the Recitals of these Articles Supplementary.

“*Short-Term Money Market Instruments*” means the following types of instruments if, on the date of purchase or other acquisition thereof by the Corporation, the remaining term to maturity thereof is not in excess of 180 days:

- 1) commercial paper rated A-1 if such commercial paper matures in 30 days or A-1+ if such commercial paper matures in over 30 days;
- 2) demand or time deposits in, and banker’s acceptances and certificates of deposit of (A) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (B) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to banking regulation under the laws of the United States, any state thereof or the District of Columbia); and
- 3) overnight funds.

“*Term Preferred Shares*” shall have the meaning as set forth in the Recitals of these Articles Supplementary.

“*Term Redemption Date*” means, with respect to any Series, the date specified as the Term Redemption Date in the Appendix for such Series.

“*Term Redemption Price*” shall have the meaning as set forth in Section 2.05(a).

“*U.S. Government Obligations*” means direct obligations of the United States or of its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption.

“*Voting Period*” shall have the meaning as set forth in Section 2.06(b)(i).

With respect to any Series, any additional definitions specifically set forth in the Appendix relating to such Series and any amendments to any definitions specifically set forth in the Appendix relating to such Series, as such Appendix may be amended from time to time, shall be incorporated herein and made part hereof by reference thereto, but only with respect to such Series.

Section 1.02 Interpretation. The headings preceding the text of Articles and Sections included in these Articles Supplementary are for convenience only and shall not be deemed part of these Articles Supplementary or be given any effect in interpreting these Articles Supplementary. The use of the masculine, feminine or neuter gender or the singular or plural form of words herein shall not limit any provision of these Articles Supplementary. The use of the terms “including” or “include” shall in all cases herein mean “including, without limitation” or “include, without limitation,” respectively. Reference to any Person includes such Person’s successors and assigns to the extent such successors and assigns are permitted by the terms of any applicable agreement, and reference to a Person in a particular capacity excludes such Person in any other capacity or individually. Reference to any agreement (including these Articles Supplementary), document or instrument means such agreement, document or instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof. Except as otherwise expressly set forth herein, reference to any law means such law as amended, modified, codified, replaced or re-enacted, in whole or in part, including rules, regulations, enforcement procedures and any interpretations promulgated thereunder. Underscored references to Articles or Sections shall refer to those portions of these Articles Supplementary. The use of the terms “hereunder,” “hereof,” “hereto” and words of similar import shall refer to these Articles Supplementary as a whole and not to any particular Article, Section or clause of these Articles Supplementary.

**Article II. TERMS APPLICABLE TO ALL SERIES OF
TERM PREFERRED SHARES**

Except for such changes and amendments hereto with respect to a Series of Term Preferred Shares that are specifically contemplated by the Appendix relating to such Series, each Series of Term Preferred Shares shall have the following terms:

Section 2.01 Number of Shares; Ranking.

- (a) The number of authorized shares constituting any Series of Term Preferred Shares shall be as set forth with respect to such Series in the Appendix hereto relating to such Series. No fractional Term Preferred Shares shall be issued.
- (b) The Term Preferred Shares of each Series shall rank on parity with shares of each other Series of Term Preferred Shares and with shares of any other series of Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation. The Term Preferred Shares of each Series shall have preference with respect to the payment of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Corporation over the Common Stock as set forth herein.
- (c) No Holder of Term Preferred Shares shall have, solely by reason of being such a Holder, any preemptive or other right to acquire, purchase or subscribe for any Term Preferred Shares or shares of Common Stock or other securities of the Corporation which it may hereafter issue or sell.

Section 2.02 Dividends and Distributions.

- (a) The Holders of any Term Preferred Shares of any Series shall be entitled to receive, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally available therefor and in preference to dividends and distributions on the Common Stock, cumulative cash dividends and distributions on each share of such Series, calculated separately for each Dividend Period for such Series at the Dividend Rate in effect from time to time for such Series during such Dividend Period, computed on the basis of a 360-day year consisting of twelve 30-day months, on an amount equal to the Liquidation Preference for a share of such Series, and no more. Dividends and distributions on the Term Preferred Shares of any Series shall accumulate from the Date of Original Issue with respect to such Series and shall be payable monthly in arrears as provided in Section 2.02(f). Dividends payable on any Term Preferred Shares of any Series for any period of less than a full monthly Dividend Period, upon any redemption of such shares on any Redemption Date other than on a Dividend Payment Date, or, in the case of the first Dividend Period, more than a full monthly period, shall be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than, or, in the case of the first Dividend Period, greater than, one month.
- (b) Dividends on shares of each Series of Term Preferred Shares with respect to any Dividend Period shall be declared to the Holders of record of such shares as their names shall appear on the registration books of the Corporation at the close of business on the applicable record date, which shall be such date designated by the Board of Directors that is not more than twenty (20) nor less than ten (10) calendar days prior to the Dividend Payment Date with respect to such Dividend Period, and shall be paid as provided further in Section 2.02(f) hereof.
- (c)

- (i) No full dividends and distributions shall be declared or paid on shares of a Series of Term Preferred Shares for any Dividend Period or part thereof unless full cumulative dividends and distributions due through the most recent dividend payment dates therefor for all outstanding shares of Preferred Stock (including shares of other Series of Term Preferred Shares) have been or contemporaneously are declared and paid through the most recent dividend payment dates therefor. If full cumulative dividends and distributions due have not been declared and paid on all outstanding Preferred Stock of any series, any dividends and distributions being declared and paid on a Series of Term Preferred Shares will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of Preferred Stock on the relevant dividend payment date for such series. No Holders of Term Preferred Shares shall be entitled to any dividends and distributions, whether payable in cash, property or shares, in excess of full cumulative dividends and distributions as provided in this Section 2.02(c)(i) on such Term Preferred Shares.
 - (ii) For so long as any Term Preferred Shares are Outstanding, the Corporation shall not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in shares of Common Stock) in respect of the Common Stock, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any Common Stock, or (z) pay any proceeds of the liquidation of the Corporation in respect of the Common Stock, unless, in each case, (A) immediately thereafter, the Corporation shall have 1940 Act Asset Coverage after deducting the amount of such dividend or distribution or redemption or purchase price or liquidation proceeds, (B) all cumulative dividends and distributions on all Term Preferred Shares and all other Preferred Stock ranking on a parity with the Term Preferred Shares due on or prior to the earlier of the declaration, record or payment date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment thereof shall have been deposited irrevocably with the paying agent for such Preferred Stock) and (C) the Corporation shall have deposited Deposit Securities pursuant to and in accordance with the requirements of Section 2.05(d)(ii) hereof with respect to Outstanding Term Preferred Shares of any Series to be redeemed pursuant to Section 2.05(a) or Section 2.05(b) hereof for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms hereof on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.
 - (iii) Any dividend payment made on shares of a Series of Term Preferred Shares shall be credited against the dividends and distributions accumulated with respect to the Dividend Period or Dividend Periods for such Series for which dividends and distributions have not been paid in chronological order.
- (d) Not later than 12:00 noon, New York City time, on the Dividend Payment Date for a Series of Term Preferred Shares, the Corporation shall deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on such

date sufficient to pay the dividends and distributions that are payable on such Dividend Payment Date in respect of such Series. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any such Deposit Securities prior to the Dividend Payment Date, provided that such investment or reinvestment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment will be available as same day funds at the opening of business on such Dividend Payment Date.

- (e) All Deposit Securities paid to the Redemption and Paying Agent for the payment of dividends payable on a Series of Term Preferred Shares shall be held in trust for the payment of such dividends by the Redemption and Paying Agent for the benefit of the Holders of such Series entitled to the payment of such dividends pursuant to Section 2.02(f). Any moneys paid to the Redemption and Paying Agent in accordance with the foregoing but not applied by the Redemption and Paying Agent to the payment of dividends, including interest earned on such moneys while so held, will, to the extent permitted by law, be repaid to the Corporation as soon as possible after the date on which such moneys were to have been so applied, upon request of the Corporation.
- (f) Dividends on shares of a Series of Term Preferred Shares shall be paid on each Dividend Payment Date for such Series to the Holders of shares of such Series as their names appear on the registration books of the Corporation at the close of business on the applicable record date for such dividend, which record date shall be determined as set forth in Section 2.02(b) Dividends in arrears on shares of a Series of Term Preferred Shares for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date, to the Holders of shares of such Series as their names appear on the registration books of the Corporation on such date, not exceeding twenty (20) nor less than ten (10) calendar days preceding the payment date thereof, as may be fixed by the Board of Directors. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on shares of any Series of Term Preferred Shares which may be in arrears.
- (g)
 - (i) The Dividend Rate on a Series of Term Preferred Shares shall be adjusted to the Default Rate (as defined below) in the following circumstances. Subject to the cure provisions below, a “Default Period” with respect to a Series of Term Preferred Shares shall commence on any date the Corporation fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on (A) a Dividend Payment Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Dividend Payment Date sufficient to pay the full amount of any dividend on such Series payable on such Dividend Payment Date (a “Dividend Default”) or (B) an applicable Redemption Date for such Series, Deposit Securities that will provide funds available to the Redemption and Paying Agent on such Redemption Date sufficient to pay the full amount of the Redemption Price payable in respect of such Series

on such Redemption Date (a “Redemption Default” and together with a Dividend Default, hereinafter referred to as “Default”). Subject to the cure provisions of Section 2.02(g)(ii) below, a Default Period with respect to a Dividend Default or a Redemption Default on a Series of Term Preferred Shares shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends on such Series and any unpaid Redemption Price on such Series shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of any Default on a Series of Term Preferred Shares, the Dividend Rate for such Series for each calendar day during the Default Period will be equal to the Default Rate. The “Default Rate” on a Series of Term Preferred Shares for any calendar day shall be equal to the Fixed Dividend Rate for such Series plus two percent (2%) per annum.

- (ii) No Default Period for a Series of Term Preferred Shares with respect to any Default on such Series shall be deemed to commence if the amount of any dividend or any Redemption Price due in respect of such Series (if such Default is not solely due to the willful failure of the Corporation) is deposited irrevocably in trust, in same-day funds, with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three (3) Business Days after the applicable Dividend Payment Date or Redemption Date for such Series with respect to which such Default occurred, together with an amount equal to the Default Rate on such Series applied to the amount and period of such non-payment on such Series, based on the actual number of calendar days comprising such period divided by 360.

Section 2.03 Liquidation Rights.

- (a) In the event of any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the Holders of Term Preferred Shares shall be entitled to receive out of the assets of the Corporation available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the Common Stock, a liquidation distribution equal to the Liquidation Preference for such shares, plus an amount equal to all unpaid dividends and distributions on such shares accumulated to (but excluding) the date fixed for such distribution or payment on such shares (whether or not earned or declared by the Corporation, but excluding interest thereon), and such Holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.
- (b) If, upon any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, the assets of the Corporation available for distribution among the Holders of all Outstanding Term Preferred Shares and any other outstanding Preferred Stock shall be insufficient to permit the payment in full to such Holders of the Liquidation Preference of such Term Preferred Shares plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.03(a) above and the amounts due upon liquidation with respect to such other Preferred Stock, then such available assets shall be distributed among the

Holders of such Term Preferred Shares and such other Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Corporation, whether voluntary or involuntary, unless and until the Liquidation Preference on each Outstanding Term Preferred Share plus accumulated and unpaid dividends and distributions on such shares as provided in Section 2.03(a) above have been paid in full to the Holders of such shares, no dividends, distributions or other payments will be made on, and no redemption, purchase or other acquisition by the Corporation will be made by the Corporation in respect of, shares of the Common Stock.

- (c) Neither the sale of all or substantially all of the property or business of the Corporation, nor the merger, consolidation or reorganization of the Corporation into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Corporation shall be a dissolution, liquidation or winding up, whether voluntary or involuntary, for the purpose of this Section 2.03.

Section 2.04 Coverage Test.

- (a) Asset Coverage Requirement. For so long as any shares of a Series of Term Preferred Shares are Outstanding, the Corporation shall have Asset Coverage of at least 200% as of the close of business on the last Business Day of each Calendar Quarter. If the Corporation shall fail to maintain such Asset Coverage as of any time as of which such compliance is required to be determined as aforesaid, the provisions of Section 2.05(b)(i) shall be applicable, which provisions shall constitute the sole remedy for the Corporation's failure to comply with the provisions of this Section 2.04(a).
- (b) Calculation of Asset Coverage. For purposes of determining whether the requirements of Section 2.04(a) are satisfied, (i) no Term Preferred Shares of any Series or other Preferred Stock shall be deemed to be Outstanding for purposes of any computation required by Section 2.04(a) if, prior to or concurrently with such determination, either (x) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for such Series or other Preferred Stock and the requisite notice of redemption for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been given or (y) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Series or other Preferred Stock) to pay the full redemption price for such Series or other Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Custodian and the Corporation from the assets of the Corporation, by means of appropriate identification on the Custodian's books and records or otherwise in accordance with the Custodian's normal procedures, and (ii) the Deposit Securities or other sufficient funds that shall

have been deposited with the applicable paying agent and/or segregated by the Custodian, as applicable, as provided in clause (i) of this sentence shall not be included as assets of the Corporation for purposes of such computation.

Section 2.05 Redemption. Each Series of Term Preferred Shares shall be subject to redemption by the Corporation as provided below:

- (a) Term Redemption. The Corporation shall redeem all shares of a Series of Term Preferred Shares on the Term Redemption Date for such Series, at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the Term Redemption Date for such Series (whether or not earned or declared by the Corporation, but excluding interest thereon) (the "Term Redemption Price").
- (b) Asset Coverage Mandatory Redemption.
 - (i) If the Corporation fails to comply with the Asset Coverage requirement as provided in Section 2.04(a) as of the last Business Day of any Calendar Quarter and such failure is not cured as of the Asset Coverage Cure Date, the Corporation shall, to the extent permitted by the 1940 Act and Maryland law, by the close of business on such Asset Coverage Cure Date, fix a redemption date and proceed to redeem in accordance with the terms of such Preferred Stock, a sufficient number of shares of Preferred Stock, which at the Corporation's sole option (to the extent permitted by the 1940 Act and Maryland law) may include any number or proportion of Term Preferred Shares of any Series, to enable it to meet the requirements of Section 2.05(b)(ii). In the event that any shares of a Series of Term Preferred Shares then Outstanding are to be redeemed pursuant to this Section 2.05(b)(i), the Corporation shall redeem such shares at a price per share equal to the Liquidation Preference per share of such Series plus an amount equal to all unpaid dividends and distributions on such share of such Series accumulated to (but excluding) the date fixed for such redemption by the Board of Directors (whether or not earned or declared by the Corporation, but excluding interest thereon) (the "Mandatory Redemption Price").
 - (ii) On the Redemption Date for a redemption contemplated by Section 2.05(b)(i), the Corporation shall redeem, out of funds legally available therefor, such number of shares of Preferred Stock (which may include at the sole option of the Corporation any number or proportion of Term Preferred Shares of any Series) as shall be equal to the lesser of (x) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Corporation having Asset Coverage on such Asset Coverage Cure Date of at least 200% (provided, however, that if there is no such minimum number of Term Preferred Shares and other shares of Preferred Stock the redemption or retirement of which would have such result, all Term Preferred Shares and other shares of Preferred Stock then outstanding shall be redeemed), and (y) the maximum number of shares

of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Articles and applicable law. Notwithstanding the foregoing, in the event that shares of Preferred Stock are redeemed pursuant to this Section 2.05(b), the Corporation may at its sole option, but is not required to, redeem a sufficient number of shares of any Series of Term Preferred Shares pursuant to this Section 2.05(b) that, when aggregated with other shares of Preferred Stock redeemed by the Corporation, would result, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, in the Corporation having Asset Coverage on such Asset Coverage Cure Date of up to and including 285%. The Corporation shall effect such redemption on the date fixed by the Corporation therefor, which date shall not be later than ninety (90) calendar days after such Asset Coverage Cure Date, except that if the Corporation does not have funds legally available for the redemption of all of the required number of Term Preferred Shares and other shares of Preferred Stock which have been designated to be redeemed or the Corporation otherwise is unable to effect such redemption on or prior to ninety (90) calendar days after such Asset Coverage Cure Date, the Corporation shall redeem those Term Preferred Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption. If fewer than all of the Outstanding Term Preferred Shares of a Series are to be redeemed pursuant to this Section 2.05(b), the number of Term Preferred Shares of such Series to be redeemed shall be redeemed (A) pro rata among the Outstanding shares of such Series, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable.

(c) Optional Redemption.

- (i) Subject to the provisions of Section 2.05(c)(ii), on any Business Day following the expiration of the Non-Call Period (if any) for a Series of Term Preferred Shares (any such Business Day referred to in this sentence, an "Optional Redemption Date"), the Corporation may redeem in whole or from time to time in part the Outstanding Term Preferred Shares of such Series, at a redemption price per Term Preferred Share (the "Optional Redemption Price") equal to (x) the Liquidation Preference per Term Preferred Share of such Series plus (y) an amount equal to all unpaid dividends and distributions on such Term Preferred Share of such Series accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Corporation, but excluding interest thereon) plus (z) the Optional Redemption Premium per share (if any) with respect to an optional redemption of Term Preferred Shares of such Series that is effected on such Optional Redemption Date.
- (ii) If fewer than all of the outstanding shares of a Series of Term Preferred Shares are to be redeemed pursuant to Section 2.05(c)(i), the shares of such Series to be redeemed shall be selected either (A) from each Holder pro rata based upon the number of outstanding shares of such Series held by such Holder, (B) by lot or (C) in such other manner as the Board of Directors may determine to be fair and equitable. Subject to the provisions of these Articles Supplementary and applicable

law, the Board of Directors will have the full power and authority to prescribe the terms and conditions upon which Term Preferred Shares will be redeemed pursuant to this Section 2.05(c) from time to time.

- (iii) The Corporation may not on any date deliver a Notice of Redemption pursuant to Section 2.05(d) in respect of a redemption contemplated to be effected pursuant to this Section 2.05(c) unless on such date the Corporation has available Deposit Securities for the Optional Redemption Date contemplated by such Notice of Redemption having a Market Value not less than the amount (including any applicable premium) due to Holders of Term Preferred Shares by reason of the redemption of such Term Preferred Shares on such Optional Redemption Date.

(d) Procedures for Redemption.

- (i) If the Corporation shall determine or be required to redeem, in whole or in part, Term Preferred Shares of a Series pursuant to Section 2.05(a), (b) or (c), the Corporation shall deliver a notice of redemption (the "Notice of Redemption"), by overnight delivery, by first class mail, postage prepaid or by Electronic Means to Holders thereof, or request the Redemption and Paying Agent, on behalf of the Corporation, to promptly do so by overnight delivery, by first class mail, postage prepaid or by Electronic Means. A Notice of Redemption shall be provided not more than forty-five (45) calendar days prior to the date fixed for redemption in such Notice of Redemption (the "Redemption Date"). Each such Notice of Redemption shall state: (A) the Redemption Date; (B) the Series and number of Term Preferred Shares to be redeemed; (C) the CUSIP number for Term Preferred Shares of such Series; (D) the applicable Redemption Price on a per share basis; (E) if applicable, the place or places where the certificate(s) for such shares (properly endorsed or assigned for transfer, if the Board of Directors requires and the Notice of Redemption states) are to be surrendered for payment of the Redemption Price; (F) that dividends on the Term Preferred Shares to be redeemed will cease to accumulate from and after such Redemption Date; and (G) the provisions of these Articles Supplementary under which such redemption is made. If fewer than all Term Preferred Shares held by any Holder are to be redeemed, the Notice of Redemption delivered to such Holder shall also specify the number of Term Preferred Shares to be redeemed from such Holder or the method of determining such number. The Corporation may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to these Articles Supplementary that such redemption is subject to one or more conditions precedent and that the Corporation shall not be required to effect such redemption unless each such condition has been satisfied at the time or times and in the manner specified in such Notice of Redemption. No defect in the Notice of Redemption or delivery thereof shall affect the validity of redemption proceedings, except as required by applicable law.
- (ii) If the Corporation shall give a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such

redemption have been met or waived by the Corporation), the Corporation shall (A) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value on the date thereof no less than the Redemption Price of the Term Preferred Shares to be redeemed on the Redemption Date and (B) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable Redemption Price to the Holders of the Term Preferred Shares called for redemption on the Redemption Date. The Corporation may direct the Redemption and Paying Agent with respect to the investment or reinvestment of any Deposit Securities prior to the Redemption Date, provided that such investment or reinvestment consists exclusively of Deposit Securities and provided further that the proceeds of any such investment shall be available at the opening of business on the Redemption Date as same day funds.

- (iii) Upon the date of the deposit of such Deposit Securities, all rights of the Holders of the Term Preferred Shares so called for redemption shall cease and terminate except the right of the Holders thereof to receive the Redemption Price thereof and such Term Preferred Shares shall no longer be deemed Outstanding for any purpose whatsoever (other than (A) the transfer thereof prior to the applicable Redemption Date and (B) the accumulation of dividends thereon in accordance with the terms hereof up to (but excluding) the applicable Redemption Date, which accumulated dividends, shall be payable only as part of the applicable Redemption Price on the Redemption Date). The Corporation shall be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of the Term Preferred Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of ninety (90) calendar days from the Redemption Date shall, to the extent permitted by law, be repaid to the Corporation, after which the Holders of the Term Preferred Shares so called for redemption shall look only to the Corporation for payment of the Redemption Price thereof. The Corporation shall be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.
- (iv) On or after the Redemption Date, each Holder of Term Preferred Shares in certificated form (if any) that are subject to redemption shall surrender the certificate(s) evidencing such Term Preferred Shares to the Corporation at the place designated in the Notice of Redemption and shall then be entitled to receive the Redemption Price for such Term Preferred Shares, without interest, and in the case of a redemption of fewer than all the Term Preferred Shares represented by such certificate(s), a new certificate representing the Term Preferred Shares that were not redeemed.
- (v) Notwithstanding the other provisions of this Section 2.05, except as otherwise required by law, the Corporation shall not redeem any Term Preferred Shares unless all accumulated and unpaid dividends and distributions on all Outstanding Term Preferred Shares and other series of Preferred Shares ranking on a parity with the Term Preferred Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the

Corporation) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent for such Preferred Stock in accordance with the terms of such Preferred Stock, provided, however, that the foregoing shall not prevent the purchase or acquisition of Outstanding Term Preferred Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to Holders of all Outstanding Term Preferred Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

- (vi) To the extent that any redemption for which Notice of Redemption has been provided is not made by reason of the absence of legally available funds therefor in accordance with the Articles and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default shall be deemed to have occurred if the Corporation shall fail to deposit in trust with the Redemption and Paying Agent the Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent shall not have been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any Term Preferred Shares, dividends may be declared and paid on such Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.
- (e) Redemption and Paying Agent as Trustee of Redemption Payments by Corporation. All Deposit Securities transferred to the Redemption and Paying Agent for payment of the Redemption Price of Term Preferred Shares called for redemption shall be held in trust by the Redemption and Paying Agent for the benefit of Holders of Term Preferred Shares so to be redeemed until paid to such Holders in accordance with the terms hereof or returned to the Corporation in accordance with the provisions of Section 2.05(d)(iii) above.
- (f) Compliance With Applicable Law. In effecting any redemption pursuant to this Section 2.05, the Corporation shall use its best efforts to comply with all applicable conditions precedent to effecting such redemption under the 1940 Act and any applicable Maryland law, but shall effect no redemption except in accordance with the 1940 Act and any applicable Maryland law.
- (g) Modification of Redemption Procedures. Notwithstanding the foregoing provisions of this Section 2.05, the Corporation may, in its sole discretion and without a shareholder vote, modify the procedures set forth above with respect to notification of redemption for the Term Preferred Shares, provided that such modification does not materially and adversely affect the Holders of the Term Preferred Shares or

cause the Corporation to violate any applicable law, rule or regulation; and provided further that no such modification shall in any way alter the rights or obligations of the Redemption and Paying Agent without its prior consent.

Section 2.06 Voting Rights.

- (a) One Vote Per Term Preferred Share. Except as otherwise provided in the Articles or as otherwise required by law, (i) each Holder of Term Preferred Shares shall be entitled to one vote for each Term Preferred Share held by such Holder on each matter submitted to a vote of shareholders of the Corporation, and (ii) the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, and of outstanding shares of Common Stock shall vote together as a single class; provided, however, that the holders of outstanding shares of Preferred Stock, including Outstanding Term Preferred Shares, shall be entitled, voting as a separate class on a one vote per share basis (to the exclusion of the Holders of all other securities and classes of Capital Stock of the Corporation) to elect two Directors of the Corporation at all times. Subject to Section 2.06(b), the Holders of outstanding shares of Common Stock and Preferred Stock, including Term Preferred Shares, voting together as a single class, shall elect the balance of the Directors.
- (b) Voting For Additional Directors.
- (i) Voting Period. During any period in which any one or more of the conditions described in clauses (a) or (b) of this Section 2.06(b)(i) shall exist (such period being referred to herein as a "Voting Period"), the number of Directors constituting the Board of Directors shall be automatically increased by the smallest number that, when added to the two Directors elected by the Holders of Preferred Stock, including Term Preferred Shares, would constitute a majority of the Board of Directors as so increased by such smallest number; and the Holders of Preferred Shares, including Term Preferred Shares, shall be entitled, voting as a separate class on a one-vote-per-share basis (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), to elect such smallest number of additional Directors, together with the two Directors that such Holders are in any event entitled to elect. A Voting Period shall commence:
- a) if, at the close of business on any dividend payment date for any outstanding Preferred Share including any Outstanding Term Preferred Share, accumulated dividends (whether or not earned or declared) on such outstanding share of Preferred Stock equal to at least two (2) full years' dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or
- b) if at any time Holders of shares of Preferred Stock are otherwise entitled under the 1940 Act to elect a majority of the Board of Directors.

Upon the termination of a Voting Period, the voting rights described in this

Section 2.06(b)(i) shall cease, subject always, however, to the reversioning of such voting rights in the Holders of shares of Preferred Stock upon the further occurrence of any of the events described in this Section 2.06(b)(i).

- (ii) Notice of Special Meeting. As soon as practicable after the accrual of any right of the Holders of shares of Preferred Stock to elect additional Directors as described in Section 2.06(b)(i), the Corporation shall call a special meeting of such Holders and notify the Redemption and Paying Agent and/or such other Person as is specified in the terms of such Preferred Stock to receive notice (i) by mailing or delivery by Electronic Means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such Holders, such meeting to be held not less than ten (10) nor more than thirty (30) calendar days after the date of the delivery by Electronic Means or mailing of such notice. If the Corporation fails to call such a special meeting, it may be called at the expense of the Corporation by any such Holder on like notice. The record date for determining the Holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth (5th) Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of Holders of shares of Preferred Stock held during a Voting Period at which Directors are to be elected, such Holders, voting together as a class (to the exclusion of the Holders of all other securities and classes of capital stock of the Corporation), shall be entitled to elect the number of Directors prescribed in Section 2.06(b)(i) on a one-vote-per-share basis.
- (iii) Terms of Office of Existing Directors. The terms of office of the incumbent Directors of the Corporation at the time of a special meeting of Holders of the shares of Preferred Stock to elect additional Directors in accordance with Section 2.06(b)(i) shall not be affected by the election at such meeting by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock of the number of Directors that they are entitled to elect, and the Directors so elected by the Holders of Term Preferred Shares and such other Holders of shares of Preferred Stock, together with the two (2) Directors elected by the Holders of shares of Preferred Stock in accordance with Section 2.06(a) hereof and the remaining Directors elected by the holders of the shares of Common Stock and Preferred Stock, voting together as a single class, shall constitute the duly elected Directors of the Corporation.
- (iv) Terms of Office of Certain Directors to Terminate Upon Termination of Voting Period. Simultaneously with the termination of a Voting Period, the terms of office of the additional Directors elected by the Holders of the shares of Preferred Stock pursuant to Section 2.06(b)(i) shall terminate, the remaining Directors shall constitute the Directors of the Corporation and the voting rights of the Holders of shares of Preferred Stock to elect additional Directors pursuant to Section 2.06(b)(i) shall cease, subject to the provisions of the last sentence of Section 2.06(b)(i).

(c) Holders of Term Preferred Shares to Vote on Certain Matters.

- (i) Certain Amendments Requiring Approval of Term Preferred Shares. Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of all Series Outstanding at the time, voting together as a separate class, amend, alter or repeal the provisions of the Articles, or these Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of such Term Preferred Shares or the Holders thereof; provided, however, that (i) a change in the capitalization of the Corporation in accordance with Section 2.08 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of such Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share (other than as a result of a division of a Term Preferred Share). So long as any Term Preferred Shares are Outstanding, the Corporation shall not, without the affirmative vote or consent of at least two-thirds (2/3) of the Holders of the Term Preferred Shares Outstanding at the time, voting as a separate class, file a voluntary application for relief under Federal bankruptcy law or any similar application under state law for so long as the Corporation is solvent and does not foresee becoming insolvent.
- (ii) 1940 Act Matters. Unless a higher percentage is provided for in the Articles, the affirmative vote of the Holders of at least “a majority of the outstanding shares of Preferred Stock,” as determined in accordance with Section 2(a)(42) of the 1940 Act, including Term Preferred Shares Outstanding at the time, voting as a separate class, shall be required to approve (A) any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares, or (B) any action requiring a vote of security holders of the Corporation pursuant to Section 13(a) of the 1940 Act.
- (iii) Certain Amendments Requiring Approval of Specific Series of Term Preferred Shares. Except as otherwise permitted by the terms of these Articles Supplementary, so long as any Term Preferred Shares of a Series are Outstanding, the Corporation shall not, without the affirmative vote or consent of the Holders of at least two-thirds (2/3) of the Term Preferred Shares of such Series, Outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Appendix relating to such Series, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such Appendix of the Term Preferred Shares of such Series or the Holders thereof; provided, however, that (i) a change in the

capitalization of the Corporation in accordance with Section 2.08 hereof shall not be considered to materially and adversely affect the rights and preferences of the Term Preferred Shares of such Series, and (ii) a division of a Term Preferred Share shall be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the Holders of the Term Preferred Shares of such Series; and provided, further, that no amendment, alteration or repeal of the obligation of the Corporation to (x) pay the Term Redemption Price on the Term Redemption Date for a Series, or (y) accumulate dividends at the Dividend Rate (as set forth in these Articles Supplementary and the applicable Appendix hereto) for a Series shall be effected without, in each case, the prior unanimous vote or consent of the Holders of such Series of Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a Term Preferred Share of a Series or the Holder thereof unless such matter (i) alters or abolishes any preferential right of such Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such Term Preferred Share.

- (d) Voting Rights Set Forth Herein Are Sole Voting Rights. Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in this Section 2.06.
- (e) No Cumulative Voting. The Holders of Term Preferred Shares shall have no rights to cumulative voting.
- (f) Voting for Directors Sole Remedy for Corporation's Failure to Declare or Pay Dividends. In the event that the Corporation fails to declare or pay any dividends on any Series of Term Preferred Shares on the Dividend Payment Date therefor, the exclusive remedy of the Holders of the Term Preferred Shares shall be the right to vote for Directors pursuant to the provisions of this Section 2.06. Nothing in this Section 2.06(f) shall be deemed to affect the obligation of the Corporation to accumulate and, if permitted by applicable law, the Articles and these Articles Supplementary, pay dividends at the Default Rate in the circumstances contemplated by Section 2.02(g) hereof.
- (g) Holders Entitled to Vote. For purposes of determining any rights of the Holders of Term Preferred Shares to vote on any matter, whether such right is created by these Articles Supplementary, by the Articles, by statute or otherwise, no Holder of Term Preferred Shares shall be entitled to vote any Term Preferred Share and no Term Preferred Share shall be deemed to be "Outstanding" for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such Term Preferred Share shall have been given in accordance with these Articles Supplementary and Deposit Securities for the payment of the Redemption Price of such Term Preferred Share shall have been deposited in trust with the Redemption and Paying Agent for that purpose. No Term Preferred Share

held by the Corporation shall have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

- (h) Maryland General Corporation Law Matters. The Corporation shall take such actions as may be necessary to effect the provisions of this Section 2.06 in accordance with the Maryland General Corporation Law.

Section 2.07 Issuance of Additional Preferred Stock. So long as any Term Preferred Shares are Outstanding, the Corporation may, without the vote or consent of the Holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Corporation representing stock under Sections 18 and 61 of the 1940 Act, ranking on a parity with Term Preferred Shares as to the payment of dividends and the distribution of assets upon dissolution, liquidation or the winding up of the affairs of the Corporation, in addition to then Outstanding Series of Term Preferred Shares, including additional Series of Term Preferred Shares, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional Term Preferred Shares of any Series, in each case in accordance with applicable law, provided that the Corporation shall, immediately after giving effect to the issuance of such additional shares of Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of shares of Preferred Stock with such proceeds, have Asset Coverage (calculated in the same manner as is contemplated by Section 2.04(b) hereof) of at least 200%.

Section 2.08 Status of Redeemed or Repurchased Term Preferred Shares. Term Preferred Shares that at any time have been redeemed or purchased by the Corporation shall, after such redemption or purchase, have the status of authorized but unissued shares of Capital Stock.

Section 2.09 Global Certificate. Prior to the commencement of a Voting Period, (i) all shares of any Series of Term Preferred Shares Outstanding from time to time shall be represented by one global certificate for such Series registered in the name of the Securities Depository or its nominee and (ii) no registration of transfer of shares of such Series of Term Preferred Shares shall be made on the books of the Corporation to any Person other than the Securities Depository or its nominee. The foregoing restriction on registration of transfer shall be conspicuously noted on the face or back of the global certificates.

Section 2.10 Notice. All notices or communications hereunder, unless otherwise specified in these Articles Supplementary, shall be sufficiently given if in writing and delivered in person, by telecopier, by Electronic Means or by overnight mail or delivery or mailed by first-class mail, postage prepaid. Notices delivered pursuant to this Section 2.10 shall be deemed given on the date received or, if mailed by first class mail, on the date five (5) calendar days after which such notice is mailed.

Section 2.11 Termination. In the event that no shares of a Series of Term Preferred Shares are Outstanding, all rights and preferences of the shares of such Series established and designated hereunder shall cease and terminate, and all obligations of the Corporation under these Articles Supplementary with respect to such Series shall terminate.

Section 2.12 Appendices. The designation of each Series of Term Preferred Shares shall be set forth in an Appendix to these Articles Supplementary. The Board of Directors may, by resolution duly adopted, without shareholder approval (except as otherwise provided by these Articles Supplementary or required by applicable law) (1) amend the Appendix to these Articles Supplementary relating to a Series so as to reflect any amendments to the terms applicable to such Series including an increase in the number of authorized shares of such Series and (2) add additional Series of Term Preferred Shares by including a new Appendix to these Articles Supplementary relating to such Series.

Section 2.13 Actions on Other than Business Days. Unless otherwise provided herein, if the date for making any payment, performing any act or exercising any right, in each case as provided for in these Articles Supplementary, is not a Business Day, such payment shall be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount shall accrue for the period between such nominal date and the date of payment.

Section 2.14 Modification. The Board of Directors, without the vote of the Holders of Term Preferred Shares, may interpret, supplement or amend the provisions of these Articles Supplementary or any Appendix hereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that is inconsistent or otherwise conflicts with any provision of the 1940 Act, the rules and regulations promulgated thereunder, any order issued thereunder by the Commission, or any interpretive position of the staff of the Commission pertaining thereto, in each case, that is applicable to the Corporation, or any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Capital Stock of the Corporation.

Section 2.15 No Additional Rights. Unless otherwise required by law or the Articles, the Holders of Term Preferred Shares shall not have any relative rights or preferences or other special rights other than those specifically set forth in these Articles Supplementary.

[Signature Page Begins on the Following Page]

IN WITNESS WHEREOF, Saratoga Investment Corp. has caused these presents to be signed as of _____, 20__ in its name and on its behalf by its President or a Vice President and witnessed by its Secretary or Assistant Secretary.

Saratoga Investment Corp.

By: _____
Name: _____
Title: _____

Witness:

By: _____
Name: _____
Title: _____

The undersigned President or a Vice President of Saratoga Investment Corp., who executed on behalf of the Corporation the foregoing Articles Supplementary of which this Certificate is made a part, hereby acknowledges in the name and on behalf of said Corporation the foregoing Articles Supplementary to be the corporate act of the Corporation, and states under penalties of perjury that to the best of his knowledge, information and belief the matters and facts set forth therein with respect to the authorization and approval thereof are true in all material respects.

By: _____
Name: _____
Title: _____

[Signature Page to the Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares]

SARATOGA INVESTMENT CORP.

TERM PREFERRED SHARES, % SERIES 20

This Appendix establishes a Series of Term Preferred Shares of Saratoga Investment Corp. Except as set forth below, this Appendix incorporates by reference the terms set forth with respect to all Series of such Term Preferred Shares in those “Articles Supplementary Establishing and Fixing the Rights and Preferences of Term Preferred Shares” dated _____, 20____ (the “TP Articles Supplementary”). This Appendix has been adopted by resolution of the Board of Directors of Saratoga Investment Corp. Capitalized terms used herein but not defined herein have the respective meanings therefor set forth in the TP Articles Supplementary.

1. Designation as to Series.

Term Preferred Shares, % Series 20 : A series of _____ shares of Capital Stock classified as Term Preferred Shares is hereby designated as the “Term Preferred Shares, % Series _____” (the “Series — TP Shares”). Each share of such Series shall have such preferences, voting powers, restrictions, limitations as to dividends and distributions, qualifications and terms and conditions of redemption, in addition to those required by applicable law and those that are expressly set forth in the Articles and the TP Articles Supplementary (except as the TP Articles Supplementary may be expressly modified by this Appendix), as are set forth in this Appendix A. The Series — TP Shares shall constitute a separate series of Capital Stock and of the Term Preferred Shares and each Series — TP Share shall be identical. The following terms and conditions shall apply solely to the Series — TP Shares:

2. Number of Authorized Shares of Series.

The number of authorized shares is _____ .

3. Date of Original Issue with respect to Series.

The Date of Original Issue is _____, 20____ .

4. Fixed Dividend Rate Applicable to Series.

The Fixed Dividend Rate is _____ %.

5. Liquidation Preference Applicable to Series.

The Liquidation Preference is \$ _____ per share.

6. Term Redemption Date Applicable to Series.

The Term Redemption Date is _____, 20____.

7. Dividend Payment Dates Applicable to Series.

The Dividend Payment Dates are [_____]].

8. Non-Call Period Applicable to Series.

The Non-Call Period is the period beginning on [_____] and ending at the close of business on _____, 20____.

9. Exceptions to Certain Definitions Applicable to the Series.

The following definitions contained under the heading "Definitions" in the TP Articles Supplementary are hereby amended as follows:

[_____]]

10. Additional Definitions Applicable to the Series.

The following terms shall have the following meanings (with terms defined in the singular having comparable meanings when used in the plural and vice versa), unless the context otherwise requires:

"*Dividend Period*" means, with respect to each Series — TP Share, in the case of the first Dividend Period, the period beginning on [_____] and ending on and including _____, 20____ and for each subsequent Dividend Period, the period beginning on [_____] and ending on [_____]].

"*Optional Redemption Premium*" means with respect to each Series — TP Share an amount equal to:

(A) if the Optional Redemption Date for the Series — TP Share occurs on or after _____, 20____ and prior to _____, 20____, _____ % of the Liquidation Preference for such Series — TP Share;

(B) if the Optional Redemption Date for the Series — TP Share occurs on a date that is on or after _____, 20____, and prior to _____, 20____, _____ % of the Liquidation Preference for such Series — TP Share; or

(C) if the Optional Redemption Date for the Series • TP Share occurs on a date that is on or after _____, 20____, _____ % of the Liquidation Preference for such Series • TP Share.

11. Amendments to Terms of Term Preferred Shares Applicable to the Series.

The following provisions contained under the heading “Terms of the Term Preferred Shares” in the TP Articles Supplementary are hereby amended as follows:

[_____]

12. Additional Terms and Provisions Applicable to the Series.

The following provisions shall be incorporated into and be deemed part of the TP Articles Supplementary:

[_____]

[Signature Page Begins on the Following Page]

IN WITNESS WHEREOF, Saratoga Investment Corp. has caused this Appendix to the Corporation's TP Articles Supplementary to be signed on _____, 20____ in its name and on its behalf by a duly authorized officer. The Articles and the TP Articles Supplementary are on file with the Secretary of State of the State of Maryland.

Saratoga Investment Corp.

By: _____
Name: _____
Title: _____

[Signature Page to the Appendix Establishing and Fixing the Rights and Preferences of Term Preferred Shares]

**INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT
BY AND BETWEEN
GSC INVESTMENT CORP AND SARATOGA INVESTMENT ADVISORS, LLC**

This Agreement made as of July 30, 2010, by and between GSC Investment Corp., a Maryland corporation (the “**Company**”), and Saratoga Investment Advisors, LLC, a Delaware limited liability company (the “**Investment Adviser**”).

WHEREAS, the Company is a Maryland corporation that has filed an election to be treated as a business development company under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”), and has further elected to be treated as a regulated investment company (“**RIC**”) for tax purposes.

WHEREAS, the Investment Adviser is an investment adviser that has registered under the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”); and

WHEREAS, the Company desires to retain the Investment Adviser to furnish investment advisory services to the Company on the terms and conditions hereinafter set forth, and the Investment Adviser wishes to be retained to provide such services.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the parties hereby agree as follows:

1. Duties of the Investment Adviser.

The Company hereby employs the Investment Adviser to act as the investment adviser to the Company and to manage the investment and reinvestment of the assets of the Company, subject to the supervision of the board of directors of the Company (the “**Board**”), for the period and upon the terms herein set forth, (i) in accordance with the investment objectives, policies and restrictions that are determined by the Board from time to time and disclosed to the Investment Adviser, which objectives, policies and restrictions are set forth in the Company’s registration statements and periodic reports filed with the Securities and Exchange Commission (the “**SEC**”), as amended by subsequent filings of such registration statements and periodic reports with the SEC; (ii) in accordance with the Investment Company Act; (iii) during the term of this Agreement in accordance with all other applicable federal and state laws, rules and regulations, and the Company’s operating agreement, or charter and by-laws, as applicable; and (iv) in accordance with the RIC rules (within the meaning of Section 851(a) of the Internal Revenue Code of 1986, as amended).

Without limiting the generality of the foregoing, the Investment Adviser shall, during the term and subject to the provisions of this Agreement:

(i) determine the composition of the portfolio of the Company, the nature and timing of the changes therein and the manner of implementing such changes; (ii) identify, evaluate and negotiate the structure of the investments made by the Company; (iii) close and monitor the Company’s investments; (iv) determine the securities and other assets that the Company will purchase, retain, or sell; (v) perform due diligence on prospective portfolio companies; and (vi) provide the Company with such other

investment advisory, research and related services as the Company may, from time to time, reasonably require for the investment of its funds. The Investment Adviser shall have the power and authority on behalf of the Company to effectuate investment decisions for the Company, including the execution and delivery of all documents relating to the Company's investments and the placing of orders for other purchase or sale transactions on behalf of the Company. In the event that the Company determines to incur debt financing, the Investment Adviser will arrange for such financing on the Company's behalf, subject to the oversight and approval of the Board. If it is necessary for the Investment Adviser to make investments on behalf of the Company through a special purpose vehicle, the Investment Adviser shall have authority to create or arrange for the creation of such special purpose vehicle and to make such investments through such special purpose vehicle in accordance with the Investment Company Act.

(b) The Investment Adviser hereby accepts such engagement and agrees during the term hereof to render the services described herein for the compensation provided herein.

(c) The Investment Adviser shall for all purposes herein provided be deemed to be an independent contractor and, except as expressly provided or authorized herein, shall have no authority to act for or represent the Company in any way or otherwise be deemed an agent of the Company.

(d) Subject to review by and the overall control of the Board of the Company, the Investment Adviser shall keep and preserve for the period required by the Investment Company Act any books and records relevant to the provision of its investment advisory services to the Company and shall specifically maintain all books and records with respect to the Company's portfolio transactions and shall render to the Board such periodic and special reports as the Board may reasonably request. The Investment Adviser agrees that all records that it maintains for the Company are the property of the Company and will surrender promptly to the Company any such records upon the Company's request, provided that the Investment Adviser may retain a copy of such records.

(e) The Investment Adviser has adopted and implemented written policies and procedures reasonably designed to prevent its violation of the federal securities laws. The Investment Adviser has also provided to the Company, and shall provide the Company at such times in the future as the Company shall reasonably request, a copy of such policies and procedures (and any amendments thereto) and a report of such policies and procedures. Such report shall be of sufficient scope and in sufficient detail, as may reasonably be required to comply with Rule 38a-1 under the Investment Company Act and to provide reasonable assurance that any material inadequacies would be disclosed by such examination, and, if there are no such inadequacies, the report shall so state.

2. Company's Responsibilities and Expenses Payable by the Company.

All investment professionals of the Investment Adviser and its staff, when and to the extent engaged in providing investment advisory services required to be provided by the Investment Adviser under Section 1(a), and the compensation and routine overhead expenses of such personnel allocable to such services, will be provided and paid for by the Investment

Adviser and not by the Company. The Company will bear all costs and expenses of its operations and transactions, including those relating to: the Company's organization; calculating the Company's net asset value (including the cost and expenses of any independent valuation firm); expenses incurred by the Investment Adviser payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for the Company and in monitoring the Company's investments and performing due diligence on its prospective portfolio companies; interest payable on debt, if any, incurred to finance the Company's investments; offerings of the Company's common shares and other securities; investment advisory and management fees; fees payable to third parties, including agents, consultants or other advisors, 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 the Company's common shares on any securities exchange; federal, state and local taxes; independent directors' fees and expenses; costs of preparing and filing reports or other documents required by governmental bodies (including the Securities and Exchange Commission (the "SEC")); costs of any reports, proxy statements or other notices to common shareholders including printing costs; the Company's 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 the Company or, if applicable, the Administrator in connection with administering the Company's business (including payments under the administration agreement to be entered into by the Company and the Investment Adviser (the "**Administration Agreement**") based upon the Company's allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent and the allocable portion of the cost of the Company's officers and their respective staffs (including travel expenses)).

3. *Compensation of the Investment Adviser.*

The Company agrees to pay, and the Investment Adviser agrees to accept, as compensation for the services provided by the Investment Adviser hereunder, a base management fee ("**Base Management Fee**") and an incentive fee ("**Incentive Fee**") as hereinafter set forth. The Company shall make any payments due hereunder to the Investment Adviser or to the Investment Adviser's designee as the Investment Adviser may otherwise direct.

(a) The Base Management Fee shall be 1.75% per annum of the Company's gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds). The Base Management Fee will be payable quarterly in arrears and will be calculated at the end of each fiscal quarter based on the average value of the Company's gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) as of the end of such fiscal quarter and the end of the immediate prior fiscal quarter. Base Management Fees for any partial month or quarter will be appropriately pro rated.

(b) The Incentive Fee shall consist of two parts, as follows:

(i) The first part will be calculated and payable quarterly in arrears based on the Pre-Incentive Fee net investment income for the immediately preceding fiscal quarter. Payments

based on Pre-Incentive Fee net investment income will be based on the Pre-Incentive Fee net investment income earned for the quarter. For this purpose, **“Pre-Incentive Fee net investment income”** means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that the Company receives from portfolio companies) accrued by the Company during the fiscal quarter, minus the Company’s operating expenses for the quarter (including the Base Management Fee, expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the Incentive Fee). Pre-Incentive Fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that has not yet been received in cash. Pre-Incentive Fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-Incentive Fee net investment income, expressed as a rate of return on the value of the Company’s net assets (defined as total assets less liabilities) at the end of the immediately preceding fiscal quarter, will be compared to a “hurdle rate” of 1.875% per quarter (7.5% annualized), subject to a “catch-up” provision (as described below). The Company acknowledges that the Base Management Fee is calculated prior to giving effect to the payment of any Incentive Fees.

The Company will pay the Investment Adviser an Incentive Fee with respect to the Company’s Pre-Incentive Fee net investment income in each fiscal quarter as follows: (A) no Incentive Fee in any fiscal quarter in which the Company’s Pre-Incentive Fee net investment income does not exceed the hurdle rate; or (B) (i) 100% of the Company’s Pre-Incentive Fee net investment income with respect to that portion of such 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) is payable to the Investment Adviser; and (ii) 20% of the amount of the Company’s Pre-Incentive Fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized). The Company refers to the amount specified in clause (B)(i) as the “catch-up.” Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, the Investment Adviser shall be entitled to 20% of the amount of the Company’s Pre-Incentive Fee net investment income, if any, that exceeds 1.875% in any fiscal quarter (7.5% annualized) without any catch-up provision.

These calculations will be appropriately pro rated when such calculations are applicable for any period of less than three months.

(ii) The second part of the Incentive Fee (the **“Capital Gains Fee”**) will be determined and payable in arrears as of the end of each fiscal year (or upon termination of this Agreement as set forth below), commencing with the fiscal year ending on February 28, 2011, and is calculated at the end of each applicable year by subtracting (1) the sum of the Company’s cumulative aggregate realized capital losses and aggregate unrealized capital depreciation from (2) the Company’s cumulative aggregate realized capital gains, in each case calculated from May 31, 2010 (the **“Commencement Date”**). If such amount is positive at the end of such year, then the Capital Gains Fee for such year is equal to 20% of such amount, less the cumulative aggregate amount of Capital Gains Fees paid in all prior years. If such amount is negative, then there is no Capital Gains Fee for such year. If this Agreement shall terminate as of a date that is not a fiscal year end, the termination date shall be treated as though it were a fiscal year end for purposes of calculating and paying a Capital Gains Fee.

For purposes of this Section 3(b)(ii):

The *cumulative aggregate realized capital gains* are calculated as the sum of the differences, if positive, between (a) the net sales price of each investment in the Company's portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The *cumulative aggregate realized capital losses* are calculated as the sum of the differences, if negative, between (a) the net sales price of each investment in the Company's portfolio when sold and (b) the accreted or amortized cost basis of such investment.

The *aggregate unrealized capital depreciation* is calculated as the sum of the differences, if negative, between (a) the valuation of each investment in the Company's portfolio as of the applicable Capital Gains Fee calculation date and (b) the accreted or amortized cost basis of such investment.

The *accreted or amortized cost basis of an investment* shall mean, with respect to an investment owned by the Company as of the Commencement Date, the fair value of such investment as of the Commencement Date as set forth on Schedule A hereto and, with respect to an investment acquired by the Company subsequent to the Commencement Date, the accreted or amortized cost basis of such investment as reflected in the Company's financial statements.

4. *Covenants of the Investment Adviser.*

The Investment Adviser represents that it is registered as an investment adviser under the Advisers Act and agrees that its activities will at all times be in compliance in all material respects with all applicable federal and state laws governing its operations and investments.

5. *Brokerage Commissions.*

The Investment Adviser is hereby authorized, to the fullest extent now or hereafter permitted by law, to cause the Company to pay a member of a national securities exchange, broker or dealer an amount of commission for effecting a securities transaction in excess of the amount of commission another member of such exchange, broker or dealer would have charged for effecting that transaction, if the Investment Adviser determines in good faith, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, and operational facilities of the firm and the firm's risk and skill in positioning blocks of securities, that such amount of commission is reasonable in relation to the value of the brokerage and/or research services provided by such member, broker or dealer, viewed in terms of either that particular transaction or its overall responsibilities with respect to the Company's portfolio, and constitutes the best net results for the Company.

6. Limitations on the Employment of the Investment Adviser.

The services of the Investment Adviser to the Company are not exclusive, and the Investment Adviser may engage in any other business or render similar or different services to others including, without limitation, the direct or indirect sponsorship or management of other investment based accounts or commingled pools of capital, however structured, having investment objectives similar to those of the Company, and nothing in this Agreement shall limit or restrict the right of any member, manager, partner, officer or employee of the Investment Adviser to engage in any other business or to devote his or her time and attention in part to any other business, whether of a similar or dissimilar nature, or to receive any fees or compensation in connection therewith (including fees for serving as a director of, or providing consulting services to, one or more of the Company's portfolio companies, subject to applicable law). So long as this Agreement or any extension, renewal or amendment remains in effect, the Investment Adviser shall be the only investment adviser for the Company, subject to the Investment Adviser's right to enter into sub-advisory agreements. The Investment Adviser assumes no responsibility under this Agreement other than to render the services called for hereunder. It is understood that directors, officers, employees or shareholders of the Company are or may become interested in the Investment Adviser and its affiliates, as directors, officers, employees, partners, stockholders, members, managers or otherwise, and that the Investment Adviser and directors, officers, employees, partners, stockholders, members and managers of the Investment Adviser and its affiliates are or may become similarly interested in the Company as shareholders or otherwise.

7. Responsibility of Dual Directors, Officers and/or Employees.

If any person who is a member, manager, partner, officer or employee of the Investment Adviser or the Administrator is or becomes a director, officer and/or employee of the Company and acts as such in any business of the Company, then such member, manager, partner, officer and/or employee of the Investment Adviser or the Administrator shall be deemed to be acting in such capacity solely for the Company, and not as a member, manager, partner, officer or employee of the Investment Adviser or the Administrator or under the control or direction of the Investment Adviser or the Administrator, even if paid by the Investment Adviser or the Administrator.

8. Limitation of Liability of the Investment Adviser; Indemnification.

The Investment Adviser, its partners and their respective officers, managers, partners, agents, employees, controlling persons, members and any other person affiliated with any of them (collectively, the "**Indemnified Parties**"), shall not be liable to the Company for any action taken or omitted to be taken by the Investment Adviser in connection with the performance of any of its duties or obligations under this Agreement or otherwise as an investment adviser of the Company, except to the extent specified in Section 36(b) of the Investment Company Act concerning loss resulting from a breach of fiduciary duty (as the same is finally determined by judicial proceedings) with respect to the receipt of compensation for services and except to the extent such action or omission constitutes gross negligence, willful misfeasance, bad faith or reckless disregard of its duties and obligations under this Agreement. The Company shall indemnify, defend and protect the Indemnified Parties (each of whom shall be deemed a third party beneficiary hereof) and hold them harmless from and against all damages, liabilities, costs

and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) incurred by the Indemnified Parties in or by reason of any pending, threatened or completed action, suit, investigation or other proceeding (including an action or suit by or in the right of the Company or its security holders) arising out of or otherwise based upon the performance of any of the Investment Adviser's duties or obligations under this Agreement or otherwise as an investment adviser of the Company. Notwithstanding the foregoing provisions of this Section 8 to the contrary, nothing contained herein shall protect or be deemed to protect the Indemnified Parties against, or entitle or be deemed to entitle the Indemnified Parties to indemnification in respect of, any liability to the Company or its security holders to which the Indemnified Parties would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence in the performance of any Indemnified Party's duties or by reason of the reckless disregard of the Investment Adviser's duties and obligations under this Agreement (as the same shall be determined in accordance with the Investment Company Act and any interpretations or guidance by the SEC or its staff thereunder). For the avoidance of doubt, none of the Indemnified Parties will be liable for trade errors, such as errors in the investment decision-making process (e.g., a transaction was effected in violation of the Company's investment guidelines) or in the trade process (e.g., a buy order was entered instead of a sell order, or the wrong security was purchased or sold, or a security was purchased or sold in an amount or at a price other than the correct amount or price), other than those trade errors resulting from an Indemnified Party's gross negligence, willful misfeasance, bad faith or reckless disregard of its duties and obligations under this Agreement.

9. Effectiveness, Duration and Termination of Agreement.

(a) This Agreement shall become effective as of the first date above written. This Agreement shall remain in effect for two years after such date, and thereafter shall continue automatically for successive annual periods, provided that such continuance is specifically approved at least annually by (i) the vote of the Board, or by the vote of shareholders holding a majority of the outstanding voting securities of the Company, and (ii) the vote of a majority of the Company's Directors who are not parties to this Agreement or "interested persons" (as such term is defined in Section 2(a)(19) of the Investment Company Act) of any party to this Agreement, in accordance with the requirements of the Investment Company Act.

(b) This Agreement may be terminated at any time, without the payment of any penalty, upon 60 days' written notice, by the vote of shareholders holding a majority of the outstanding voting securities of the Company, or by the vote of the Company's Directors or by the Investment Adviser.

(c) This Agreement will automatically terminate in the event of its "assignment" (as such term is defined for purposes of Section 15(a)(4) of the Investment Company Act).

(d) The provisions of Section 8 of this Agreement shall remain in full force and effect, and the Investment Adviser and the other Indemnified Parties shall remain entitled to the benefits thereof, notwithstanding any termination of this Agreement. Further, notwithstanding the termination or expiration of this Agreement as aforesaid, the Investment Adviser shall be entitled to any amounts due and payable under Section 3 through the date of termination or expiration.

11. *Amendments of this Agreement.*

This Agreement may not be amended or modified except by an instrument in writing signed by all parties hereto, but the consent of the Company must be obtained in conformity with the requirements of the Investment Company Act.

12. *Governing Law.*

This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York, including without limitation Sections 5-1401 and 5-1402 of the New York General Obligations Law and New York Civil Practice Laws and Rules 327(b), and the applicable provisions of the Investment Company Act, if any. To the extent that the applicable laws of the State of New York, or any of the provisions herein, conflict with the applicable provisions of the Investment Company Act, if any, the latter shall control. The parties unconditionally and irrevocably consent to the exclusive jurisdiction of the courts located in the State of New York and waive any objection with respect thereto, for the purpose of any action, suit or proceeding arising out of or relating to this Agreement or the transactions contemplated hereby.

13. *No Waiver.*

The failure of either party to enforce at any time for any period the provisions of or any rights deriving from this Agreement shall not be construed to be a waiver of such provisions or rights or the right of such party thereafter to enforce such provisions, and no waiver shall be binding unless executed in writing by all parties hereto.

14. *Severability.*

If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party.

15. *Headings.*

The descriptive headings contained in this Agreement are for convenience of reference only and shall not affect in any way the meaning or interpretation of this Agreement.

16. *Counterparts.*

This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original instrument and all of which taken together shall constitute one and the same agreement.

17. *Notices.*

All notices, requests, claims, demands and other communications hereunder shall be in writing and shall be given or made (and shall be deemed to have been duly given or made upon receipt) by delivery in person, by overnight courier service (with signature required), by facsimile, or by registered or certified mail (postage prepaid, return receipt requested) to the respective parties at their respective principal executive office addresses, c/o Chief Financial Officer.

18. *Entire Agreement.*

This Agreement constitutes the entire agreement of the parties with respect to the subject matter hereof and supersedes all prior agreements and undertakings, both written and oral, between the parties with respect to such subject matter.

19. *Certain Matters of Construction.*

(a) The words “hereof”, “herein”, “hereunder” and words of similar import shall refer to this Agreement as a whole and not to any particular Section or provision of this Agreement, and reference to a particular Section of this Agreement shall include all subsections thereof.

(b) Definitions shall be equally applicable to both the singular and plural forms of the terms defined, and references to the masculine, feminine or neuter gender shall include each other gender.

(c) The word “including” shall mean including without limitation.

[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed on the date above written.

GSC INVESTMENT CORP.

By: /s/ Seth M. Katzenstein

Name: Seth M. Katzenstein

Title: President & CEO

SARATOGA INVESTMENT ADVISORS, LLC

By: /s/ Richard A. Petrocelli

Name: Richard A. Petrocelli

Title: Managing Director

[SIGNATURE PAGE TO INVESTMENT ADVISORY AND MANAGEMENT AGREEMENT]

Schedule A**Fair Value of Investments as of the Commencement Date**

Company	Investment	Fair Value
GFSI Inc	Senior Secured Notes 10.50%, 6/1/2011	\$7,082,000
Legacy Cabinets Holdings	Common Voting A-1	220,900
Legacy Cabinets Holdings	Common Voting B-1	139,424
Legacy Cabinets, Inc.	First Lien Term Loan 7.25%, 5/3/2014	192,926
Hopkins Manufacturing Corporation	Second Lien Term Loan 7.61%, 1/26/2012	3,120,000
Targus Group International, Inc.	First Lien Term Loan 10.25%, 11/22/2012	2,753,356
Targus Holdings, Inc.	Unsecured Notes 10.00%, 12/14/2015	799,882
Targus Holdings, Inc.	Common	686,543
CFF Acquisition LLC	First Lien Term Loan 7.50%, 7/31/2013	264,667
M/C Communications, LLC	First Lien Term Loan 6.75%, 12/31/2012	554,697
M/C Communications, LLC	Class A Common Stock	13,306
Advanced Lighting Technologies, Inc.	Second Lien Term Loan 6.28%, 6/1/2014	1,630,000
Group Dekko	Second Lien Term Loan 10.50%, 1/20/2012	5,097,903
USS Parent Holding Corp.	Non Voting Common Stock	99,141
USS Parent Holding Corp.	Voting Common Stock	2,255,450
Bankruptcy Management Solutions, Inc.	Second Lien Term Loan 6.60%, 7/31/2013	1,206,250
Big Train, Inc.	First Lien Term Loan 7.75%, 3/31/2012	1,717,339
IDI Acquisition Corp.	Senior Secured Notes 10.75%, 12/15/2011	3,724,000
PRACS Institute, LTD	Second Lien Term Loan 10.00%, 4/17/2013	3,622,969
McMillin Companies LLC	Senior Secured Notes 9.53%, 10/31/2013	4,466,000
Worldwide Express Operations, LLC	First Lien Term Loan 10.00%, 6/30/2013	2,069,603
Jason Incorporated	Unsecured Notes 13.00%, 11/1/2010	960,000
Jason Incorporated	Unsecured Notes 13.00%, 11/1/2010	136,000
Specialized Technology Resources, Inc.	Second Lien Term Loan 7.35%, 12/15/2014	4,900,000
Elyria Foundry Company, LLC	Senior Secured Notes 13.00%, 3/1/2013	4,550,000
Elyria Foundry Company, LLC	Warrants	—

Abitibi-Consolidated Company of Canada	First Lien Term Loan 11.00%, 3/30/2009	\$2,828,925
Grant U.S. Holdings LLP	Second Lien Term Loan 10.75%, 9/20/2013	592,409
Energy Alloys, LLC	Second Lien Term Loan 3.00%, 6/30/2015	609,652
Energy Alloys, LLC	Warrants	—
Terphane Holdings Corp.	Senior Secured Notes 12.50%, 6/15/2010	4,437,750
Terphane Holdings Corp.	Senior Secured Notes 12.50%, 6/15/2010	4,654,834

Terphane Holdings Corp.	Senior Secured Notes 11.92%, 6/15/2010	457,500
Brown Publishing Company	Second Lien Term Loan 8.76%, 9/19/2014	15,040
Network Communications, Inc.	Unsecured Notes 10.75%, 12/1/2013	2,412,500
Penton Media, Inc.	First Lien Term Loan 5.00%, 8/1/2014	3,448,776
		<u>113,009,708</u>
GSC Partners CDO GP III, LP	100% General Partnership Interest	—
GSC Investment Corp. CLO 2007 LTD.	Other/Structured Finance Securities 9.73%, 1/21/2020	18,208,657
GSC Partners CDO GP III, LP	6.24% Limited Partnership Interest	—
		<u>18,208,657</u>

SARATOGA INVESTMENT CORP. CLO 2013-1, Ltd.

Issuer

SARATOGA INVESTMENT CORP. CLO 2013-1, Inc.

Co-Issuer

U.S. BANK NATIONAL ASSOCIATION

Trustee

INDENTURE

Dated as of October 17, 2013

TABLE OF CONTENTS

		<u>Page</u>
ARTICLE I		
DEFINITIONS		
Section 1.1	Definitions	3
Section 1.2	Assumptions as to Assets	70
ARTICLE II		
THE RATED NOTES		
Section 2.1	Forms Generally	74
Section 2.2	Forms of Rated Notes	74
Section 2.3	Authorized Amount; Stated Maturity; Denominations	76
Section 2.4	Execution, Authentication, Delivery and Dating	76
Section 2.5	Registration, Registration of Transfer and Exchange	77
Section 2.6	Mutilated, Defaced, Destroyed, Lost or Stolen Rated Note	86
Section 2.7	Payment of Principal and Interest and Other Amounts; Principal and Interest Rights Preserved	87
Section 2.8	Persons Deemed Owners	90
Section 2.9	Purchase and Surrender of Rated Notes; Cancellation	90
Section 2.10	DTC Ceases to be Depository	91
Section 2.11	Rated Notes Beneficially Owned by Persons Not QIB/QPs or in Violation of ERISA Representations	92
Section 2.12	Tax Certification	93
ARTICLE III		
CONDITIONS PRECEDENT		
Section 3.1	Conditions to Issuance of Rated Notes on Closing Date	96
Section 3.2	Delivery of Collateral Obligations and Eligible Investments	100
ARTICLE IV		
SATISFACTION AND DISCHARGE; ILLIQUID ASSETS; LIMITATION ON ADMINISTRATIVE EXPENSES		
Section 4.1	Satisfaction and Discharge of Indenture	100
Section 4.2	Application of Trust Money	102
Section 4.3	Repayment of Amounts Held by Paying Agent	102

Section 4.4	Disposition of Illiquid Assets	102
Section 4.5	Limitation on Obligation to Incur Administrative Expenses	103

ARTICLE V

REMEDIES

Section 5.1	Events of Default	104
Section 5.2	Acceleration of Maturity; Rescission and Annulment	105
Section 5.3	Collection of Indebtedness and Suits for Enforcement by Trustee	106
Section 5.4	Remedies	108
Section 5.5	Optional Preservation of Assets	110
Section 5.6	Trustee May Enforce Claims Without Possession of Notes	111
Section 5.7	Application of Money Collected	111
Section 5.8	Limitation on Suits	112
Section 5.9	Unconditional Rights of Holders to Receive Principal and Interest	112
Section 5.10	Restoration of Rights and Remedies	113
Section 5.11	Rights and Remedies Cumulative	113
Section 5.12	Delay or Omission Not Waiver	113
Section 5.13	Control by Majority of Controlling Class	113
Section 5.14	Waiver of Past Defaults	114
Section 5.15	Undertaking for Costs	114
Section 5.16	Waiver of Stay or Extension Laws	115
Section 5.17	Sale of Assets	115
Section 5.18	Action on the Notes	116

ARTICLE VI

THE TRUSTEE

Section 6.1	Certain Duties and Responsibilities	116
Section 6.2	Notice of Default	118
Section 6.3	Certain Rights of Trustee	118
Section 6.4	Not Responsible for Recitals or Issuance of Rated Notes	121
Section 6.5	May Hold Rated Notes	121
Section 6.6	Money Held in Trust	121
Section 6.7	Compensation and Reimbursement	121
Section 6.8	Corporate Trustee Required; Eligibility	122
Section 6.9	Resignation and Removal; Appointment of Successor	123
Section 6.10	Acceptance of Appointment by Successor	124
Section 6.11	Merger, Conversion, Consolidation or Succession to Business of Trustee	125
Section 6.12	Co-Trustees	125
Section 6.13	Certain Duties of Trustee Related to Delayed Payment of Proceeds	126
Section 6.14	Authenticating Agents	126
Section 6.15	Withholding	127
Section 6.16	Representations and Warranties of the Bank	128

ARTICLE VII

COVENANTS

Section 7.1	Payment of Principal and Interest	128
Section 7.2	Maintenance of Office or Agency	129
Section 7.3	Amounts for Payments to be Held in Trust	129
Section 7.4	Existence of Co-Issuers	131
Section 7.5	Protection of Assets	134
Section 7.6	Opinions as to Assets	135
Section 7.7	Performance of Obligation	135
Section 7.8	Negative Covenants	136
Section 7.9	Statement as to Compliance	138
Section 7.10	Co-Issuers May Consolidate, etc. Only on Certain Terms	139
Section 7.11	Successor Substituted	140
Section 7.12	No Other Business	140
Section 7.13	Maintenance of Listing	141
Section 7.14	Ratings; Review of Credit Estimates	141
Section 7.15	Reporting	141
Section 7.16	Calculation Agent	142
Section 7.17	Certain Tax Matters	142
Section 7.18	Collateral Quality Tests	144
Section 7.19	Representations Relating to Security Interests in the Assets	145

ARTICLE VIII

SUPPLEMENTAL INDENTURES

Section 8.1	Supplemental Indentures Without Consent of Holders	147
Section 8.2	Supplemental Indentures With Consent of Holders	149
Section 8.3	Execution of Supplemental Indentures	150
Section 8.4	Effect of Supplemental Indentures	152
Section 8.5	Reference in Rated Notes to Supplemental Indentures	153

ARTICLE IX

REDEMPTION OF RATED NOTES

Section 9.1	Mandatory Redemption	153
Section 9.2	Optional Redemption	153
Section 9.3	Tax Redemption	155
Section 9.4	Redemption Procedures	155
Section 9.5	Rated Notes Payable on Redemption Date	157
Section 9.6	Special Redemption	157

ARTICLE X

ACCOUNTS, ACCOUNTING AND RELEASES

Section 10.1	Collection of Money	158
Section 10.2	Collection Account	158
Section 10.3	Transaction Accounts	160
Section 10.4	The Revolver Funding Account	161
Section 10.5	LC Reserve Account	163
Section 10.6	Reinvestment of Funds in Accounts; Reports by Trustee	163
Section 10.7	Accountings	165
Section 10.8	Release of Assets	172
Section 10.9	Appointment of Independent Accountants	173
Section 10.10	Reports to Rating Agencies and Additional Recipients	174
Section 10.11	Procedures Relating to the Establishment of Accounts Controlled by the Trustee	175
Section 10.12	Section 3(c)(7) Procedures	175

ARTICLE XI

APPLICATION OF MONIES

Section 11.1	Disbursements of Amounts from Payment Account	176
--------------	---	-----

ARTICLE XII

SALE OF COLLATERAL OBLIGATIONS; PURCHASE OF ADDITIONAL COLLATERAL OBLIGATIONS

Section 12.1	Sales of Collateral Obligations	183
Section 12.2	Purchase of Additional Collateral Obligations; Investment Criteria	185
Section 12.3	Conditions Applicable to All Sale and Purchase Transactions	186

ARTICLE XIII

HOLDERS' RELATIONS

Section 13.1	Subordination	187
Section 13.2	Standard of Conduct	188

ARTICLE XIV

MISCELLANEOUS

Section 14.1	Form of Documents Delivered to Trustee	188
Section 14.2	Acts of Holders	189

Section 14.3	Notices, etc., to Certain Parties	190
Section 14.4	Notices to Rating Agencies; Rule 17g-5 Procedures	191
Section 14.5	Notices to Holders; Waiver	193
Section 14.6	Effect of Headings and Table of Contents	194
Section 14.7	Successors and Assigns	194
Section 14.8	Severability	194
Section 14.9	Benefits of Indenture	194
Section 14.10	Legal Holidays	195
Section 14.11	Governing Law	195
Section 14.12	Submission to Jurisdiction	195
Section 14.13	WAIVER OF JURY TRIAL	195
Section 14.14	Counterparts	195
Section 14.15	Acts of Issuer	195
Section 14.16	Confidential Information	196
Section 14.17	Liability of Co-Issuers	197

ARTICLE XV

ASSIGNMENT OF INVESTMENT MANAGEMENT AGREEMENT

Section 15.1	Assignment of Investment Management Agreement	197
Section 15.2	Standard of Care Applicable to the Investment Manager	198

Schedules and Exhibits

Schedule 1	Moody's Industry Classification Group List
Schedule 2	S&P Industry Classifications
Schedule 3	Diversity Score Classification
Schedule 4	Moody's Rating Definitions
Schedule 5	S&P Recovery Rate Tables
Schedule 6	Approved Index List
Exhibit A	Forms of Notes
Exhibit A-1	Form of Class X Note
Exhibit A-2	Form of Class A-1 Note
Exhibit A-3	Form of Class A-2 Note
Exhibit A-4	Form of Class B Note
Exhibit A-5	Form of Class C Note
Exhibit A-6	Form of Class D Note
Exhibit A-7	Form of Class E Note
Exhibit A-8	Form of Class F Note
Exhibit B	Forms of Transfer and Exchange Certificates
Exhibit B-1	Form of Transferor Certificate for Transfer to Rule 144A Global Note
Exhibit B-2	Form of Transferor Certificate for Transfer to Regulation S Global Note
Exhibit B-3	Form of Transferee Certificate for Transfer to Certificated Note
Exhibit C	Calculation of LIBOR
Exhibit D	Form of Note Owner Certificate
Exhibit E	Form of Account Agreement

INDENTURE, dated as of October 17, 2013, between Saratoga Investment Corp. CLO 2013-1, Ltd. (f/k/a GSC Investment Corp. CLO 2007, Ltd.), an exempted company incorporated with limited liability under the laws of the Cayman Islands (the “Issuer”), Saratoga Investment Corp. CLO 2013-1, Inc. (f/k/a GSC Investment Corp. CLO 2007, Inc.), a Delaware corporation (the “Co-Issuer” and, together with the Issuer, the “Co-Issuers”), and U.S. Bank National Association, as trustee (herein, together with its permitted successors and assigns in the trusts hereunder, the “Trustee”).

PRELIMINARY STATEMENT

The Co-Issuers and U.S. Bank National Association, as legacy trustee (the “Legacy Trustee”) are party to an Indenture, dated as of January 22, 2008 (the “Original Indenture”), pursuant to which the Co-Issuers issued Class A Notes, Class B Notes, Class C Notes and Class D Notes and the Issuer issued Class E Notes (the Class E Notes issued pursuant to the Original Indenture, collectively with the Class A Notes, Class B Notes, Class C Notes and Class D Notes issued pursuant to the Original Indenture, the “Legacy Rated Notes” and holders thereof, “Legacy Rated Noteholders”) and Subordinated Notes. On August 8, 2013, the Issuer delivered to the Legacy Trustee, the holders of the Legacy Rated Notes, the holders of the Subordinated Notes and U.S. Bank National Association, as Subordinated Note Paying Agent, a Notice of Optional Redemption pursuant to Sections 9.2 and 9.3 of the Original Indenture, for optional redemption of the Legacy Rated Notes thereunder on the redemption date of October 21, 2013 (the “Legacy Rated Notes Redemption Date”).

On the Closing Date, the Issuer received net proceeds from the issuance of the Rated Notes hereunder, after payment of its fees and expenses associated with the issuance of the Rated Notes hereunder, the funding of the Expense Reserve Account and the allocation of certain unused proceeds as Principal Proceeds, in the amount of U.S.\$275,400,000 (the “Closing Date Deposit”) with the Legacy Trustee, in its capacity as custodian under the Original Indenture (the “Legacy Custodian”), for application by the Legacy Custodian towards the payment in full of all known expenses of the Issuer incurred prior to the Closing Date and for redemption in full of all of the Legacy Rated Notes on the Legacy Rated Notes Redemption Date in accordance with the terms of the Original Indenture. A firm of independent certified public accountants which are internationally recognized has verified that all amounts on deposit with the Legacy Custodian are sufficient to pay and discharge the entire indebtedness on the Legacy Rated Notes for the principal and interest on such Legacy Rated Notes through to the Legacy Rated Notes Redemption Date. The Co-Issuers have paid or caused to be paid all other sums payable under the Original Indenture, including under any hedge agreements thereunder and under the collateral management thereunder and have delivered to the Legacy Trustee officer’s certificates and an opinion of counsel, each stating that all conditions precedent in the Original Indenture provided for or relating to the satisfaction and discharge of the Original Indenture have been complied with. In connection with the foregoing, upon the deposit by or on behalf of the Issuer of the net proceeds of the issuance of the Rated Notes and, pursuant to Section 4.1(a)(ii) of the Original Indenture, the Original Indenture is deemed discharged and of no force and effect with respect to the Legacy Rated Notes and the Subordinated Notes and the collateral, except as to those limited rights which expressly survive pursuant to the terms of the Original Indenture. The terms and conditions of the Subordinated Notes are being amended and restated pursuant to this

Indenture, the Subordinated Notes and the Amended and Restated Subordinated Note Paying Agency Agreement, dated as of the Closing Date, between the Issuer, the Subordinated Note Paying Agent and the Investment Manager and/or its Affiliates, as holders of 100% of the Subordinated Notes as of the Closing Date.

Each of the Co-Issuers is duly authorized to execute and deliver this Indenture to provide for the Rated Notes issuable as provided in this Indenture. Except as otherwise provided herein, all covenants and agreements made by the Co-Issuers herein are for the benefit and security of the Secured Parties. The Co-Issuers are entering into this Indenture, and the Trustee is accepting the trusts created hereby, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged.

All things necessary to make this Indenture a valid agreement of each of the Co-Issuers in accordance with the agreement's terms have been done.

GRANTING CLAUSES

- I. Subject to the priorities and the exclusions, if any, specified below in this Granting Clause, the Issuer hereby Grants to the Trustee, for the benefit and security of Holders of the Rated Notes, the Administrator, the Investment Manager, the Collateral Administrator, the Trustee and the Bank in all of its capacities under the Transaction Documents (collectively, the "Secured Parties") to the extent of such Secured Party's interest hereunder, including under the Priority of Payments, all of its right, title and interest in, to and under, in each case, whether now owned or existing, or hereafter acquired or arising, all securities, loans and investments and all Instruments, Financial Assets, Investment Property, General Intangibles, Letter-of-Credit Rights, Securities, Securities Accounts, Deposit Accounts and all other property of any type or nature in which the Issuer has, from time-to-time, an interest, including all Proceeds with respect to any of the foregoing (excluding the Excepted Property, the "Assets" or the "Collateral"). Such Grants include, but are not limited to
- (a) the Collateral Obligations and Equity Securities which the Issuer has caused to be delivered to the Trustee on or before the Closing Date (directly or through an Intermediary or bailee) and that are owned by the Issuer as of the Closing Date, together with all payments thereon or with respect thereto,
 - (b) all Collateral Obligations that are delivered to the Trustee on or after the Closing Date, together with all payments thereon or with respect thereto,
 - (c) the Issuer's interest in each Account, including any Eligible Investments purchased with funds credited thereto, and all income from the investment of funds credited thereto,
 - (d) the Investment Management Agreement, the Administration Agreement, the Registered Office Agreement and the Collateral Administration Agreement,
 - (e) Cash delivered to the Trustee (directly or through an Intermediary or bailee),

- (f) the Issuer's equity interest in any Issuer Subsidiary and any Equity Securities, in each case including all payments and rights thereunder, and
- (g) all Proceeds with respect to the foregoing.

Such Grants exclude (i) the bank account in the Cayman Islands in which the amounts from time to time (if any) remaining from the U.S.\$250 transaction fee paid to the Issuer in consideration of the issuance of the Legacy Rated Notes and (ii) such funds as are attributable to the issuance and allotment of the Issuer's ordinary shares or the bank account in the Cayman Islands in which such funds are deposited (or any interest thereon) (collectively, the "Excepted Property").

Such Grants are made in trust to secure the Rated Notes equally and ratably without prejudice, priority or distinction between any Rated Note and any other Rated Note by reason of difference of time of issuance or otherwise, except as expressly provided in this Indenture, and to secure, in accordance with the priorities set forth in the Priority of Payments, (A) the payment of all amounts due on the Rated Notes in accordance with their terms, (B) the payment of all other sums payable under this Indenture to any Secured Party and (C) compliance with the provisions of this Indenture, all as provided in this Indenture (collectively, the "Secured Obligations").

- II. The Trustee acknowledges such Grant, accepts the trusts hereunder in accordance with the provisions hereof, and agrees to perform the duties herein in accordance with the terms hereof.

ARTICLE I

DEFINITIONS

Section 1.1. Definitions. Except as otherwise specified herein or as the context may otherwise require, the following terms have the respective meanings set forth below for all purposes of this Indenture, and the definitions of such terms are equally applicable both to the singular and plural forms of such terms and to the masculine, feminine and neuter genders of such terms. Except as otherwise specified herein or as the context may otherwise require: (i) references to an agreement or other document are to it as amended, supplemented, restated and otherwise modified from time to time and to any successor document (whether or not already so stated); (ii) references to a statute, regulation or other government rule are to it as amended from time to time and, as applicable, are to corresponding provisions of successor governmental rules (whether or not already so stated); (iii) the word "including" and correlative words shall be deemed to be followed by the phrase "without limitation" unless actually followed by such phrase or a phrase of like import; (iv) the word "or" is always used inclusively herein (for example, the phrase "A or B" means "A or B or both," not "either A or B but not both"), unless used in an "either ... or" construction; (v) references to a Person are references to such Person's successors and assigns (whether or not already so stated); (vi) all references in this Indenture to designated "Articles," "Sections," "subsections" and other subdivisions are to the designated articles, sections, subsections and other subdivisions of this Indenture; and (vii) the words "herein," "hereof," "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular article, section, subsection or other subdivision.

“Account Agreement”: An agreement in substantially the form of Exhibit E hereto.

“Accounts”: Each of (i) the Payment Account, (ii) the Collection Account, (iii) the Revolver Funding Account, (iv) the Expense Reserve Account, (v) the Ongoing Expense Smoothing Account, (vi) the Custodial Account and (vii) the LC Reserve Account.

“Act”: The meaning specified in Section 14.2.

“Accountants’ Certificate”: A certificate of a firm of Independent certified public accountants of recognized international reputation appointed by the Investment Manager on behalf of the Issuer pursuant to Section 10.9, which may be a firm of Independent accountants that audits the financial statements of the Issuer or the Investment Manager.

“Adjusted Collateral Principal Amount”: As of any date of determination:

(a) the Aggregate Principal Balance of the Collateral Obligations (other than Defaulted Obligations, Discount Obligations and Deferring Securities); *plus*

(b) without duplication, the amounts on deposit in the Collection Account (including Eligible Investments therein) representing Principal Proceeds; *plus*

(c) the lesser of the (i) S&P Collateral Value of all Defaulted Obligations and Deferring Securities and (ii) Moody’s Collateral Value of all Defaulted Obligations and Deferring Securities; *provided* that the Adjusted Collateral Principal Amount will be zero for any Defaulted Obligation which the Issuer has owned for more than three years after its default date; *plus*

(d) with respect to each Discount Obligation, the product of (i) the outstanding principal amount of such Discount Obligation as of such date, multiplied by (ii) the purchase price of such Discount Obligation (expressed as a percentage of par), excluding accrued interest; *minus*

(e) the Excess CCC/Caa Adjustment Amount; *provided* that, with respect to any Collateral Obligation that satisfies more than one of the definitions of Defaulted Obligation, Deferring Security or Discount Obligation, or any asset that falls into the Excess CCC/Caa Adjustment Amount, such Collateral Obligation shall, for the purposes of this definition, be treated as belonging to the category of Collateral Obligations which results in the lowest Adjusted Collateral Principal Amount on any date of determination.

“Adjusted Weighted Average Moody’s Rating Factor”: As of any date of determination, a number equal to the Weighted Average Moody’s Rating Factor determined in the following manner: for purposes of determining a Moody’s Default Probability Rating, Moody’s Rating or Moody’s Derived Rating in connection with determining the Weighted Average Moody’s Rating Factor for purposes of this definition, each applicable rating on credit

watch by Moody's that is on (a) positive watch will be treated as having been upgraded by one rating subcategory, (b) negative watch will be treated as having been downgraded by two rating subcategories and (c) negative outlook will be treated as having been downgraded by one rating subcategory.

"Administration Agreement": An agreement between the Administrator and the Issuer (as amended from time to time) relating to the various corporate management functions that the Administrator will perform on behalf of the Issuer, including communications with shareholders and the general public, and the provision of certain clerical, administrative and other corporate services in the Cayman Islands during the term of such agreement.

"Administrative Expense Cap": An amount equal on any Payment Date (when taken together with any Administrative Expenses paid during the period since the preceding Payment Date or in the case of the first Payment Date, the period since the Closing Date), to the sum of (a) 0.035% per annum (prorated for the related Interest Accrual Period on the basis of a 360-day year consisting of twelve 30-day months) of the Fee Basis Amount on the related Determination Date and (b) U.S.\$160,000 per annum (prorated for the related Interest Accrual Period on the basis of a 360-day year consisting of twelve 30-day months) or, with respect to this clause (b), if an Event of Default has occurred and is continuing, such higher amount as may be agreed between the Trustee and a Majority of the Controlling Class; *provided that* (1) in respect of any Payment Date after the third Payment Date following the Closing Date, if the aggregate amount of Administrative Expenses paid pursuant to clause (A) of the Priority of Interest Proceeds, clause (A) of the Priority of Principal Proceeds and clause (A) of the Special Priority of Payments (including any excess applied in accordance with this proviso) on the three immediately preceding Payment Dates and during the related Collection Periods is less than the stated Administrative Expense Cap (without regard to any excess applied in accordance with this proviso) in the aggregate for such three preceding Payment Dates, then the excess may be applied to the Administrative Expense Cap with respect to the then-current Payment Date; and (2) in respect of the third Payment Date following the Closing Date, such excess amount shall be calculated based on the Payment Dates preceding such Payment Date.

"Administrative Expenses": The fees, expenses (including indemnities) and other amounts due or accrued with respect to any Payment Date (including, with respect to any Payment Date, any such amounts that were due and not paid on any prior Payment Date) and payable in the following order by the Issuer or the Co-Issuer: first, to the Trustee pursuant to Section 6.7 and the other provisions of this Indenture, second, to the Bank (in each of its capacities) including as Collateral Administrator pursuant to the Collateral Administration Agreement, third, on a *pro rata* basis, the following amounts (excluding indemnities) to the following parties: (i) the Independent accountants, agents (other than the Investment Manager) and counsel of the Issuer for fees and expenses; (ii) the Rating Agencies for fees and expenses (including any annual fee, amendment fees and surveillance fees) in connection with any rating of the Rated Notes or in connection with the rating of (or provision of credit estimates in respect of) any Collateral Obligations; (iii) the Administrator pursuant to the Administration Agreement and the Registered Office Agreement; and (iv) any other Person in respect of any other fees or expenses permitted under this Indenture and the documents delivered pursuant to or in connection with this Indenture ((1) including any expenses related to FATCA compliance, any Issuer Subsidiary, the payment of facility rating fees and all legal and other fees and expenses

incurred in connection with the purchase or sale of any Collateral Obligations and any other expenses incurred in connection with the Collateral Obligations, and (2) excluding the Investment Management Fee (but including any other monies expended by the Investment Manager and reimbursable under the Investment Management Agreement)) and the Notes, including but not limited to, amounts owed to the Co-Issuer pursuant to Section 7.1 and any amounts due in respect of the listing of the Notes on any stock exchange or trading system and fourth, on a *pro rata* basis, indemnities payable to any Person pursuant to any Transaction Document, the Placement Agency Agreement; *provided* that (x) amounts due in respect of actions taken on or before the Closing Date shall not be payable as Administrative Expenses, but shall be payable only from the Expense Reserve Account pursuant to Section 10.3(d), (y) for the avoidance of doubt, amounts that are expressly payable to any Person under the Priority of Payments in respect of an amount that is stated to be payable as an amount other than as Administrative Expenses (including, without limitation, interest and principal in respect of the Rated Notes and distributions on the Subordinated Notes) shall not constitute Administrative Expenses and (z) no amount shall be payable to the Investment Manager as Administrative Expenses in reimbursement of fees or expenses of any third party unless the Investment Manager shall have first paid the fees or expenses that are the subject of such reimbursement.

“Administrator”: MaplesFS Limited and any successor thereto.

“Affected Class”: Any Class of Notes that, as a result of the occurrence of a Tax Event described in the definition of Tax Redemption, has not received 100% of the aggregate amount of principal and interest that would otherwise be due and payable to such Class on any Payment Date.

“Affiliate”: With respect to a Person, (a) any other Person who, directly or indirectly, is in control of, or controlled by, or is under common control with, such Person or (b) any other Person who is a director, Officer, employee or general partner (i) of such Person, (ii) of any subsidiary or parent company of such Person or (iii) of any Person described in clause (a) of this sentence. For the purposes of this definition, “control” of a Person means the power, direct or indirect, (x) to vote more than 50% of the notes having ordinary voting power for the election of directors of such Persons or (y) to direct or cause the direction of the management and policies of such Person whether by contract or otherwise. For purposes of this definition, (i) no entity shall be deemed to be an Affiliate of the Issuer or the Co-Issuer solely because the Administrator or any of its Affiliates acts as administrator or share trustee for such entity and (ii) no entity to which the Investment Manager provides investment management or advisory services shall be deemed to be an Affiliate of the Investment Manager solely because the Investment Manager acts in such capacity, unless either of the foregoing clauses (a) or (b) is satisfied as between such entity and the Investment Manager.

“Agent Members”: Members of, or participants in, DTC, Euroclear or Clearstream.

“Aggregate Coupon”: As of any Measurement Date, the sum of the products obtained by multiplying, in the case of each Fixed Rate Obligation, (a) the stated coupon on such Collateral Obligation (excluding any Deferrable Security or Partial Deferrable Security to the extent of any non-cash interest and the unfunded portion of any Delayed Drawdown Collateral

Obligation or Revolving Collateral Obligation) expressed as a percentage; and (b) the Principal Balance (including for this purpose any capitalized interest) of such Collateral Obligation; *provided* that for purposes of this definition, the interest coupon will be deemed to be, with respect to (i) any Step-Down Obligation, the lowest of the then-current interest coupon and any future interest coupon; (ii) any Step-Up Obligation, the current interest coupon; and (iii) any Deferrable Security or Partial Deferrable Security, that portion of the interest coupon that must be paid in cash and may not be deferred (without defaulting) under the Underlying Instruments.

“Aggregate Excess Funded Spread”: As of any Measurement Date, the amount obtained by multiplying: (a) the amount equal to LIBOR applicable to the Rated Notes during the Interest Accrual Period in which such Measurement Date occurs; by (b) the amount (not less than zero) equal to (i) the Aggregate Principal Balance (including for this purpose any capitalized interest) of the Collateral Obligations as of such Measurement Date *minus* (ii) the Reinvestment Target Par Balance.

“Aggregate Funded Spread”: As of any Measurement Date, the sum of

(a) in the case of each Floating Rate Obligation that bears interest at a spread over a London interbank offered rate based index, (i) the stated interest rate spread (excluding any Deferrable Security or Partial Deferrable Security to the extent of any non-cash interest and the unfunded portion of any Delayed Drawdown Collateral Obligation and Revolving Collateral Obligation) on such Collateral Obligation above such index multiplied by (ii) the Principal Balance (including for this purpose any capitalized interest but excluding the unfunded portion of any Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation) of such Collateral Obligation; and

(b) in the case of each Floating Rate Obligation that bears interest at a spread over an index other than a London interbank offered rate based index, (i) the excess of the sum of such spread and such index (excluding any Deferrable Security or Partial Deferrable Security to the extent of any non-cash interest and the unfunded portion of any Delayed Drawdown Collateral Obligation and Revolving Collateral Obligation) over LIBOR as of the immediately preceding Interest Determination Date (which spread or excess may be expressed as a negative percentage) multiplied by (ii) the Principal Balance (including for this purpose any capitalized interest but excluding the unfunded portion of any Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation) of each such Collateral Obligation;

provided that for purposes of this definition, the interest rate spread will be deemed to be, with respect to (i) any Floating Rate Obligation that has a LIBOR floor, the stated interest rate spread plus, if positive, (x) the LIBOR floor value *minus* (y) LIBOR as in effect for the current Interest Accrual Period; (ii) any Step-Down Obligation, the lowest of the then-current rate and any future rate; (iii) any Step-Up Obligation, the current spread; and (iv) any Deferrable Security or Partial Deferrable Security, that portion of the spread that must be paid in cash and may not be deferred (without defaulting) under the Underlying Instruments.

“Aggregate Outstanding Amount”: With respect to (i) any of the Rated Notes as of any date, the aggregate principal amount of such Rated Notes Outstanding (including any Deferred Interest previously added to the principal amount that remains unpaid) on such date and (ii) the Subordinated Notes, the face amount thereof.

“Aggregate Principal Balance”: When used with respect to all or a portion of the Collateral Obligations or the Assets, the sum of the Principal Balances of all or of such portion of the Collateral Obligations or Assets, respectively.

“Aggregate Unfunded Spread”: As of any Measurement Date, the sum of the products obtained by multiplying (i) for each Delayed Drawdown Collateral Obligation and Revolving Collateral Obligation (other than Defaulted Obligations), the related commitment fee then in effect as of such date and (ii) the undrawn commitments of each such Delayed Drawdown Collateral Obligation and Revolving Collateral Obligation as of such date.

“Amended and Restated Subordinated Note Paying Agency Agreement”: The agreement dated as of October 17, 2013 between the Issuer, U.S. Bank National Association, in its capacity as subordinated note paying agent, and Saratoga Investment Corp., as investor, as may be further amended from time to time.

“Applicable Advance Rate”: For each Collateral Obligation and for the applicable number of Business Days between the certification date for a sale or participation required by Section 9.4 and the expected date of such sale or participation, the percentage specified below:

	<u>Same day</u>	<u>1-2 days</u>	<u>3-5 days</u>	<u>6-15 days</u>
Senior Secured Loans with a Market Value of:				
90% or more	100%	93%	92%	88%
below 90%	100%	80%	73%	60%
Other Collateral Obligations with a Moody’s Rating of at least “B2” or an S&P Rating of at least “B” and a Market Value of 90% or more	100%	89%	85%	75%
All other Collateral Obligations	100%	75%	65%	45%

“Applicable Issuer” or “Applicable Issuers”: With respect to the Co-Issued Notes, the Co-Issuers and with respect to the Issuer Only Notes, the Issuer only.

“Approved Index List”: The nationally recognized indices specified in Schedule 6 hereto as amended from time to time by the Investment Manager with prior notice of any amendment to S&P and Moody’s in respect of such amendment and a copy of any such amended Approved Index List to the Collateral Administrator; *provided* that any new index added to the Approved Index List by amendment will be a nationally recognized index.

“Asset-backed Commercial Paper”: Commercial paper or other short-term obligations of a program that primarily issues externally rated commercial paper backed by assets or exposures held in a bankruptcy-remote, special purpose entity.

“Assets”: The meaning assigned in the Granting Clauses hereof.

“Assigned Moody’s Rating”: With respect to any obligation or facility, the monitored publicly available rating (or, if no such rating is available, the unreported monitored rating) by Moody’s of such obligation or facility (if any).

“Assumed Reinvestment Rate”: LIBOR (as determined on the most recent Interest Determination Date relating to an Interest Accrual Period beginning on a Payment Date or the Closing Date) *minus* 0.25% per annum; *provided* that the Assumed Reinvestment Rate shall not be less than 0.00%.

“Authenticating Agent”: With respect to the Rated Notes or a Class of the Rated Notes, the Person designated by the Trustee to authenticate such Rated Notes on behalf of the Trustee pursuant to Section 6.14.

“Authorized Officer”: With respect to the Issuer or the Co-Issuer, any Officer or any other Person who is authorized to act for the Issuer or the Co-Issuer, as applicable, in matters relating to, and binding upon, the Issuer or the Co-Issuer. With respect to the Investment Manager, any Officer, employee, member or agent of the Investment Manager who is authorized to act for the Investment Manager in matters relating to, and binding upon, the Investment Manager with respect to the subject matter of the request, certificate or order in question. With respect to the Collateral Administrator, any Officer, employee, partner or agent of the Collateral Administrator who is authorized to act for the Collateral Administrator in matters relating to, and binding upon, the Collateral Administrator with respect to the subject matter of the request, certificate or order in question. With respect to the Trustee or any other bank or trust company acting as trustee of an express trust or as custodian, a Trust Officer. With respect to any Authenticating Agent, any Officer of such Authenticating Agent who is authorized to authenticate the Rated Notes. Each party may receive and accept a certification of the authority of any other party as conclusive evidence of the authority of any person to act, and such certification may be considered as in full force and effect until receipt by such other party of written notice to the contrary.

“Balance”: On any date, with respect to Eligible Investments (including Cash) in any Account, the aggregate of the (i) current balance of Cash, demand deposits, time deposits, certificates of deposit and federal funds; (ii) principal amount of interest-bearing corporate and government securities, money market accounts and repurchase obligations; and (iii) purchase price (but not greater than the face amount) of non-interest-bearing government and corporate securities and commercial paper.

“Bank”: U.S. Bank National Association, in its individual capacity and not as Trustee, or any successor thereto.

“Bankruptcy Exchange”: The exchange of a Defaulted Obligation (without the payment of any additional funds other than reasonable and customary transfer costs) for another debt obligation issued by another obligor which, but for the fact that such debt obligation is a Defaulted Obligation or a Credit Risk Obligation, would otherwise qualify as a Collateral Obligation and (i) in the Investment Manager’s reasonable business judgment, at the time of the

exchange, such debt obligation received on exchange has a better likelihood of recovery than the Defaulted Obligation to be exchanged, (ii) as determined by the Investment Manager, at the time of the exchange, the debt obligation received on exchange is no less senior in right of payment vis-à-vis such obligor's other outstanding indebtedness than the Defaulted Obligation to be exchanged vis-à-vis its obligor's other outstanding indebtedness, (iii) as determined by the Investment Manager, both prior to and after giving effect to such exchange, each of the Coverage Tests is satisfied or, if any Coverage Test was not satisfied prior to such exchange, the coverage ratio relating to such test will be at least as close to being satisfied after giving effect to such exchange as it was before giving effect to such exchange, (iv) as determined by the Investment Manager, both prior to and after giving effect to such exchange, not more than 5.0% of the Collateral Principal Amount consists of obligations received in a Bankruptcy Exchange, (v) the period for which the Issuer held the Defaulted Obligation to be exchanged will be included for all purposes in this Indenture when determining the period for which the Issuer holds the debt obligation received on exchange, (vi) the Bankruptcy Exchange Test is satisfied, (vii) if such debt obligation received on exchange is a Credit Risk Obligation, such debt obligation has a Moody's Rating and (viii) the Aggregate Principal Balance of all obligations acquired in Bankruptcy Exchanges is less than U.S.\$40,000,000.

"Bankruptcy Exchange Test": A test that is satisfied if, in the Investment Manager's reasonable business judgment, the projected internal rate of return of the obligation obtained as a result of a Bankruptcy Exchange is greater than the projected internal rate of return of the Defaulted Obligation exchanged in a Bankruptcy Exchange, calculated by the Investment Manager by aggregating all Cash and the Market Value of any Collateral Obligation subject to a Bankruptcy Exchange at the time of each Bankruptcy Exchange; *provided* that the foregoing calculation will not be required for any Bankruptcy Exchange prior to and including the occurrence of the third Bankruptcy Exchange.

"Bankruptcy Law": The federal Bankruptcy Code, Title 11 of the United States Code, as amended from time to time, Part V of the Companies Law (as amended) of the Cayman Islands, as may be further amended from time to time, the Bankruptcy Law (as amended) of the Cayman Islands, as may be further amended from time to time and the Foreign Bankruptcy Proceedings (International Cooperation) Rules 2008 of the Cayman Islands, as amended from time to time.

"Base Management Fee": The fee payable to the Investment Manager in arrears on each Payment Date (prorated for the related Interest Accrual Period) that accrues during each Interest Accrual Period at a rate equal to 0.25% per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months) of the Fee Basis Amount at the beginning of the Collection Period relating to such Payment Date (as certified by the Investment Manager to the Trustee).

"Benefit Plan Investor": Any of (a) an employee benefit plan (as defined in Section 3(3) of ERISA) subject to Title I of ERISA, (b) a plan described in Section 4975(e)(1) of the Code to which Section 4975 of the Code applies or (c) any other entity whose underlying assets could be deemed to include plan assets by reason of an employee benefit plan's or a plan's investment in the entity within the meaning of the Plan Asset Regulation or otherwise.

“Board of Directors”: With respect to the Issuer, the directors of the Issuer duly appointed by the shareholders of the Issuer or the board of directors of the Issuer pursuant to the Memorandum and Articles in accordance with the law of the Cayman Islands and, with respect to the Co-Issuer, the sole director or the board of directors of the Co-Issuer.

“Bridge Loan”: Any loan or other obligation that (x) is incurred in connection with a merger, acquisition, consolidation, or sale of all or substantially all of the assets of a Person or similar transaction, (y) by its terms, is required to be repaid within one year of the incurrence thereof with proceeds from additional borrowings or other refinancing and (z) has a rating from Moody’s. It is understood that any such loan or debt security that has a nominal maturity date of one year or less from the incurrence thereof may have a term-out or other provision whereby (automatically or at the sole option of the obligor thereof) the maturity of the indebtedness thereunder can be extended to a later date; *provided* that, for the avoidance of doubt, such date shall not be later than the Stated Maturity of the Notes.

“Business Day”: Any day other than (i) a Saturday or a Sunday or (ii) a day on which commercial banks are authorized or required by applicable law, regulation or executive order to close in New York, New York or in the city in which the Corporate Trust Office of the Trustee is located or, for any final payment of principal, in the relevant place of presentation.

“Caa Collateral Obligation”: A Collateral Obligation (other than a Defaulted Obligation or a Deferring Security) with a Moody’s Rating of “Caa1” or lower.

“Calculation Agent”: The meaning specified in Section 7.16.

“Cash”: Such funds denominated in currency of the United States of America as at the time shall be legal tender for payment of all public and private debts, including funds standing to the credit of an Account.

“CCC Collateral Obligation”: A Collateral Obligation (other than a Defaulted Obligation or a Deferring Security) with an S&P Rating of “CCC+” or lower.

“CCC/Caa Collateral Obligations”: The CCC Collateral Obligations and/or the Caa Collateral Obligations, as the context requires.

“CCC/Caa Excess”: The amount equal to the greater of (i) the excess of the Aggregate Principal Balance of all CCC Collateral Obligations (*provided* that, for purposes of this calculation, each Discount Obligation will be held at its purchase price) over an amount equal to 7.5% of the Collateral Principal Amount as of the current Determination Date and (ii) the excess of the Aggregate Principal Balance of all Caa Collateral Obligations over an amount equal to 7.5% of the Collateral Principal Amount as of the current Determination Date; *provided* that, in determining which of the CCC/Caa Collateral Obligations shall be included in the CCC/Caa Excess, the CCC/Caa Collateral Obligations with the lowest Market Value (assuming that such Market Value is expressed as a percentage of the Aggregate Principal Balance of such Collateral Obligations as of such Determination Date) shall be deemed to constitute such CCC/Caa Excess.

“Certificate of Authentication”: The meaning specified in Section 2.1.

“Certificated Note”: Any Note issued in the form of a definitive, fully registered note without interest coupons registered in the name of the owner or nominee thereof, duly executed by the Issuer and authenticated by the Trustee as herein provided.

“Certificated Security”: As defined in Section 8-102(a)(4) of the UCC.

“Class”: All of (a) the Rated Notes having the same Interest Rate, Stated Maturity and designation and (b) the Subordinated Notes. With respect to any exercise of voting rights, any Pari Passu Classes of Notes that are entitled to Vote on a matter will Vote together as a single class.

“Class A/B Coverage Tests”: The Overcollateralization Ratio Test and the Interest Coverage Test, each as applied with respect to the Class A Notes and the Class B Notes, collectively.

“Class A Notes”: The Class A-1 Notes and the Class A-2 Notes.

“Class A-1 Notes”: The Class A-1 Senior Secured Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class A-2 Notes”: The Class A-2 Senior Secured Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class B Notes”: The Class B Senior Secured Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class Break-even Default Rate”: With respect to any Class or Classes of Rated Notes, the maximum percentage of defaults, at any time, that the Current Portfolio or the Proposed Portfolio, as applicable, can sustain, determined through application of the applicable S&P CDO Monitor chosen by the Investment Manager in accordance with the definition of S&P CDO Monitor that is applicable to the portfolio of Collateral Obligations, which, after giving effect to S&P’s assumptions on recoveries, defaults and timing and to the Priority of Payments, will result in sufficient funds remaining for the payment of such Class or Classes of Rated Notes in full. S&P will provide the Investment Manager with the Class Break-even Default Rates for each S&P CDO Monitor based upon the Weighted Average Floating Spread and the Weighted Average S&P Recovery Rate to be associated with such S&P CDO Monitor as selected by the Investment Manager from Section 2 under “S&P Rating Recovery Rate Tables” or any other Weighted Average Floating Spread and Weighted Average S&P Recovery Rate selected by the Investment Manager from time to time.

“Class C Coverage Tests”: The Overcollateralization Ratio Test and the Interest Coverage Test, each as applied with respect to the Class C Notes.

“Class C Notes”: The Class C Mezzanine Deferrable Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class D Coverage Tests”: The Overcollateralization Ratio Test and the Interest Coverage Test, each as applied with respect to the Class D Notes.

“Class D Notes”: The Class D Mezzanine Deferrable Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class Default Differential”: With respect to any Class of Rated Notes, at any time, the rate calculated by subtracting the Class Scenario Default Rate at such time for such Class of Rated Notes from the Class Break-even Default Rate for such Class of Rated Notes at such time.

“Class E Coverage Test”: The Overcollateralization Ratio Test and the Interest Coverage Test, each as applied with respect to the Class E Notes.

“Class E Notes”: The Class E Mezzanine Deferrable Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class F Notes”: The Class F Mezzanine Deferrable Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class Scenario Default Rate”: With respect to any Class of Rated Notes, at any time, an estimate of the cumulative default rate for the Current Portfolio or the Proposed Portfolio, as applicable, consistent with S&P’s Initial Rating of such Class of Rated Notes, determined by application by the Investment Manager and the Collateral Administrator of the S&P CDO Monitor at such time.

“Class X Notes”: The Class X Senior Secured Floating Rate Notes issued pursuant to this Indenture and having the characteristics specified in Section 2.3.

“Class X Scheduled Amortization Amount”: The amount of U.S.\$833,334 payable on the first Payment Date, and U.S.\$833,333 payable on each of the second and third Payment Dates pursuant to the Priority of Payments.

“Clearing Agency”: An organization registered as a “clearing agency” pursuant to Section 17A of the Exchange Act.

“Clearing Corporation”: (i) Clearstream, (ii) DTC, (iii) Euroclear and (iv) any entity included within the meaning of “clearing corporation” under Article 8 of the UCC.

“Clearing Corporation Security”: Securities that are in the custody of or maintained on the books of a Clearing Corporation or a nominee subject to the control of a Clearing Corporation and, if they are Certificated Notes in registered form, properly endorsed to or registered in the name of the Clearing Corporation or such nominee.

“Clearstream”: Clearstream Banking, société anonyme, a corporation organized under the laws of the Duchy of Luxembourg (formerly known as Cedelbank, société anonyme).

“Closing Date”: October 17, 2013.

“Closing Date Deposit”: The meaning specified in the Preliminary Statement hereto.

“Code”: The United States Internal Revenue Code of 1986, as amended, and the Treasury regulations promulgated thereunder.

“Co-Issued Notes”: The Class X Notes, the Class A Notes, the Class B Notes, the Class C Notes and the Class D Notes.

“Co-Issuer”: The Person named as such on the first page of this Indenture, until a successor Person shall have become the Co-Issuer pursuant to the applicable provisions of this Indenture, and thereafter “Co-Issuer” shall mean such successor Person.

“Co-Issuers”: The Issuer and the Co-Issuer.

“Collateral”: The meaning assigned in Granting Clause I hereof.

“Collateral Administration Agreement”: An agreement dated as of the Closing Date among the Issuer, the Investment Manager and the Collateral Administrator, as amended from time to time.

“Collateral Administrator”: The Bank, in its capacity as collateral administrator under the Collateral Administration Agreement, and any successor thereto.

“Collateral Certificate”: The meaning specified in Section 3.1.

“Collateral Interest Amount”: As of any date of determination, without duplication, the sum of (a) the amounts on deposit in the Ongoing Expense Smoothing Account *plus* (b) the aggregate amount of Interest Proceeds that has been received or that is expected to be received (other than Interest Proceeds expected to be received from Defaulted Obligations, Deferrable Securities and Partial Deferrable Securities, but including (x) Interest Proceeds actually received from Defaulted Obligations and Deferrable Securities and (y) Interest Proceeds expected to be received of the type described in clause (i) of the definition of Partial Deferrable Security), in each case during the Collection Period in which such date of determination occurs (or after such Collection Period but on or prior to the related Payment Date if such Interest Proceeds would be treated as Interest Proceeds with respect to such Collection Period).

“Collateral Obligation”: A Senior Secured Loan, Senior Secured Bond, Senior Unsecured Bond, Second Lien Loan, Senior Secured Floating Rate Note or an Unsecured Loan (including, but not limited to, interests in bank loans acquired by way of a purchase or assignment) or Participation Interest therein or a Letter of Credit Reimbursement Obligation, in each case that, as of the date the Issuer commits to acquire such obligation:

- (i) is U.S. Dollar denominated and is neither convertible by the issuer thereof into, nor payable in, any other currency;
- (ii) is not a Defaulted Obligation or a Credit Risk Obligation (unless such obligation is being acquired in a Bankruptcy Exchange);
- (iii) is not a lease (including a finance lease);

(iv) is not an Interest Only Security;

(v) provides (in the case of a Delayed Drawdown Collateral Obligation, Revolving Collateral Obligation or Letter of Credit Reimbursement Obligation, with respect to amounts drawn thereunder) for a fixed amount of principal payable in Cash on scheduled payment dates and/or at maturity and does not by its terms provide for earlier amortization or prepayment at a price of less than par;

(vi) does not constitute Margin Stock;

(vii) gives rise only to payments that are not subject to withholding tax, other than (A) withholding tax as to which the obligor or issuer must make additional payments so that the net amount received by the Issuer after satisfaction of such tax is the amount due to the Issuer before the imposition of any withholding tax, (B) withholding tax on (x) fees received with respect to a Letter of Credit Reimbursement Obligation, (y) amendment, waiver, consent and extension fees and (z) commitment fees and other similar fees in respect of Revolving Collateral Obligations and Delayed Drawdown Collateral Obligations, and (C) withholding tax imposed pursuant to FATCA;

(viii) has a Moody's Rating and an S&P Rating (unless such obligation is being acquired in a Bankruptcy Exchange);

(ix) is not a debt obligation whose repayment is subject to substantial non-credit related risk as determined by the Investment Manager in its reasonable judgment;

(x) except for Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations, is not an obligation pursuant to which any future advances or payments to the borrower or the obligor thereof may be required to be made by the Issuer;

(xi) does not have an "f," "r," "p," "pi," "q," "sf" or "t" subscript assigned by S&P;

(xii) is not a Bridge Loan, a Step-Up/Step-Down Obligation, a Zero Coupon Security, a Synthetic Security, a Structured Finance Obligation or a Deferrable Security, except for a Deferrable Security received in connection with a Bankruptcy Exchange;

(xiii) will not require the Issuer, the Co-Issuer or the pool of collateral to be registered as an investment company under the Investment Company Act;

(xiv) is not, by its terms, convertible into or exchangeable for an Equity Security at the option of either the issuer thereof or the holder and does not have attached warrants to purchase Equity Securities;

(xv) is not the subject of an Offer;

(xvi) if a Partial Deferrable Security, is not currently in default with respect to the portion of the interest due thereon to be paid in cash on each payment date with respect thereto;

(xvii) does not mature after the Stated Maturity of the Notes;

(xviii) if a Floating Rate Obligation, accrues interest at a floating rate determined by reference to (a) the Dollar prime rate, federal funds rate or LIBOR or (b) a similar interbank offered rate or commercial deposit rate or (c) with notice to S&P, any other then-customary index;

(xix) is Registered;

(xx) will not, by its acquisition (including its ownership or disposition) cause the Issuer to violate the Tax Guidelines;

(xxi) does not pay interest less frequently than semi-annually;

(xxii) unless it is a Letter of Credit Reimbursement Obligation, does not include or support a letter of credit;

(xxiii) is issued by a Non-Emerging Market Obligor;

(xxiv) is issued by an obligor Domiciled in the United States, Canada, a Group I Country, a Group II Country, a Group III Country or a Tax Jurisdiction (which, for clarity, will not include obligations issued by obligors in Greece, Italy, Spain or Portugal);

(xxv) if acquired on or after the Closing Date, is not a Middle Market Loan; and

(xxvi) is not issued by a sovereign, or by a corporate issuer located in a country, which sovereign or country on the date on which the obligation is acquired by the Issuer imposed foreign exchange controls that effectively limit the availability or use of U.S. Dollars to make when due the scheduled payments of principal thereof and interest thereon.

“Collateral Principal Amount”: As of any date of determination, the sum of (a) the Aggregate Principal Balance of the Collateral Obligations (other than Defaulted Obligations) and (b) without duplication, the amounts on deposit in the Collection Account (including Eligible Investments therein) representing Principal Proceeds.

“Collateral Quality Test”: A test satisfied on any date of determination if, in the aggregate, the Collateral Obligations owned (or in relation to a proposed purchase of a Collateral Obligation, proposed to be owned) by the Issuer satisfy each of the tests set forth below or, if a test is not satisfied on such date of determination, the degree of compliance with such test is maintained or improved after giving effect to any purchase or sale effected on such date of determination or the relevant Trading Plan, calculated in each case as required by Section 1.2 herein:

- (i) the Minimum Floating Spread Test;
- (ii) the Minimum Weighted Average Coupon Test;
- (iii) the Maximum Moody's Rating Factor Test;
- (iv) the Moody's Diversity Test;
- (v) the S&P CDO Monitor Test;
- (vi) the Minimum Weighted Average Moody's Recovery Rate Test;
- (vii) the Minimum Weighted Average S&P Recovery Rate Test; and
- (viii) the Weighted Average Life Test.

“Collateral Report”: The meaning specified in Section 3.1.

“Collection Account”: Collectively, the Principal Collection Account and the Interest Collection Account.

“Collection Period”: (i) With respect to the first Payment Date, the period commencing on the Closing Date and ending at the close of business on the eighth Business Day prior to the first Payment Date; and (ii) with respect to any other Payment Date, the period commencing on the day immediately following the prior Collection Period and ending (a) in the case of the final Collection Period preceding the Stated Maturity, on the day preceding such Stated Maturity, (b) in the case of the final Collection Period preceding an Optional Redemption or a Tax Redemption in whole of the Notes, on the day preceding the Redemption Date and (c) in any other case, at the close of business on the eighth Business Day prior to such Payment Date.

“Concentration Limitations”: Limitations satisfied on any date of determination if, in the aggregate, the Collateral Obligations owned (or in relation to a proposed purchase of a Collateral Obligation, proposed to be owned) by the Issuer comply with all of the requirements set forth below (or, if not in compliance, the relevant requirements must be maintained or improved after giving effect to the purchase), calculated in each case as required by Section 1.2 herein:

<u>Collateral Type</u>	<u>Minimum (% of Collateral Principal Amount)</u>	<u>Maximum (% of Collateral Principal Amount)</u>	<u>Exceptions and Additional Requirements</u>
<i>Senior Secured Loans and Eligible Investments (including Cash)</i>	95.0		

<u>Collateral Type</u>	<u>Minimum (% of Collateral Principal Amount)</u>	<u>Maximum (% of Collateral Principal Amount)</u>	<u>Exceptions and Additional Requirements</u>
<i>Second Lien Loans, Senior Secured Bonds, Senior Unsecured Bonds, Senior Secured Floating Rate Notes and Unsecured Loans, collectively</i>		5.0	
<i>Single Obligor and Affiliates</i>		2.0	up to five obligors and their respective Affiliates may each constitute up to 2.5% of the Collateral Principal Amount
<i>Rating of "Caa1" and below</i>		7.5	
<i>Rating of "CCC+" and below</i>		7.5	
<i>Fixed Rate Obligations</i>		4.0	
<i>Current Pay Obligations</i>		2.0	
<i>DIP Collateral Obligations</i>		5.0	
<i>Delayed Drawdown/Revolving Collateral Obligations</i>		10.0	
<i>Participation Interests</i>		20.0	Counterparty Criteria must be satisfied
<i>Deferrable Securities</i>		0.0	Unless received in connection with a Bankruptcy Exchange
<i>S&P Rating derived from a Moody's Rating</i>		10.0	
<i>Moody's Rating derived from an S&P Rating</i>		10.0	
<i>Domicile of Obligor:</i>			
<i>all countries (in the aggregate) other than the United States</i>		10.0	
<i>any individual Group I Country</i>		10.0	
<i>any individual Group II Country</i>		7.5	
<i>all Group II Countries in the aggregate</i>		10.0	
<i>any individual Group III Country</i>		5.0	

<u>Collateral Type</u>	<u>Minimum (% of Collateral Principal Amount)</u>	<u>Maximum (% of Collateral Principal Amount)</u>	<u>Exceptions and Additional Requirements</u>
<i>all Group III Countries in the aggregate</i>		10.0	
<i>all Tax Jurisdictions in the aggregate</i>		7.5	
<i>any individual country other than the United States, the United Kingdom, Canada, the Netherlands, any Group II Country or any Group III Country</i>		3.0	
<i>S&P Industry Classification</i>		12.0	up to one industry may represent 15.0%
<i>Letter of Credit Reimbursement Obligations</i>		3.0	Moody's Counterparty Criteria must be satisfied
<i>Cov-Lite Loans</i>		50.0	

“Confidential Information”: The meaning specified in Section 14.16(b).

“Controlling Class”: The Class A-1 Notes so long as any Class A-1 Notes are Outstanding; then the Class A-2 Notes so long as any Class A-2 Notes are Outstanding; then the Class B Notes so long as any Class B Notes are Outstanding; then the Class C Notes so long as any Class C Notes are Outstanding; then the Class D Notes so long as any Class D Notes are Outstanding; then the Class E Notes so long as any Class E Notes are Outstanding; then the Class F Notes so long as any Class F Notes are Outstanding; and then the Subordinated Notes.

“Controlling Person”: A Person (other than a Benefit Plan Investor) who has discretionary authority or control with respect to the assets of the Co-Issuers or any Person who provides investment advice for a fee (direct or indirect) with respect to such assets or an affiliate of any such Person. For this purpose, an “affiliate” of a person includes any person, directly or indirectly, through one or more intermediaries, controlling, controlled by, or under common control with the person. “Control,” with respect to a person other than an individual, means the power to exercise a controlling influence over the management or policies of such person.

“Corporate Trust Office”: The principal corporate trust office of the Trustee, currently located at 214 North Tryon Street, 26th Floor, Charlotte, North Carolina 28202, Attention: Corporate Trust Services — CDO Group — Saratoga Investment Corp. CLO 2013-1, Ltd., facsimile no. (704) 335-4678, email: crystal.crudupburt@usbank.com, or such other address as the Trustee may designate from time to time by notice to the Holders, the Investment Manager and the Issuer, or the principal corporate trust office of any successor Trustee.

“Counterparty Criteria”: The Moody's Counterparty Criteria and the Third Party Credit Exposure Limits, collectively.

“Cov-Lite Loan”: A Loan that, other than with respect to a period of no more than three months following origination of such Loan, is not subject to financial covenants unless the borrower is required to comply with a Maintenance Covenant (regardless of whether compliance with one or more Incurrence Covenants is otherwise required by the Underlying Instruments); *provided* that, other than for purposes of the S&P Recovery Rate, a Loan will be deemed not to be a Cov-Lite Loan if such Loan (a) contains either (x) a cross-default provision to, or (y) is *pari passu* with, another loan of the underlying obligor forming part of the same loan facility that requires the underlying obligor to comply with such financial covenants or a Maintenance Covenant or (b) has a Moody’s Rating of “Ba3” or higher.

“Coverage Tests”: The Overcollateralization Ratio Test and the Interest Coverage Test, each as applied to the specified Class of Rated Notes.

“Credit Improved Criteria”: The criteria that will be met with respect to any Collateral Obligation if, on any date of determination, either (a) the positive difference between the market price of such Collateral Obligation (expressed as a percentage of par value) on such date and its purchase price is greater than 1.00%; or (b) the change in price of such Collateral Obligation during the period from the date on which it was acquired by the Issuer to the date of determination by a percentage either is more positive, or less negative, as the case may be, than the percentage change in the average price of any index specified on the Approved Index List *plus* 0.50% over the same period.

“Credit Improved Obligation”: Any Collateral Obligation which, in the Investment Manager’s judgment exercised in accordance with the Investment Management Agreement, has significantly improved in credit quality after it was acquired by the Issuer, which improvement may (but need not) be evidenced by one of the following: (a) such Collateral Obligation satisfies the Credit Improved Criteria, (b) such Collateral Obligation has been upgraded at least one rating subcategory by either Rating Agency or has been placed and remains on credit watch with positive implication by either Rating Agency, (c) the issuer of such Collateral Obligation has raised equity capital or other capital subordinated to the Collateral Obligation, (d) the issuer of such Collateral Obligation has, in the Investment Manager’s reasonable commercial judgment, shown improved results or possesses less credit risk, in each case since such Collateral Obligation was acquired by the Issuer or (e) such Collateral Obligation has a market price that is greater than the price warranted by its terms and credit characteristics; *provided* that during a Restricted Trading Period, in addition to the foregoing, a Collateral Obligation will qualify as a Credit Improved Obligation only if (i) it has been upgraded by any Rating Agency at least one rating subcategory or has been placed and remains on a credit watch with positive implication by any Rating Agency since it was acquired by the Issuer, (ii) the Credit Improved Criteria are satisfied with respect to such Collateral Obligation or (iii) a Majority of the Controlling Class votes to treat such Collateral Obligation as a Credit Improved Obligation.

“Credit Risk Criteria”: The criteria that will be met with respect to any Collateral Obligation if, on any date of determination, either (a) the negative difference between the market price of such Collateral Obligation (expressed as a percentage of par value) on such date and its purchase price is greater than 1.00%; or (b) the change in price of such Collateral Obligation during the period from the date on which it was acquired by the Issuer to the date of determination by a percentage either is more negative, or less positive, as the case may be, than the percentage change in the average price of any index specified on the Approved Index List *less* 0.50% over the same period.

“Credit Risk Obligation”: Any Collateral Obligation that, in the Investment Manager’s judgment exercised in accordance with the Investment Management Agreement, has a significant risk of declining in credit quality or price; *provided* that, during a Restricted Trading Period, a Collateral Obligation will qualify as a Credit Risk Obligation for purposes of sales of Collateral Obligations only if, in addition to the foregoing, (i) such Collateral Obligation has been downgraded by any Rating Agency at least one rating subcategory or has been placed and remains on a credit watch with negative implication or on negative outlook by any Rating Agency since it was acquired by the Issuer, (ii) the Credit Risk Criteria are satisfied with respect to such Collateral Obligation or (iii) a Majority of the Controlling Class votes to treat such Collateral Obligation as a Credit Risk Obligation.

“Current Pay Obligation”: Any Collateral Obligation (other than a DIP Collateral Obligation) that would otherwise be treated as a Defaulted Obligation but as to which no payments are due and payable that are unpaid and with respect to which the Investment Manager has certified to the Trustee (with a copy to the Collateral Administrator) in writing that it believes, in its reasonable business judgment, that the issuer or obligor of such Collateral Obligation (a) will continue to make scheduled payments of interest (and/or fees, as applicable, in the case of a Delayed Drawdown Collateral Obligation, Revolving Collateral Obligation or Letter of Credit Reimbursement Obligation) thereon and will pay the principal thereof by maturity or as otherwise contractually due, (b) if the issuer or obligor is subject to a bankruptcy proceeding, it has been the subject of an order of a bankruptcy court that permits it to make the scheduled payments on such Collateral Obligation and all interest (and/or fees, as applicable, in the case of a Delayed Drawdown Collateral Obligation, Revolving Collateral Obligation or Letter of Credit Reimbursement Obligation) and principal payments due thereunder and any other court-authorized payments have been paid in cash when due, (c) if any Rated Notes are then rated by S&P, the S&P Additional Current Pay Criteria are satisfied and (d) if any Class of Rated Notes is then rated by Moody’s, the Moody’s Additional Current Pay Criteria are satisfied (Market Value being determined, solely for the purposes of clauses (c) and (d), without taking into consideration clause (iii) of the definition of the term Market Value).

“Current Portfolio”: At any time, the portfolio of Collateral Obligations and Eligible Investments representing Principal Proceeds (determined in accordance with Section 1.2 to the extent applicable), then held by the Issuer.

“Custodial Account”: The custodial account established pursuant to Section 10.3(b).

“Default”: Any Event of Default or any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default.

“Defaulted Obligation”: Any Collateral Obligation included in the Assets as to which:

(a) a default as to the payment of principal and/or interest has occurred and is continuing with respect to such Collateral Obligation (without regard to any grace period applicable thereto, or waiver or forbearance thereof, after the passage (in the case of a default that in the Investment Manager's judgment, as certified to the Trustee in writing, is not due to credit-related causes) of five Business Days or seven calendar days, whichever is greater, but in no case beyond the passage of any grace period applicable thereto);

(b) a default known to the Investment Manager as to the payment of principal and/or interest has occurred and is continuing on another debt obligation of the same issuer which is senior or *pari passu* in right of payment to such Collateral Obligation (without regard to any grace period applicable thereto, or waiver or forbearance thereof, after the passage (in the case of a default that in the Investment Manager's judgment, as certified to the Trustee in writing, is not due to credit-related causes) of three Business Days or five calendar days, whichever is greater, but in no case beyond the passage of any grace period applicable thereto), and the holders thereof have accelerated the maturity of all or a portion of such obligation (but only until such acceleration has been rescinded); *provided* that both the Collateral Obligation and such other debt obligation are full recourse obligations of the applicable issuer or secured by the same collateral);

(c) the issuer or others have instituted proceedings to have the issuer adjudicated as bankrupt or insolvent or placed into receivership and such proceedings have not been stayed or dismissed within 60 days of filing or such issuer has filed for protection under Chapter 11 of the United States Bankruptcy Code;

(d) such Collateral Obligation has an S&P Rating of "CC" or below or "SD" or "D" or had such rating immediately before such rating was withdrawn or the Obligor on such Collateral Obligation has a "probability of default" rating assigned by Moody's of "D" or "LD";

(e) such Collateral Obligation is *pari passu* in right of payment as to the payment of principal and/or interest to another debt obligation of the same issuer which has an S&P Rating of "CC" or below or "SD" or "D" or had such rating immediately before such rating was withdrawn or the Obligor on such Collateral Obligation has a "probability of default" rating assigned by Moody's of "D" or "LD"; *provided* that both the Collateral Obligation and such other debt obligation are full recourse obligations of the applicable issuer or secured by the same collateral;

(f) a default with respect to which the Investment Manager has received notice or has knowledge that a default has occurred under the Underlying Instruments and any applicable grace period has expired and the holders of such Collateral Obligation have accelerated the repayment of the Collateral Obligation (but only until such acceleration has been rescinded) in the manner provided in the Underlying Instrument;

(g) the Investment Manager has in its reasonable commercial judgment otherwise declared such debt obligation to be a Defaulted Obligation;

(h) such Collateral Obligation is a Participation Interest with respect to which the Selling Institution has defaulted in any respect in the performance of any of its payment obligations under the Participation Interest; or

(i) such Collateral Obligation is a Participation Interest in a loan that would, if such loan were a Collateral Obligation, constitute a Defaulted Obligation or with respect to which the Selling Institution has an S&P Rating of “CC” or lower or “SD” or “D” or had such rating before such rating was withdrawn;

provided that (x) a Collateral Obligation shall not constitute a Defaulted Obligation pursuant to clauses (b) through (e) and (i) above if such Collateral Obligation (or, in the case of a Participation Interest other than a Letter of Credit Reimbursement Obligation, the underlying Senior Secured Loan, Second Lien Loan or Unsecured Loan) is a Current Pay Obligation (*provided* that the Aggregate Principal Balance of Current Pay Obligations exceeding 7.5% of the Collateral Principal Amount will be treated as Defaulted Obligations) and (y) a Collateral Obligation shall not constitute a Defaulted Obligation pursuant to any of clauses (b), (c), (d), (e) and (i) if such Collateral Obligation (or, in the case of a Participation Interest other than a Letter of Credit Reimbursement Obligation, the underlying Senior Secured Loan, Second Lien Loan or Unsecured Loan) is a DIP Collateral Obligation (other than a DIP Collateral Obligation that has an S&P Rating of “CC” or lower).

Each obligation (other than Letter of Credit Reimbursement Obligations) received in connection with a Distressed Exchange that (a) would be a Collateral Obligation but for the fact that it is a Defaulted Obligation or (b) would satisfy the proviso in the definition of Distressed Exchange but for the fact that it exceeds the percentage limit therein, shall in each case be deemed to be a Defaulted Obligation, and each other obligation (including any Letter of Credit Reimbursement Obligation) received in connection with a Distressed Exchange shall be deemed to be an Equity Security.

“Deferrable Security”: A Collateral Obligation (excluding a Partial Deferrable Security) which by its terms permits the deferral or capitalization of payment of accrued, unpaid interest.

“Deferred Interest”: With respect to any specified Class of Deferred Interest Notes, the meaning specified in Section 2.7(a).

“Deferred Interest Notes”: The Rated Notes specified as such in Section 2.3, in each case for so long as no Priority Class is Outstanding.

“Deferring Security”: A Deferrable Security that is deferring the payment of interest due thereon and has been so deferring the payment of interest due thereon (i) with respect to Collateral Obligations that have a Moody’s Rating of at least “Baa3,” for the shorter of two consecutive accrual periods or one year, and (ii) with respect to Collateral Obligations that have a Moody’s Rating of “Ba1” or below, for the shorter of one accrual period or six consecutive months, which deferred capitalized interest has not, as of the date of determination, been paid in cash.

“Delayed Drawdown Collateral Obligation”: A Collateral Obligation that (a) requires the Issuer to make one or more future advances to the borrower under the Underlying Instruments relating thereto, (b) specifies a maximum amount that can be borrowed on one or more fixed borrowing dates, and (c) does not permit the re-borrowing of any amount previously repaid by the borrower thereunder; but any such Collateral Obligation will be a Delayed Drawdown Collateral Obligation only until all commitments by the Issuer to make advances to the borrower expire or are terminated or are reduced to zero.

“Deliver” or “Delivered” or “Delivery”: The taking of the following steps:

(a) in the case of each Certificated Note (as defined in the UCC) or Instrument (other than a Clearing Corporation Security or a Certificated Note or an Instrument evidencing debt underlying a Participation Interest), (i) causing the delivery of such Certificated Note or Instrument to the Intermediary registered in the name of the Intermediary or its affiliated nominee or endorsed to the Intermediary or in blank, (ii) causing the Intermediary to continuously identify on its books and records that such Certificated Note or Instrument is credited to the relevant Account and (iii) causing the Intermediary to maintain continuous possession of such Certificated Note or Instrument;

(b) in the case of each Uncertificated Note (other than a Clearing Corporation), (i) causing such Uncertificated Note to be continuously registered on the books of the obligor thereof to the Intermediary and (ii) causing the Intermediary to continuously identify on its books and records that such Uncertificated Note is credited to the relevant Account;

(c) in the case of each Clearing Corporation Security, causing (i) the relevant Clearing Corporation to continuously credit such Clearing Corporation Security to the securities account of the Intermediary at such Clearing Corporation and (ii) the Intermediary to continuously identify on its books and records that such Clearing Corporation Security is credited to the relevant Account;

(d) in the case of any Financial Asset that is maintained in book-entry form on the records of an FRB, causing (i) the continuous crediting of such Financial Asset to a securities account of the Intermediary at any FRB and (ii) the Intermediary to continuously identify on its books and records that such Financial Asset is credited to the relevant Account;

(e) in the case of Cash, causing the deposit of such Cash with the Intermediary and causing the Intermediary to continuously identify on its books and records that such Cash is credited to the relevant Account;

(f) in the case of each Financial Asset not covered by the foregoing clauses (a) through (e), causing the transfer of such Financial Asset to the Intermediary in accordance with applicable law and regulation and causing the Intermediary to continuously credit such Financial Asset to the relevant Account;

(g) in the case of each general intangible (including any Participation Interest that is not, or the debt underlying that is not, evidenced by an Instrument or Certificated Security) notifying the obligor thereunder of the Grant to the Trustee (unless no applicable law requires such notice in order to perfect the Grant to the Trustee);

(h) in the case of each Participation Interest as to which the underlying debt is represented by a Certificated Note or an Instrument, obtaining the acknowledgment of the Person in possession of such Certificated Note or Instrument (which may not be the Issuer) that it holds the portion of such Certificated Note or Instrument represented by the Participation Interest for the benefit of the Trustee; and

(i) in all cases, the filing of an appropriate Financing Statement in the appropriate filing office in accordance with the Uniform Commercial Code as in effect in any relevant jurisdiction.

“Deposit Account”: The meaning specified in Section 9-102(a)(29) of the UCC.

“Designated Maturity”: With respect to the Rated Notes, three months.

“Determination Date”: The last day of each Collection Period.

“DIP Collateral Obligation”: A loan made to a debtor-in-possession pursuant to Section 364 of the U.S. Bankruptcy Code having the priority allowed by either Section 364(c) or 364(d) of the U.S. Bankruptcy Code and fully secured by senior liens.

“Discount Obligation”: Any Collateral Obligation (other than a Zero Coupon Security) that is not a Swapped Non-Discount Obligation and that the Investment Manager determines at the time of purchase is either: (a) a senior secured loan that has a Moody’s Rating of “B3” or above and that is acquired by the Issuer at a price that is lower than the lesser of (i) 80% of par or (ii) the price of the Leveraged Loan Index as of the relevant determination date; or (b) a senior secured loan that has a Moody’s Rating below “B3” and that is acquired by the Issuer at a price that is lower than the lesser of (i) 85% of par or (ii) the price of the Leveraged Loan Index as of the relevant determination date; or (c) an obligation that is not a senior secured loan that has a Moody’s Rating of “B3” or above and that is acquired by the Issuer at a price that is lower than the lesser of (x) 75% of par or (y) the price of the Leveraged Loan Index as of the relevant determination date; or (d) an obligation that is not a senior secured loan that has a Moody’s Rating below “B3” and that is acquired by the Issuer at a price that is lower than the lesser of (x) 80% of par or (y) the price of the Leveraged Loan Index as of the relevant determination date; *provided* that such Collateral Obligation will cease to be a Discount Obligation at such time as (x) for a senior secured loan, the Market Value (expressed as a percentage of par) of such Collateral Obligation, for any period of 30 consecutive days since the acquisition by the Issuer of such Collateral Obligation, equals or exceeds 90% of par or (y) for an obligation that is not a senior secured loan, the Market Value (expressed as a percentage of par) of such Collateral Obligation, for any period of 30 consecutive days since the acquisition by the Issuer of such Collateral Obligation, equals or exceeds 85% of par; *provided, further*, that if such interest is a Revolving Collateral Obligation, and there exists an outstanding non-revolving loan to its obligor ranking *pari passu* with such Revolving Collateral Obligation and secured by substantially the same collateral as such Revolving Collateral Obligation (a “Related Term Loan”), in determining whether such Revolving Collateral Obligation is and continues to be a Discount Obligation, the price of the Related Term Loan, and not of the Revolving Collateral Obligation, will be referenced.

“Discretionary Sales”: The meaning specified in Section 12.1(f).

“Dissolution Expenses”: The sum of (i) an amount not to exceed the greater of (a) U.S.\$30,000 and (b) the estimated amount (if any) reasonably certified by the Investment Manager or the Issuer, including but not limited to fees and expenses incurred by the Trustee and reported to the Investment Manager, as the sum of expenses reasonably likely to be incurred in connection with the discharge of this Indenture, the liquidation of the Assets and the dissolution of the Co-Issuers and (ii) any accrued and unpaid Administrative Expenses.

“Distressed Exchange”: In connection with any Collateral Obligation, a distressed exchange or other debt restructuring has occurred, as reasonably determined by the Investment Manager, pursuant to which the issuer or obligor of such Collateral Obligation has issued to the holders of such Collateral Obligation a new security or obligation or package of securities or obligations that, in the sole judgment of the Investment Manager, amounts to a diminished financial obligation or has the purpose of helping the issuer of such Collateral Obligation avoid default; provided that no Distressed Exchange shall be deemed to have occurred if the securities or obligations received by the Issuer in connection with such exchange or restructuring (i) are securities or obligations other than a Letter of Credit Reimbursement Obligation and (ii) satisfy the definition of Collateral Obligation (provided that the Aggregate Principal Balance of all securities and obligations to which this proviso applies or has applied, measured cumulatively from the Closing Date onward, may not exceed 25.0% of the Target Initial Par Amount).

“Distressed Exchange Offer”: An offer by the issuer of a Collateral Obligation to exchange one or more of its outstanding debt obligations for a different debt obligation or to repurchase one or more of its outstanding debt obligations for Cash, or any combination thereof; *provided* that an offer by such issuer to exchange unregistered debt obligations for registered debt obligations will not be considered a Distressed Exchange Offer.

“Distribution Report”: The meaning specified in Section 10.7(b).

“Diversity Score”: A single number that indicates collateral concentration in terms of both issuer and industry concentration, calculated as set forth in Schedule 3 hereto.

“Dollar,” “U.S. Dollar” or “U.S.\$”: A dollar or other equivalent unit in such coin or currency of the United States of America as at the time shall be legal tender for all debts, public and private.

“Domicile” or “Domiciled”: With respect to any issuer of, or obligor with respect to, a Collateral Obligation:

(a) if it is not organized in a Tax Jurisdiction, its country of organization; or

(b) if it is organized in a Tax Jurisdiction, each of such jurisdiction and the country in which, in the Investment Manager’s good faith estimate, a substantial portion of its operations are located or from which a substantial portion of its revenue is derived, in each case directly or through subsidiaries (which shall be any jurisdiction and country known at the time of designation by the Investment Manager to be the source of the majority of revenues, if any, of such issuer or obligor).

“DTC”: The Depository Trust Company, its nominee and their respective successors.

“Due Date”: Each date on which any payment is due on an Asset in accordance with its terms.

“Eligible Account”: Any account established and maintained (a) with a federal or state chartered depository institution is rated at least (x) “A1” and “P-1” by Moody’s and (y) “A” and “A-1” by S&P (or at least “A+” by S&P if such institution has no short-term rating) or (b) in segregated trust accounts with the corporate trust department of a federal or state-chartered deposit institution subject to regulations regarding fiduciary funds on deposit similar to Title 12 of the Code of Federal Regulation Section 9.10(b) and (A) if Cash is being held in such a trust account the related institution is also required to meet the ratings requirements set forth in clause (a)(x) and (B) with respect to securities accounts, the related institution is also required to have a rating of at least “Baa3” by Moody’s. If such institution’s ratings fall below the ratings set forth in clause (a) or (b), the assets held in such account will be moved to another institution that satisfies such ratings within 30 calendar days. Such institution shall have a combined capital and surplus of at least U.S.\$200,000,000.

“Eligible Bond Index”: The Merrill Lynch US High Yield Master II Index, Bloomberg ticker HUC0 (or such other nationally recognized high yield index as the Investment Manager selects and provides notice of to the Rating Agencies).

“Eligible Investment Required Ratings”: (a) If such obligation or security (i) has both a long-term and a short-term credit rating from Moody’s, such ratings are “Aa3” or higher (not on credit watch for possible downgrade) and “P-1” (not on credit watch for possible downgrade), respectively, (ii) has only a long-term credit rating from Moody’s, such rating is “Aaa” (not on credit watch for possible downgrade) or (iii) has only a short-term credit rating from Moody’s, such rating is “P-1” (not on credit watch for possible downgrade) and (b) a long-term rating and short-term rating of “A” and “A-1” or higher, respectively (or, if it has no short-term credit rating, a long-term rating of “A+” or higher) from S&P.

“Eligible Investments”: (i) Cash or (ii) any Dollar investment that, at the time it is Delivered (directly or through an intermediary or bailee) is one or more of the following obligations or securities:

(a) direct Registered obligations of, and Registered obligations the timely payment of principal and interest on which is fully and expressly guaranteed by, the United States of America or any agency or instrumentality of the United States of America whose obligations are expressly backed by the full faith and credit of the United States of America, in each case which have the Eligible Investment Required Ratings with respect to S&P;

(b) demand and time deposits in, certificates of deposit of, trust accounts with, bankers' acceptances issued by, or federal funds sold by any depository institution or trust company incorporated under the laws of the United States of America (including the Bank, Affiliates of the Bank and Affiliates of the Investment Manager) or any state thereof and subject to supervision and examination by federal and/or state banking authorities, in each case payable within 183 days after issuance, so long as the commercial paper and/or the debt obligations of such depository institution or trust company (or, in the case of the principal depository institution in a holding company system, the commercial paper or debt obligations of such holding company) at the time of such investment or contractual commitment providing for such investment have the Eligible Investment Required Ratings;

(c) unleveraged repurchase obligations (if treated as debt by the Issuer and the counterparty) with respect to (i) any security described in clause (a) above or (ii) any other Registered security issued or guaranteed by an agency or instrumentality of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause (b) above or entered into with an entity (acting as principal) with, or whose parent company has (in addition to a guarantee agreement with such entity, which guarantee agreement complies with S&P's then-current criteria with respect to guarantees), the Eligible Investment Required Ratings;

(d) Registered debt securities bearing interest or sold at a discount issued by a corporation formed under the laws of the United States of America or any State thereof that satisfies the Eligible Investment Required Ratings at the time of such investment or contractual commitment providing for such investment;

(e) commercial paper or other short-term obligations (other than Asset-backed Commercial Paper) with the Eligible Investment Required Ratings and that either bear interest or are sold at a discount from the face amount thereof and have a maturity of not more than 183 days from their date of issuance;

(f) a Reinvestment Agreement issued by any bank (if treated as a deposit by such bank), or a Reinvestment Agreement issued by any insurance company or other corporation or entity, in each case with the Eligible Investment Required Ratings; *provided* that such Reinvestment Agreement may be unwound at the option of the Issuer without penalty; and

(g) money market funds that have, at all times, credit ratings of "Aaa-mf" by Moody's and "AAAm" or "AAAm-G" by S&P, respectively;

provided that (A) Eligible Investments purchased with funds in the Collection Account shall be held until maturity except as otherwise specifically provided herein and shall include only such obligations or securities, other than those referred to in clause (g) above, as mature (or are puttable at par to the issuer thereof) as set forth in Section 10.6; and (B) none of the foregoing obligations or securities shall constitute Eligible Investments if (1) such obligation or security has an "f," "i," "p," "pi," "q," "sf" or "t" subscript assigned by S&P, (2) all, or substantially all, of the remaining amounts payable thereunder consist of interest and not principal payments, (3) payments with respect to such obligations or securities or proceeds of disposition are subject to withholding taxes by any jurisdiction (other than withholding taxes imposed pursuant to FATCA) unless the payor is required to make "gross-up" payments that cover the full amount of any such withholding tax on an after-tax basis, (4) the acquisition (including the ownership or disposition) of such obligation or security would cause the Issuer to violate the Tax Guidelines,

(5) such obligation or security is secured by real property, (6) such obligation or security is purchased at a price greater than 100% of the principal or face amount thereof, (7) such obligation or security is the subject of a tender offer, voluntary redemption, exchange offer, conversion or other similar action, (8) in the Investment Manager's judgment, such obligation or security is subject to material non-credit related risks, (9) such obligation is a Structured Finance Obligation or (10) such obligation or security is represented by a certificate of interest in a grantor trust. Eligible Investments may include, without limitation, those investments issued by or made with the Bank or an Affiliate of the Bank or for which the Bank or an Affiliate of the Bank or the Investment Manager or an Affiliate of the Investment Manager provides services and receives compensation.

"Eligible Loan Index": With respect to each Collateral Obligation that is a Loan, one of the following indices as selected by the Investment Manager upon the acquisition of such Collateral Obligation: the Credit Suisse Leveraged Loan Indices (formerly the DLJ Leveraged Loan Index Plus), the Deutsche Bank Leveraged Loan Index, the Goldman Sachs/Loan Pricing Corporation Liquid Leveraged Loan Index, the Merrill Lynch Leveraged Loan Index, the S&P/LSTA Leveraged Loan Indices or any replacement or other comparable nationally recognized loan index; *provided* that the Investment Manager may change the index applicable to a Collateral Obligation at any time following the acquisition thereof (so long as the same index applies to all Collateral Obligations for which this definition applies) after giving notice to Moody's, the Trustee and the Collateral Administrator.

"Enforcement Event": The meaning specified in Section 5.4(a).

"Entitlement Order": The meaning specified in Article 8 of the UCC.

"Equity Security": Any security or debt obligation which at the time of acquisition, conversion or exchange does not satisfy the requirements of a Collateral Obligation and is not an Eligible Investment.

"ERISA": The United States Employee Retirement Income Security Act of 1974, as amended.

"Euroclear": Euroclear Bank S.A./N.V.

"Event of Default": The meaning specified in Section 5.1.

"Excepted Property": The meaning assigned in the Granting Clauses hereof.

"Excess CCC/Caa Adjustment Amount": As of any date of determination, an amount equal to the excess, if any, of (i) the Aggregate Principal Balance of all Collateral Obligations included in the CCC/Caa Excess, over (ii) the sum of the Market Values of all Collateral Obligations included in the CCC/Caa Excess.

"Excess Interest": Any Interest Proceeds distributed on the Subordinated Notes pursuant to the Priority of Payments.

“Excess Weighted Average Coupon”: A percentage equal as of any date of determination to a number obtained by multiplying (a) the excess, if any, of the Weighted Average Coupon over the Minimum Weighted Average Coupon by (b) the number obtained, including for this purpose any capitalized interest, by dividing the Aggregate Principal Balance of all Fixed Rate Obligations by the Aggregate Principal Balance of all Floating Rate Obligations.

“Excess Weighted Average Floating Spread”: A percentage equal as of any date of determination to a number obtained by multiplying (a) the excess, if any, of the Weighted Average Floating Spread over the Minimum Floating Spread by (b) the number obtained, including for this purpose any capitalized interest, by dividing the Aggregate Principal Balance of all Floating Rate Obligations by the Aggregate Principal Balance of all Fixed Rate Obligations.

“Exchange Act”: The United States Securities Exchange Act of 1934, as amended.

“Expense Reserve Account”: The trust account established pursuant to Section 10.3(c).

“FATCA”: Sections 1471 through 1474 of the Code, any current or future regulations or official interpretations thereof, any agreement entered into pursuant to Section 1471(b) of the Code, or any fiscal or regulatory legislation, rules or practices adopted pursuant to any intergovernmental agreement entered into in connection with the implementation of such Sections of the Code.

“Fee Basis Amount”: As of any date of determination, the sum of (a) the Collateral Principal Amount, (b) the Aggregate Principal Balance of all Defaulted Obligations and (c) the aggregate amount of all Principal Financed Accrued Interest.

“Financial Asset”: The meaning specified in Article 8-102(a)(9) of the UCC.

“Financing Statements”: The meaning specified in Section 9-102(a)(39) of the UCC.

“First Lien Last Out Loan”: Any assignment of or Participation Interest in a Loan that: (a) is not (and cannot by its terms become) subordinate in right of payment to any other obligation of the obligor of the Loan (other than (i) with respect to trade claims, capitalized leases or similar obligations and (ii) subordination in right of payment solely to one or more Senior Secured Loans of the obligor of the Loan that becomes effective solely upon the occurrence of a default or event of default by the obligor of the Loan); (b) is secured by a valid perfected security interest or lien in, to or on specified collateral securing the obligor’s obligations under the Loan that, prior to the occurrence of a default or event of default by the obligor of the Loan, is a first-priority security interest or lien; (c) the value of the collateral securing the Loan together with other attributes of the obligor (including, without limitation, its general financial condition, ability to generate cash flow available for debt service and other demands for that cash flow) is adequate (in the commercially reasonable judgment of the Investment Manager) to repay the Loan in accordance with its terms and to repay all other Loans

of equal seniority secured by a first lien or security interest in the same collateral; and (d) is not secured solely or primarily by common stock or other equity interests; *provided* that the limitation set forth in this clause (d) shall not apply with respect to a Loan made to a parent entity that is secured solely or primarily by the stock of one or more of the subsidiaries of such parent entity to the extent that the granting by any such subsidiary of a lien on its own property would violate law or regulations applicable to such subsidiary (whether the obligation secured is such Loan or any other similar type of indebtedness owing to third parties); *provided further* that (i) for obligations to which, due to the operation of the foregoing proviso, the limitation set forth in this clause (d) does not apply, the S&P Recovery Rate will be determined on a case by case basis if there is no assigned S&P Recovery Rating and (ii) following a request by the Issuer to S&P for the determination of an S&P Recovery Rate for such obligation but prior to the receipt of such S&P Recovery Rate from S&P, the S&P Recovery Rate shall be as determined by the Investment Manager in accordance with Schedule 5.

“Fixed Rate Obligation”: Any Collateral Obligation that bears a fixed rate of interest.

“Floating Rate Notes”: Any Notes that bear interest at floating rates.

“Floating Rate Obligation”: Any Collateral Obligation that bears a floating rate of interest.

“FRB”: Any Federal Reserve Bank.

“GAAP”: The meaning specified in Section 6.3(j).

“General Intangibles”: The meaning specified in Section 9-102(a)(42) of the UCC.

“Global Note”: Any Rule 144A Global Note, Temporary Global Note or Regulation S Global Note.

“Global Note Procedures”: In respect of any transfer or exchange as a result of which one or more Rule 144A Global Note or Regulation S Global Note representing Notes is increased or decreased, the following procedures: the Registrar will confirm the related instructions from the Depository to (a) reduce and/or increase, as applicable, the principal amount of the applicable Global Note after giving effect to the exchange or transfer and, if applicable, (b) credit or request to be credited to the securities account specified by or on behalf of the holder of the beneficial interest in the applicable Global Note of the same Class.

“Grant” or “Granted”: To grant, bargain, sell, alienate, convey, assign, transfer, mortgage, pledge, create and grant a security interest in and right of set off against. A Grant of property shall include all rights, powers and options (but none of the obligations) of the granting party thereunder, including without limitation the immediate and continuing right to claim for, collect, receive and receipt for principal and interest payments in respect thereof, and all other amounts payable thereunder, to give and receive notices and other communications, to make waivers or other agreements, to exercise all rights and options, to bring legal or other proceedings in the name of the granting party or otherwise, and generally to do and receive anything that the granting party is or may be entitled to do or receive thereunder or with respect thereto.

“Group I Country”: The Netherlands, Australia, New Zealand and the United Kingdom (or such other countries as may be notified by Moody’s to the Investment Manager from time to time).

“Group II Country”: Germany, Ireland, Sweden and Switzerland (or such other countries as may be notified by Moody’s to the Investment Manager from time to time).

“Group III Country”: Austria, Belgium, Denmark, Finland, France, Iceland, Liechtenstein, Luxembourg and Norway (or such other countries as may be notified by Moody’s to the Investment Manager from time to time).

“Holder” or “Noteholder”: With respect to any Note, the Person whose name appears on the Register as the registered holder of such Note.

“Illiquid Asset”: (a) A Defaulted Obligation, an Equity Security, an obligation received in connection with an Offer or other exchange or any other security or debt obligation that is part of the Assets, in respect of which (i) the Issuer has not received a payment in Cash during the preceding twelve calendar months and (ii) the Investment Manager certifies that it is not aware, after reasonable inquiry, that the issuer or obligor of such asset has publicly announced or informed the holders of such asset that it intends to make a payment in Cash in respect of such asset within the next twelve calendar months or (b) any asset, claim or other property identified in a certificate of the Investment Manager as having a Market Value of less than U.S.\$1,000.

“Incentive Management Fee”: The fee payable to the Investment Manager in arrears on each Payment Date in an amount equal to 20% of the remaining Interest Proceeds and Principal Proceeds, if any, after the Subordinated Notes have realized the Incentive Management Fee Target Return in accordance with the Priority of Payments after making the prior distributions on the relevant Payment Date in accordance with Section 11.1 of this Indenture.

“Incentive Management Fee Target Return”: A Subordinated Notes Internal Rate of Return of 12.0%.

“Incurrence Covenant”: A covenant by any borrower to comply with one or more financial covenants only upon the occurrence of certain actions of the borrower, including a debt issuance, dividend payment, share purchase, merger, acquisition or divestiture.

“Indenture”: This instrument as originally executed and, if from time to time supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, as so supplemented or amended.

“Independent”: As to any Person, any other Person (including, in the case of an accountant or lawyer, a firm of accountants or lawyers, and any member thereof, or an investment bank and any member thereof) who (i) does not have and is not committed to acquire any material direct or any material indirect financial interest in such Person or in any Affiliate of

such Person, and (ii) is not connected with such Person as an Officer, employee, promoter, underwriter, voting trustee, partner, director or Person performing similar functions. When used with respect to any accountant, “Independent” may include an accountant who audits the books of such Person if in addition to satisfying the criteria set forth above the accountant is independent with respect to such Person within the meaning of Rule 101 of the Code of Professional Conduct of the American Institute of Certified Public Accountants.

Whenever any Independent Person’s opinion or certificate is to be furnished to the Trustee, such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

Any pricing service, certified public accountant or legal counsel that is required to be Independent of another Person under this Indenture must satisfy the criteria above with respect to the Issuer and its Affiliates.

“Information”: S&P’s “Credit Estimate Information Requirements” dated April 2011 and any other available information S&P reasonably requests in order to produce a credit estimate for a particular asset.

“Information Agent”: The meaning specified in Section 14.4(b).

“Initial Principal Amount”: With respect to any Class of Rated Notes, the U.S. dollar amount specified with respect to such Class in Section 2.3.

“Initial Rating”: With respect to the Rated Notes, the rating or ratings, if any, indicated in Section 2.3.

“Instrument”: The meaning specified in Section 9-102(a)(47) of the UCC.

“Interest Accrual Period”: (i) With respect to the initial Payment Date, the period from and including the Closing Date to but excluding such Payment Date; and (ii) with respect to each succeeding Payment Date, the period from and including the immediately preceding Payment Date to but excluding the following Payment Date (or, in the case of a Class that is being redeemed on a Partial Redemption Date, to but excluding such Partial Redemption Date) until the principal of the Rated Notes is paid or made available for payment; *provided* that any interest-bearing notes issued after the Closing Date in accordance with the terms of this Indenture shall accrue interest during the Interest Accrual Period in which such additional notes are issued from and including the applicable date of issuance of such additional notes to but excluding the last day of such Interest Accrual Period at the applicable Interest Rate. For purposes of determining any Interest Accrual Period, if the 15th day of the relevant month is not a Business Day, then the Interest Accrual Period with respect to such Payment Date shall end on but exclude the Business Day on which payment is made and the succeeding Interest Accrual Period shall begin on and include such date.

“Interest Collection Account”: The meaning specified in Section 10.2(a).

“Interest Coverage Ratio”: For any designated Class or Classes of Rated Notes, as of any date of determination, the percentage derived from the following equation: $(A - B) / C$, where:

A = The Collateral Interest Amount as of such date of determination;

B = Amounts payable (or expected as of the date of determination to be payable) on the following Payment Date as set forth in clauses (A) through (C) of the Priority of Interest Proceeds; and

C = Interest due and payable on the Rated Notes of such Class or Classes and each Priority Class and Pari Passu Class (excluding Deferred Interest, but including any interest on Deferred Interest with respect to the Deferred Interest Notes) on such Payment Date; *provided* that the Class X Notes will not be included for purposes of calculating the Interest Coverage Ratio.

“Interest Coverage Test”: A test that is satisfied with respect to any Class or Classes of Rated Notes (other than the Class X Notes and the Class F Notes) as of any date of determination on, or subsequent to, the Determination Date occurring immediately prior to the fourth Payment Date, if (i) the Interest Coverage Ratio for such Class or Classes on such date is at least equal to the Required Interest Coverage Ratio for such Class or Classes or (ii) such Class or Classes of Rated Notes is no longer Outstanding.

“Interest Determination Date”: With respect to each Interest Accrual Period, the second London Banking Day preceding the first day of such Interest Accrual Period.

“Interest Diversion Test”: A test that will be satisfied on any Measurement Date if the Overcollateralization Ratio for the Class F Notes is at least equal to 102.7%.

“Interest Only Security”: Any obligation or security that does not provide in the related Underlying Instruments for the payment or repayment of a stated principal amount in one or more installments on or prior to its stated maturity.

“Interest Proceeds”: With respect to any Collection Period or Determination Date, without duplication, the sum of:

(i) all payments of interest (other than any interest due on any Partial Deferrable Security that has been deferred or capitalized at the time of acquisition) and delayed compensation (representing compensation for delayed settlement) received in Cash by the Issuer during the related Collection Period on the Collateral Obligations and Eligible Investments, including the accrued interest received in connection with a sale thereof during the related Collection Period, less any such amount that represents Principal Financed Accrued Interest;

(ii) all principal and interest payments received by the Issuer during the related Collection Period on Eligible Investments purchased with Interest Proceeds;

(iii) all amendment and waiver fees, late payment fees and other fees received by the Issuer during the related Collection Period, except for those in connection with (a) the lengthening of the maturity of the related Collateral Obligation or (b) the reduction of the par of the related Collateral Obligation, as determined by the Investment Manager with notice to the Trustee and the Collateral Administrator;

(iv) commitment fees and other similar fees received by the Issuer during such Collection Period in respect of Revolving Collateral Obligations and Delayed Drawdown Collateral Obligations;

(v) any amounts deposited in the Collection Account from the Expense Reserve Account that are designated as Interest Proceeds pursuant to this Indenture in respect of the related Determination Date;

(vi) any funds withdrawn from the LC Reserve Account during the related Collection Period in accordance with Section 10.5 for application as Interest Proceeds;

(vii) with respect to any Partial Redemption Date, any amounts deposited in the Interest Collection Account as Interest Proceeds pursuant to Section 11.1(a)(iv); and

(viii) any Liquidity Reserve Amount deposited in the Interest Collection Account on the preceding Payment Date;

provided that (1) any amounts received in respect of any Defaulted Obligation will constitute Principal Proceeds (and not Interest Proceeds) until the aggregate of all collections in respect of such Defaulted Obligation since it became a Defaulted Obligation equals the outstanding Principal Balance of such Collateral Obligation at the time it became a Defaulted Obligation and (2) (x) any amounts received in respect of any Equity Security that was received in exchange for a Defaulted Obligation and is held by an Issuer Subsidiary will constitute Principal Proceeds (and not Interest Proceeds) until the aggregate of all collections in respect of such Equity Security equals the outstanding Principal Balance of the Collateral Obligation, at the time it became a Defaulted Obligation, for which such Equity Security was received in exchange and (y) any amounts received in respect of any other asset held by an Issuer Subsidiary will constitute Principal Proceeds (and not Interest Proceeds).

“Interest Rate”: With respect to each Class of Rated Notes, the per annum stated interest rate payable on such Class with respect to each Interest Accrual Period specified in Section 2.3.

“Intermediary”: The entity maintaining an Account pursuant to an Account Agreement.

“Investment Company Act”: The United States Investment Company Act of 1940, as amended.

“Investment Criteria”: Collectively, the Reinvestment Period Criteria and the Post-Reinvestment Criteria.

“Investment Guidelines”: The Operating Guidelines set forth in Exhibit A of the Investment Management Agreement.

“Investment Management Agreement”: The amended and restated agreement dated as of the Closing Date entered into between the Issuer and the Investment Manager relating to the management of the Collateral Obligations and the other Assets by the Investment Manager on behalf of the Issuer, as amended from time to time in accordance with its terms.

“Investment Manager”: Saratoga Investment Corp., a Maryland corporation, until a successor Person shall have become the Investment Manager pursuant to the applicable provisions of the Investment Management Agreement, and thereafter Investment Manager shall mean such successor Person.

“Investment Property”: As defined in Section 9-102(a)(49) of the UCC.

“Irish Listing Agent”: Maples and Calder, in its capacity as Irish Listing Agent for the Co-Issuers, and any successor thereto.

“Issuer”: The Person named as such on the first page of this Indenture until a successor Person shall have become the Issuer pursuant to the applicable provisions of this Indenture, and thereafter “Issuer” shall mean such successor Person.

“Issuer Only Notes”: The Class E Notes, the Class F Notes and the Subordinated Notes.

“Issuer Order” and “Issuer Request”: A written order or request (which may be a standing order or request) dated and signed in the name of the Issuer or the Co-Issuer by an Authorized Officer of the Issuer or the Co-Issuer, as applicable, or by the Investment Manager by an Authorized Officer thereof, on behalf of the Issuer.

“Issuer Subsidiary”: An entity classified at all times as a corporation for U.S. federal income tax purposes, 100% of the equity interests in which are owned directly or indirectly by the Issuer. For the avoidance of doubt, the Co-Issuer is not an Issuer Subsidiary.

“Issuer Subsidiary Asset”: The assets referred to in clauses (x) and (y) of Section 7.17(e), and any assets, income and proceeds received in respect thereof.

“Issuer’s Website”: The Issuer’s password-protected internet website, which shall initially be located at <https://www.structuredfn.com>, or such other address as the Issuer may provide to the Trustee, the Collateral Administrator, the Investment Manager and the Rating Agencies.

“Junior Class”: With respect to a particular Class, each Class that is subordinated to such Class, as indicated in Section 2.3.

“LC Commitment Amount”: With respect to any Letter of Credit Reimbursement Obligation, the amount which the Issuer could be required to pay to the LOC Agent Bank in respect thereof (including, for the avoidance of doubt, any portion thereof which the Issuer has collateralized or deposited into a trust or with the LOC Agent Bank for the purpose of making such payments).

“LC Reserve Account”: The meaning set forth in Section 10.5.

“Legacy Custodian”: The meaning specified in the Preliminary Statement hereto.

“Legacy Rated Noteholders”: The meaning specified in the Preliminary Statement hereto.

“Legacy Rated Notes”: The meaning specified in the Preliminary Statement hereto.

“Legacy Rated Notes Redemption Date”: The meaning specified in the Preliminary Statement hereto.

“Legacy Trustee”: The meaning specified in the Preliminary Statement hereto.

“Letter-of-Credit Right”: The meaning set forth in Section 9-102(a)(51).

“Letter of Credit Reimbursement Obligation”: A facility whereby (i) a fronting bank that, at the time of acquisition of such Letter of Credit Reimbursement Obligation by the Issuer or the Issuer’s commitment to acquire the same, has at least a long-term credit rating of “A” and also a short-term rating of “A-1” (or, if it has no short-term rating, a long-term rating of “A+”) by S&P (“LOC Agent Bank”) issues or will issue a letter of credit (“LC”) for or on behalf of a borrower pursuant to an Underlying Instrument, (ii) in the event that the LC is drawn upon, and the borrower does not reimburse the LOC Agent Bank, the lender/participant is obligated to fund its portion of the facility, (iii) the LOC Agent Bank passes on (in whole or in part) the fees and any other amounts it receives for providing the LC to the lender/participant and (iv)(a) the related Underlying Instruments require the Issuer to fully collateralize the Issuer’s obligations to the related LOC Agent Bank or obligate the Issuer to make a deposit into a trust in an aggregate amount equal to the related LC Commitment Amount, (b) the collateral posted by the Issuer is held by, or the Issuer’s deposit is made in, a depository institution meeting the requirement set forth in Section 10.1 and (c) the collateral posted by the Issuer is invested in Eligible Investments.

“Leveraged Loan Index”: The Daily S&P/LSTA U.S. Leveraged Loan 100 Index, Bloomberg ticker SPBDLLB, any successor index thereto or any comparable U.S. leveraged loan index reasonably designated by the Investment Manager.

“LIBOR”: The meaning set forth in Exhibit C hereto.

“Liquidity Reserve Amount”: With respect to the first Payment Date, U.S.\$0 and, with respect to any Payment Date thereafter, means an amount equal to the excess, if any, of: (a) the sum of all payments of interest received during the related Collection Period (and, if such Collection Period does not end on a Business Day, the next succeeding Business Day) on floating rate and fixed rate Liquidity Reserve Excess Collateral Obligations (net of purchased accrued interest acquired with Interest Proceeds) over; (b) the sum of: (i) solely with respect to

fixed rate Liquidity Reserve Excess Collateral Obligations, an amount equal to the product of (A) 0.25 multiplied by (B) the Weighted Average Coupon on such fixed rate Liquidity Reserve Excess Collateral Obligations as of the immediately preceding Determination Date multiplied by (C) the Aggregate Principal Balance of such fixed rate Liquidity Reserve Excess Collateral Obligations as of the immediately preceding Determination Date; and (ii) solely with respect to floating rate Liquidity Reserve Excess Collateral Obligations, an amount equal to the product of (A) the actual number of days in the related Collection Period divided by 360 multiplied by (B) the sum of (1) LIBOR applicable to the related Interest Accrual Period beginning on the previous Payment Date and (2) the Weighted Average Floating Spread on such floating rate Liquidity Reserve Excess Collateral Obligations as of the preceding Collection Period multiplied by (C) the Aggregate Principal Balance of such floating rate Liquidity Reserve Excess Collateral Obligations as of the preceding Determination Date.

“Liquidity Reserve Excess Collateral Obligation”: Any Collateral Obligation which pays interest less frequently than quarterly and the Aggregate Principal Balance of which exceeds 5.0% of the Collateral Principal Amount as of the immediately preceding Determination Date; *provided* that the determination of which of the Collateral Obligations will be included in such excess will be based on the order in which such Collateral Obligations were purchased by the Issuer, with the most recently purchased Collateral Obligations deemed to constitute such excess.

“Listed Notes”: Any Notes listed on the Irish Stock Exchange as of the date of determination.

“Loan”: Any obligation for the payment or repayment of borrowed money that is documented by a term loan agreement, revolving loan agreement or other similar credit agreement.

“LOC Agent Bank”: The meaning specified in the definition of the term Letter of Credit Reimbursement Obligation.

“London Banking Day”: A day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in London, England.

“Maintenance Covenant”: A covenant by any borrower to comply with one or more financial covenants during each reporting period (but not more frequently than quarterly), whether or not such borrower has taken any specified action.

“Majority”: With respect to any Class or Classes, the Holders of more than 50% of the Aggregate Outstanding Amount of the Notes of such Class or Classes.

“Management Fee”: The Base Management Fee, the Subordinated Management Fee and the Incentive Management Fee.

“Manager Notes”: As of any date of determination, (a) all Notes held on such date by (i) the Investment Manager, (ii) any Affiliate of the Investment Manager or (iii) any account, fund, client or portfolio managed or advised on a discretionary basis by the Investment Manager or any of its Affiliates and (b) all Notes as to which economic exposure is held on such date (whether through any derivative financial transaction or otherwise) by any Person identified in the foregoing clause (a).

“Margin Stock”: “Margin Stock” as defined under Regulation U issued by the Board of Governors of the Federal Reserve System, including any debt security which is by its terms convertible into Margin Stock.

“Market Value”: With respect to any Loans or other Assets, the amount (determined by the Investment Manager) equal to the product of the principal amount thereof and the price determined in the following manner:

(i) the bid price determined by the Loan Pricing Corporation, Markit Group Limited, Loan X Mark-It Partners, FT Interactive, Bridge Information Systems, KDP, IDC, Bank of America High Yield Index, Interactive Data Pricing and Reference Data, Inc., Pricing Direct Inc., S&P Security Evaluations Service, Thompson Reuters Pricing Service, TradeWeb Markets LLC, C&Co/PrinceRidge or any other nationally recognized loan or bond pricing service selected by the Investment Manager and which is Independent from the Investment Manager; or

(ii) if a price described in clause (i) is not available,

(A) the average of the bid prices determined by three broker-dealers (or other buy-side market participants) active in the trading of such asset that are Independent from each other and the Issuer and the Investment Manager;

(B) if only two such bids can be obtained, the lower of the bid prices of such two bids; or

(C) if only one such bid can be obtained, and such bid was obtained from a Qualified Broker/Dealer, the bid price of such bid; or

(iii) if a price described in clause (i) or (ii) is not available, then the Market Value of an asset will be the lower of (x) the higher of (A) such asset’s S&P Recovery Rate and (B) 70% of the notional amount of such asset and (y) the price at which the Investment Manager reasonably believes such asset could be sold in the market within 30 days, as certified by the Investment Manager to the Trustee and determined by the Investment Manager consistent with the manner in which it would determine the market value of an asset for purposes of other funds or accounts managed by it; *provided, however,* that, if the Investment Manager is not a registered investment adviser, the Market Value of any such asset may not be determined in accordance with this clause (iii)(y) for more than 30 days; or

(iv) if the Market Value of an asset is not determined in accordance with clause (i), (ii) or (iii) above, then such Market Value shall be deemed to be zero until such determination is made in accordance with clause (i), (ii) or (iii) above.

“Material Event”: As defined in Section 7.14(c).

“Matrix Combination”: The applicable “row/column combination” of the Minimum Diversity Score/Maximum Rating/Minimum Spread Matrix chosen by the Investment Manager (or determined by interpolating between two adjacent rows and/or two adjacent columns).

“Matrix Tests”: As defined in Section 7.18(a).

“Maturity”: With respect to any Rated Note, the date on which the unpaid principal of such Note becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

“Maturity Amendment”: With respect to any Collateral Obligation, any waiver, modification, amendment or variance (other than in connection with an insolvency, bankruptcy, reorganization, debt restructuring or workout of the obligor thereof) that would extend the stated maturity date of such Collateral Obligation. For the avoidance of doubt, a waiver, modification, amendment or variance that would extend the stated maturity date of the credit facility of which a Collateral Obligation is part, but would not extend the stated maturity date of the Collateral Obligation held by the Issuer, does not constitute a Maturity Amendment.

“Maximum Moody’s Rating Factor Test”: A test that will be satisfied on any date of determination if the Adjusted Weighted Average Moody’s Rating Factor of the Collateral Obligations is less than or equal to the sum of (i) the Maximum Rating Factor in the Matrix Combination *plus* (ii) the Moody’s Weighted Average Recovery Adjustment.

“Measurement Date”: (i) Any day on which a purchase of a Collateral Obligation occurs, (ii) any Determination Date, (iii) the date as of which the information in any Monthly Report is calculated and (iv) with five Business Days’ prior written notice to the Issuer and the Trustee (with a copy to the Investment Manager), any Business Day requested by either Rating Agency.

“Memorandum and Articles”: The Issuer’s Memorandum and Articles of Association, as they may be amended, revised or restated from time to time.

“Merging Entity”: As defined in Section 7.10.

“Middle Market Loan”: Any loan obligation in respect of which the total potential indebtedness of its obligor under all loan agreements, indentures and other instruments governing such obligor’s indebtedness is less than U.S.\$200,000,000.

“Minimum Denomination”: With respect to each Class of the Rated Notes other than the Class X Notes, U.S.\$250,000 and integral multiples of U.S.\$1.00 in excess thereof and, with respect to the Class X Notes, U.S.\$200,000 and integral multiples of U.S.\$1.00 in excess thereof.

“Minimum Diversity Score/Maximum Rating/Minimum Spread Matrix”: The following chart used to determine which Matrix Combination is applicable for purposes of determining compliance with the Moody’s Diversity Test, the Maximum Moody’s Rating Factor Test and the Minimum Floating Spread Test:

Minimum Weighted Average Spread	Minimum Diversity Score				
	40	45	50	55	60
2.95%	2390	2490	2550	2610	2670
3.00%	2405	2505	2565	2625	2685
3.05%	2420	2520	2580	2640	2700
3.10%	2435	2535	2595	2655	2715
3.15%	2450	2550	2610	2670	2730
3.20%	2465	2565	2625	2685	2745
3.25%	2480	2580	2640	2700	2760
3.30%	2495	2595	2655	2715	2775
3.35%	2510	2610	2670	2730	2790
3.40%	2525	2625	2685	2745	2805
3.45%	2540	2640	2700	2760	2820
3.50%	2555	2655	2715	2775	2835
3.55%	2570	2670	2730	2790	2850
3.60%	2585	2685	2745	2805	2865
3.65%	2600	2700	2760	2820	2880
3.70%	2615	2715	2775	2835	2895
3.75%	2630	2730	2790	2850	2910
3.80%	2645	2745	2805	2865	2925
3.85%	2660	2760	2820	2880	2940
3.90%	2675	2775	2835	2895	2955
3.95%	2690	2790	2850	2910	2970
4.00%	2705	2805	2865	2925	2985
4.05%	2720	2820	2880	2940	3000

“Minimum Floating Spread”: The Minimum Weighted Average Spread in the Matrix Combination.

“Minimum Floating Spread Test”: The test that is satisfied on any date of determination if the Weighted Average Floating Spread *plus* the Excess Weighted Average Coupon equals or exceeds the Minimum Floating Spread.

“Minimum Weighted Average Coupon”: 7.25%.

“Minimum Weighted Average Coupon Test”: The test that will be satisfied on any date of determination if the Weighted Average Coupon *plus* the Excess Weighted Average Floating Spread equals or exceeds the Minimum Weighted Average Coupon.

“Minimum Weighted Average Moody’s Recovery Rate Test”: The test that will be satisfied on any date of determination if the Weighted Average Moody’s Recovery Rate equals or exceeds 48.0%.

“Minimum Weighted Average S&P Recovery Rate Test”: The test that will be satisfied on any date of determination if the Weighted Average S&P Recovery Rate for each Class of Rated Notes Outstanding equals or exceeds the Weighted Average S&P Recovery Rate for such Class selected by the Investment Manager in connection with the S&P CDO Monitor Test.

“Money”: The meaning specified in Article 1 of the UCC.

“Monthly Report”: The meaning specified in Section 10.7(a).

“Monthly Report Determination Date”: The meaning specified in Section 10.7(a).

“Moody’s”: Moody’s Investors Service, Inc. and any successor thereto.

“Moody’s Additional Current Pay Criteria”: Criteria satisfied with respect to any Collateral Obligation if (a) either such Collateral Obligation has (i) a Market Value of at least 85% of par and a Moody’s Rating of at least “Caa2”; or (ii) a Market Value of at least 80% of par and a Moody’s Rating of at least “Caa1,” or (b) (i) if such Collateral Obligation is a loan and the price of the Eligible Loan Index is trading below 90%, such Collateral Obligation has either (x) a Market Value of at least 85% of the average price of the applicable Eligible Loan Index and a Moody’s Rating of at least “Caa2” or (y) a Market Value of at least 80% of the average price of the applicable Eligible Loan Index and a Moody’s Rating of at least “Caa1,” or (ii) if such Collateral Obligation is a bond and the Eligible Bond Index, as determined by the Investment Manager, is trading below 90%, the Market Value of such Collateral Obligation has a Market Value of at least 75% of such index. For purposes of this definition, with respect to a Collateral Obligation already owned by the Issuer whose facility rating from Moody’s is withdrawn, the facility rating will be the last outstanding facility rating before such withdrawal.

“Moody’s Collateral Value”: On any date of determination, with respect to any Defaulted Obligation or Deferring Security, the lesser of (i) the Moody’s Recovery Amount of such Defaulted Obligation or Deferring Security as of such date and (ii) the Market Value of such Defaulted Obligation or Deferring Security as of such date.

“Moody’s Counterparty Criteria”: With respect to any Participation Interest or Letter of Credit Reimbursement Obligation proposed to be acquired by the Issuer, criteria that will be met if immediately after giving effect to such acquisition, (x) the percentage of the Collateral Principal Amount that consists in the aggregate of Participation Interests or Letter of Credit Reimbursement Obligations with Selling Institutions or LOC Agent Banks, as the case may be, that have the same or a lower Moody’s credit rating does not exceed the “Aggregate Percentage Limit” set forth below for such Moody’s credit rating and (y) the percentage of the Collateral Principal Amount that consists in the aggregate of Participation Interests or Letter of Credit Reimbursement Obligations with any single Selling Institution or LOC Agent Bank, as the case may be, that has the Moody’s credit rating set forth below or a lower credit rating does not exceed the “Individual Percentage Limit” set forth below for such Moody’s credit rating:

<u>Moody's credit rating of Selling Institution or Loc Agent Bank</u>	<u>Aggregate Percentage Limit</u>	<u>Individual Percentage Limit</u>
Aaa	20.0%	20.0%
Aa1	20.0%	10.0%
Aa2	20.0%	10.0%
Aa3	15.0%	10.0%
A1	10.0%	5.0%
A2 (with short-term rating of "P-1")	5.0%	5.0%
A2 (without short-term rating of "P-1") or below	0.0%	0.0%

Moody's Default Probability Rating: With respect to any Collateral Obligation, the rating determined pursuant to the methodology set forth under the heading "Moody's Default Probability Rating" on Schedule 4 hereto (or such other schedule provided by Moody's to the Issuer, the Trustee, the Collateral Administrator and the Investment Manager).

Moody's Derived Rating: With respect to any Collateral Obligation, the rating determined pursuant to the methodology set forth under the heading "Moody's Derived Rating" on Schedule 4 hereto (or such other schedule provided by Moody's to the Issuer, the Trustee, the Collateral Administrator and the Investment Manager).

Moody's Diversity Test: A test that will be satisfied on any date of determination if the Diversity Score (rounded up to the nearest whole number) equals or exceeds the Minimum Diversity Score in the Matrix Combination.

Moody's Industry Classification: The industry classifications set forth in Schedule 1 hereto, as such industry classifications shall be updated at the option of the Investment Manager if Moody's publishes revised industry classifications.

Moody's Non-Senior Secured Loan: Any assignment of or Participation Interest in or other interest in a loan that is not a Moody's Senior Secured Loan.

Moody's Rating: With respect to any Collateral Obligation, the rating determined pursuant to the methodology set forth under the heading "Moody's Rating" on Schedule 4 hereto (or such other schedule provided by Moody's to the Issuer, the Trustee, the Collateral Administrator and the Investment Manager).

Moody's Rating Factor: For each Collateral Obligation, the number set forth in the table below opposite the Moody's Default Probability Rating of such Collateral Obligation.

<u>Moody's Default Probability Rating</u>	<u>Moody's Rating Factor</u>	<u>Moody's Default Probability Rating</u>	<u>Moody's Rating Factor</u>
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Maximum Moody's Rating Factor Test, any Collateral Obligation issued or guaranteed by the United States government or any agency or instrumentality thereof is assigned a Moody's Rating Factor of 1.

"Moody's Recovery Amount": With respect to any Collateral Obligation that is a Defaulted Obligation or a Deferring Security, an amount equal to (a) the applicable Moody's Recovery Rate multiplied by (b) the Principal Balance of such Collateral Obligation.

"Moody's Recovery Rate": With respect to any Collateral Obligation, as of any Measurement Date, the recovery rate determined in accordance with the following, in the following order of priority:

(i) if the Collateral Obligation has been specifically assigned a recovery rate by Moody's (for example, in connection with the assignment by Moody's of an estimated rating), such recovery rate;

(ii) if the preceding clause does not apply to the Collateral Obligation, except with respect to DIP Collateral Obligations, the rate determined pursuant to the table below based on the number of rating subcategories difference between the Collateral Obligation's Moody's Rating and its Moody's Default Probability Rating (for purposes of clarification, if the Moody's Rating is higher than the Moody's Default Probability Rating, the rating subcategories difference will be positive and if it is lower, negative):

Number of Moody's Ratings Subcategories Difference Between the Moody's Rating and the Moody's Default Probability Rating	Moody's Senior Secured Loans	Second Lien Loans, Senior Secured Bonds, and Senior Secured Floating Rate Notes (1)	Collateral Obligations Not Included in Another Column in this Table
+2 or more	60%	55%	45%
+1	50%	45%	35%
0	45%	35%	30%
-1	40%	25%	25%
-2	30%	15%	15%
-3 or less	20%	5%	5%

(iii) if the Collateral Obligation is a DIP Collateral Obligation (other than a DIP Collateral Obligation which has been specifically assigned a recovery rate by Moody's), 50%.

"Moody's Senior Secured Floating Rate Note": A Senior Secured Floating Rate Note (x) that has a Moody's facility rating, (y) the obligor of which has a Moody's corporate family rating and (z) with respect to which such Moody's facility rating is not lower than such Moody's corporate family rating.

"Moody's Senior Secured Loan": Any assignment of or Participation Interest in a Loan that: (a) is not (and cannot by its terms become) subordinate in right of payment to any other obligation of the Obligor of the Loan (subject to customary exceptions for permitted liens); (b) is secured by a valid first-priority perfected security interest or lien in, to or on specified collateral securing the Obligor's obligations under the Loan (subject to customary exceptions for permitted liens); and (c) the value of the collateral securing the Loan at the time of purchase together with other attributes of the Obligor (including, without limitation, its general financial condition, ability to generate cash flow available for debt service and other demands for that cash flow) is adequate (in the commercially reasonable judgment of the Investment Manager) to repay the Loan in accordance with its terms and to repay all other Loans of equal seniority secured by a first lien or security interest in the same collateral.

"Moody's Weighted Average Recovery Adjustment": As of any date of determination, the greater of (a) zero and (b) the product of (i)(A) the Weighted Average Moody's Recovery Rate as of such date of determination multiplied by 100 minus (B) 48 and (ii) 75; *provided, however*, if the Weighted Average Moody's Recovery Rate for purposes of determining the Moody's Weighted Average Recovery Adjustment is greater than 60%, then such Weighted Average Moody's Recovery Rate shall equal 60% or such other percentage as shall have been notified to Moody's by or on behalf of the Issuer.

(1) If a Second Lien Loan, Senior Secured Bond or Senior Secured Floating Rate Note fails to have both CFR and an instrument rating assigned by Moody's, then its Moody's Recovery Rate shall be determined as if such Senior Loan, Senior Secured Bond or Senior Secured Floating Rate Note were an Unsecured Loan.

“Non-Call Period”: The period from the Closing Date to but excluding the Payment Date in October 2015.

“Non-Emerging Market Obligor”: An obligor that is Domiciled in any country other than the United States of America that has (a) a country ceiling for foreign currency bonds of at least “Aa2” by Moody’s and (b) a foreign currency issuer credit rating of at least “AA-” by S&P (other than any country referenced in the definition of Concentration Limitations).

“Non-Permitted ERISA Holder”: As defined in Section 2.11(e).

“Non-Permitted Holder”: As defined in Section 2.11(c).

“Note Interest Amount”: With respect to any Class of Rated Notes and any Payment Date, the amount of interest for the related Interest Accrual Period payable in respect of each U.S.\$100,000 Aggregate Outstanding Amount of such Class of Rated Notes.

“Note Payment Sequence”: The application, in accordance with the Priority of Payments, of Interest Proceeds or Principal Proceeds, as applicable, in the following order:

- (i) to the payment of accrued and unpaid interest of the Class X Notes and the Class A-1 Notes (*pro rata*) until such amounts have been paid in full;
- (ii) to the payment of accrued and unpaid interest of the Class A-2 Notes, until such amount has been paid in full;
- (iii) to the payment of accrued and unpaid interest of the Class B Notes, until such amount has been paid in full;
- (iv) to the payment of principal of the Class X Notes and the Class A-1 Notes, *pro rata*, until such amounts have been paid in full;
- (v) to the payment of principal of the Class A-2 Notes until such amount has been paid in full;
- (vi) to the payment of principal of the Class B Notes until such amount has been paid in full;
- (vii) to the payment of accrued and unpaid interest (including any interest on Deferred Interest or defaulted interest) on the Class C Notes until such amount has been paid in full;
- (viii) to the payment of principal of the Class C Notes (including the payment of Deferred Interest on the Class C Notes) until such amount has been paid in full;

(ix) to the payment of accrued and unpaid interest (including any interest on Deferred Interest or defaulted interest) on the Class D Notes until such amount has been paid in full;

(x) to the payment of principal of the Class D Notes (including the payment of Deferred Interest on the Class D Notes) until such amount has been paid in full;

(xi) to the payment of accrued and unpaid interest (including any interest on Deferred Interest or defaulted interest) on the Class E Notes until such amount has been paid in full;

(xii) to the payment of principal of the Class E Notes (including the payment of Deferred Interest on the Class E Notes) until such amount has been paid in full;

(xiii) to the payment of accrued and unpaid interest (including any interest on Deferred Interest or defaulted interest) on the Class F Notes until such amount has been paid in full; and

(xiv) to the payment of principal of the Class F Notes (including the payment of Deferred Interest on the Class F Notes) until such amount has been paid in full.

“Notes”: Collectively, the Rated Notes and the Subordinated Notes authorized by, and authenticated and delivered under, this Indenture (as specified in Section 2.3).

“NRSRO”: Any nationally recognized statistical rating organization, other than any Rating Agency.

“Obligor”: The obligor or guarantor under a loan.

“Offer”: As defined in Section 10.8(c).

“Offering”: The offering of any Rated Notes pursuant to the relevant Offering Memorandum.

“Offering Memorandum”: The offering memorandum relating to the offer and sale of the Rated Notes dated October 15, 2013 including any supplements thereto.

“Officer”: (a) With respect to the Issuer, the Co-Issuer and any corporation, any director, the Chairman of the Board of Directors, the President, any Vice President, the Secretary, an Assistant Secretary, the Treasurer or an Assistant Treasurer of such entity or any Person authorized by such entity; (b) with respect to any partnership, any general partner thereof or any Person authorized by such entity; (c) with respect to any limited liability company, any managing member or manager thereof or any Person to whom the rights and powers of management thereof are delegated in accordance with the certificate of formation and limited liability company agreement of such limited liability company; and (d) with respect to the Trustee and any bank or trust company acting as trustee of an express trust or as custodian or agent, any vice president or assistant vice president of such entity or any officer customarily performing functions similar to those performed by a vice president or assistant vice president of such entity.

“offshore transaction”: The meaning specified in Regulation S.

“Ongoing Expense Excess Amount”: On any Payment Date, an amount equal to the excess, if any, of (i) the Administrative Expense Cap over (ii) the sum of (without duplication) (x) all amounts paid pursuant to clause (A)(2) of the Priority of Interest Proceeds on such Payment Date (excluding all amounts being deposited on such Payment Date to the Ongoing Expense Smoothing Account) plus (y) any Administrative Expenses paid from the Expense Reserve Account or from the Collection Account pursuant to this Indenture on such Payment Date or between such Payment Date and the immediately preceding Payment Date.

“Ongoing Expense Smoothing Account”: The meaning specified in Section 10.3(d).

“Ongoing Expense Smoothing Shortfall”: On any Payment Date, the excess, if any, of U.S.\$40,000 over the amount then on deposit in the Ongoing Expense Smoothing Account without giving effect to any deposit thereto on such Payment Date pursuant to clause (A) of the Priority of Interest Proceeds.

“Opinion of Counsel”: A written opinion addressed to the Trustee (or upon which the Trustee is permitted to rely) and the Issuer and, if required by the terms hereof, a Rating Agency, in form and substance reasonably satisfactory to the Trustee, of a nationally or internationally recognized and reputable law firm one or more of the partners of which are admitted to practice before the highest court of any State of the United States or the District of Columbia (or the Cayman Islands, in the case of an opinion relating to the laws of the Cayman Islands), which law firm may, except as otherwise expressly provided in this Indenture, be counsel for the Issuer or the Co-Issuer, as the case may be, but must be Independent of the Investment Manager, and which law firm shall be reasonably satisfactory to the Trustee. Whenever an Opinion of Counsel is required hereunder, such Opinion of Counsel may rely on opinions of other counsel who are so admitted and so satisfactory, which opinions of other counsel shall accompany such Opinion of Counsel and shall either be addressed to the same addressees or state that the addressees of the Opinion of Counsel shall be entitled to rely thereon.

“Optional Redemption”: A redemption of the Rated Notes in accordance with Section 9.2.

“Original Indenture”: The meaning specified in the Preliminary Statement hereto.

“Outstanding”: As of any date of determination, with respect to the Notes or the Notes of any specified Class, all of the Notes or all of the Notes of such Class, as the case may be, theretofore authenticated and delivered under this Indenture, except:

(i) Notes theretofore canceled by the Registrar or delivered to the Registrar for cancellation, or registered in the Register on the date this Indenture is discharged in accordance with Article IV;

(ii) Notes or portions thereof for whose payment or redemption funds in the necessary amount have been theretofore irrevocably deposited with the Trustee or any Paying Agent in trust for the Holders of such Notes pursuant to Section 4.1(a)(ii); provided that if such Notes or portions thereof are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(iii) Notes in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, unless proof satisfactory to the Trustee is presented that any such Notes are held by a Protected Purchaser;

(iv) Notes alleged to have been mutilated, destroyed, lost or stolen for which replacement Notes have been issued as provided in Section 2.6; and

(v) Repurchased Notes and Surrendered Notes that have been canceled by the Trustee; provided that for purposes of calculation of the Overcollateralization Ratio, other than Repurchased Notes of the Controlling Class, any Repurchased Notes and any Surrendered Notes shall be deemed to remain Outstanding until all Notes of the applicable Class and each Priority Class have been retired or redeemed, having an Aggregate Outstanding Amount equal to the Aggregate Outstanding Amount as of the date of repurchase or surrender, reduced proportionately with, and to the extent of, any payments of principal on Notes of the same Class thereafter;

provided that in determining whether the Holders of the requisite Aggregate Outstanding Amount have given any request, demand, authorization, direction, notice, consent or waiver hereunder, the following Notes shall be disregarded and deemed not to be Outstanding:

(A) Notes owned by the Issuer, the Co-Issuer or any other obligor upon the Notes; and

(B) Manager Notes, to the extent required under the Investment Management Agreement;

except that (1) in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes that a Trust Officer of the Trustee actually knows to be so owned or to be Manager Notes shall be so disregarded; and (2) Notes so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not one of the Persons specified above.

"Overcollateralization Ratio": With respect to any specified Class or Classes of Rated Notes as of any date of determination, the percentage derived from: (i) the Adjusted Collateral Principal Amount on such date divided by (ii) the Aggregate Outstanding Amount on such date of the Rated Notes of such Class or Classes, each Priority Class of Rated Notes and each *Pari Passu* Class of Rated Notes; *provided* that the Class X Notes will not be included for purposes of calculating the Overcollateralization Ratio.

"Overcollateralization Ratio Test": A test that is satisfied with respect to any Class or Classes of Rated Notes (other than the Class X Notes and the Class F Notes) as of any date of determination on which such test is applicable if (i) the Overcollateralization Ratio for such Class or Classes on such date is at least equal to the Required Overcollateralization Ratio for such Class or Classes or (ii) such Class or Classes of Rated Notes is no longer Outstanding.

“Pari Passu Class”: With respect to any specified Class, each Class that ranks pari passu with such Class, as indicated in Section 2.3.

“Partial Deferrable Security”: Any Collateral Obligation with respect to which under the related underlying instruments (i) a portion of the interest due thereon is required to be paid in cash on each payment date therefor and is not permitted to be deferred or capitalized (which portion will at least be equal to LIBOR or the applicable index with respect to which interest on such Collateral Obligation is calculated (or, in the case of a Fixed Rate Obligation, at least equal to the forward swap rate for a designated maturity equal to the scheduled maturity of such Collateral Obligation)) and (ii) the issuer thereof or obligor thereon may defer or capitalize the remaining portion of the interest due thereon.

“Partial Redemption Date”: Any date on which a Refinancing of one or more but not all Classes of Rated Notes occurs.

“Partial Redemption Interest Proceeds”: In connection with a Refinancing of one or more (but not all) Classes of the Rated Notes, Interest Proceeds in an amount equal to the lesser of (a) the amount of accrued interest on the Classes being refinanced and (b) the amount the Investment Manager reasonably determines would have been available for distribution under the Priority of Payments for the payment of accrued interest on the Classes being refinanced on the next subsequent Payment Date (or, if the Partial Redemption Date is a Payment Date, such Payment Date) if such Rated Notes had not been refinanced.

“Participation Interest”: A Letter of Credit Reimbursement Obligation or a participation interest in a loan that, at the time of acquisition or the Issuer’s commitment to acquire the same, is represented by a contractual obligation of a Selling Institution that has at the time of such acquisition or the Issuer’s commitment to acquire the same at least a long-term rating of “A” and a short-term rating of “A-1” (or, if it has no short-term rating, a long-term rating of “A+”) by S&P.

“Paying Agent”: Each paying agent appointed by the Issuer pursuant to Section 7.2.

“Payment Account”: The payment account of the Trustee established pursuant to Section 10.3(a).

“Payment Date”: The 20th day of January, April, July and October of each year (or, if such day is not a Business Day, the next succeeding Business Day), commencing in January 2014 and each Redemption Date (other than a Partial Redemption Date).

“PBGC”: The United States Pension Benefit Guaranty Corporation.

“Person”: An individual, corporation (including a business trust), partnership, limited liability company, joint venture, association, joint stock company, statutory trust, trust (including any beneficiary thereof), unincorporated association or government or any agency or political subdivision thereof.

“Placement Agency Agreement”: The Placement Agency Agreement dated as of the Closing Date between the Co-Issuers and the Placement Agent, with respect to the Rated Notes.

“Placement Agent”: C&Co/PrinceRidge LLC, in its capacity as placement agent of the Rated Notes under the Placement Agency Agreement.

“Plan Asset Entity”: Any entity whose underlying assets could be deemed to include plan assets by reason of an employee benefit plan’s or a plan’s investment in the entity within the meaning of the Plan Asset Regulation or otherwise.

“Plan Asset Regulation”: U.S. Department of Labor regulation 29 C.F.R. Section 2510.3-101 (as modified by Section 3(42) of ERISA).

“Posting”: The forwarding by the Information Agent of emails received in accordance with Section 14.4(a)(ii) to the Posting Email Account (as defined in the Collateral Administration Agreement) for posting to the Issuer’s Website.

“Principal Balance”: Subject to Section 1.2, with respect to (a) any Asset other than a Revolving Collateral Obligation or Delayed Drawdown Collateral Obligation, as of any date of determination, the outstanding principal amount of such Asset (excluding any capitalized interest) and (b) any Revolving Collateral Obligation or Delayed Drawdown Collateral Obligation, as of any date of determination, the outstanding principal amount of such Revolving Collateral Obligation or Delayed Drawdown Collateral Obligation (excluding any capitalized interest), *plus* (except as expressly set forth in this Indenture) any undrawn commitments that have not been irrevocably reduced or withdrawn with respect to such Revolving Collateral Obligation or Delayed Drawdown Collateral Obligation; *provided* that for all purposes the Principal Balance of any Equity Security or interest only strip shall be deemed to be zero.

“Principal Collection Account”: The meaning specified in Section 10.2(a).

“Principal Financed Accrued Interest”: With respect to any Collateral Obligation purchased by the Issuer (i) on or prior to the Closing Date, the amount of proceeds from the issuance of the Rated Notes applied to the purchase of accrued interest and (ii) after the Closing Date, the amount of Principal Proceeds, if any, applied towards the purchase of accrued interest on such Collateral Obligation.

“Principal Proceeds”: With respect to any Collection Period or Determination Date, all amounts received by the Issuer during the related Collection Period that do not constitute Interest Proceeds, including with respect to a Redemption Date (other than a Partial Redemption Date), any Refinancing Proceeds, and any amounts that have been designated as Principal Proceeds pursuant to the terms of this Indenture.

“Priority Category”: With respect to any Collateral Obligation, the applicable category listed in the table under the heading “Priority Category” in Section 1(b) of Schedule 5.

“Priority Class”: With respect to any specified Class, each Class that ranks senior to such Class, as indicated in Section 2.3.

“Priority of Interest Proceeds”: The meaning specified in Section 11.1(a)(i).

“Priority of Partial Redemption Proceeds”: The meaning specified in Section 11.1(a)(iv).

“Priority of Payments”: The Priority of Interest Proceeds, the Priority of Principal Proceeds, the Special Priority of Payments and the Priority of Partial Redemption Proceeds.

“Priority of Principal Proceeds”: The meaning specified in Section 11.1(a)(ii).

“Proceeding”: Any suit in equity, action at law or other judicial or administrative proceeding.

“Proceeds”: The meaning specified in Section 9-102(a)(64) of the UCC.

“Process Agent”: The meaning specified in Section 7.2.

“Proposed Portfolio”: The portfolio of Collateral Obligations and Eligible Investments resulting from the proposed purchase, sale, maturity or other disposition of a Collateral Obligation or a proposed reinvestment in an additional Collateral Obligation, as the case may be.

“Protected Purchaser”: The meaning specified in Section 8-303(a) of the UCC.

“QIB/QP”: Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of Rated Notes is both a Qualified Institutional Buyer and a Qualified Purchaser.

“Qualified Broker/Dealer”: Any of Bank of America, NA, The Bank of Montreal, The Bank of New York Mellon, The Royal Bank of Scotland plc, Barclays Bank plc, BNP Paribas, Broadpoint Securities Inc., C&Co/PrinceRidge LLC, Calyon, Canadian Imperial Bank of Commerce, Cantor Fitzgerald, Citadel Securities, Citibank, N.A., Credit Agricole S.A., Credit Suisse, Deutsche Bank AG, FBR Capital Markets, Gleacher & Company Securities, Inc., Goldman Sachs & Co., Guggenheim Securities, LLC, HSBC Bank, JPMorgan Chase Bank, N.A., Knight/Libertas, Lazard Ltd., Macquarie Bank, Mizuho Bank, Ltd., Morgan Stanley & Co., Natixis, Nomura Securities Inc., Northern Trust Company, Oppenheimer & Co. Inc., Royal Bank of Canada, Scotia Bank, Societe Generale, Sun Trust Bank, The Toronto-Dominion Bank, U.S. Bank, National Association, UBS AG or Wells Fargo Bank, National Association, or a banking or securities Affiliate of any of the foregoing, and any other financial institution so designated by the Investment Manager with notice to the Rating Agencies.

“Qualified Institutional Buyer”: Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of Rated Notes, is a qualified institutional buyer within the meaning of Rule 144A.

“Qualified Purchaser”: Any Person that, at the time of its acquisition, purported acquisition or proposed acquisition of Rated Notes, is a qualified purchaser within the meaning of the Investment Company Act.

“Rated Notes”: The Class X Notes, the Class A-1 Notes, the Class A-2 Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes.

“Rated Noteholders”: The Holders of the Rated Notes.

“Rating”: The Moody’s Rating and/or S&P Rating, as applicable.

“Rating Agency”: Each rating agency that assigns ratings to the Rated Notes at the request of the Issuer, which will initially be Moody’s and S&P, in each case for so long as it rates such Rated Notes. With respect to Assets generally, if at any time Moody’s or S&P ceases to provide rating services with respect to debt obligations, any other nationally recognized investment rating agency selected by the Issuer (or the Investment Manager on behalf of the Issuer). In the event that at any time Moody’s ceases to be a Rating Agency, references to rating categories of Moody’s in this Indenture shall be deemed instead to be references to the equivalent categories of such other rating agency as of the most recent date on which such other rating agency and Moody’s published ratings for the type of obligation in respect of which such alternative rating agency is used. In the event that at any time S&P ceases to be a Rating Agency, references to rating categories of S&P in this Indenture shall be deemed instead to be references to the equivalent categories of such other rating agency as of the most recent date on which such other rating agency and S&P published ratings for the type of obligation in respect of which such alternative rating agency is used.

“Rating Agency Confirmation”: Confirmation in writing (which may be in the form of a press release) from each Rating Agency (or the specified Rating Agency) that (a) the initial ratings of the Rated Notes have been confirmed or (b) a proposed action or designation will not cause the then-current ratings of any Class of Rated Notes to be reduced or withdrawn. If any Rating Agency (i) makes a public announcement or informs the Issuer, the Investment Manager or the Trustee that (x) it believes Rating Agency Confirmation is not required with respect to an action or (y) its practice is to not give such confirmations, or (ii) no longer constitutes a Rating Agency under this Indenture, the requirement for Rating Agency Confirmation with respect to that Rating Agency will not apply.

“Record Date”: With respect to the Global Notes, the date one day prior to the applicable Payment Date and with respect to the Certificated Notes, the date 15 days prior to the applicable Payment Date.

“Redemption Date”: Any Business Day specified for a redemption of Rated Notes pursuant to Article IX.

“Redemption Price”: (a) For each Class of Rated Notes to be redeemed or re-priced (x) 100% of the Aggregate Outstanding Amount of such Class, plus (y) accrued and unpaid interest thereon (including interest on any accrued and unpaid Deferred Interest, in the case of Deferred Interest Notes) to the Redemption Date; and (b) for Subordinated Notes, the proceeds of the remaining Assets (after giving effect to the Optional Redemption or Tax

Redemption of the Rated Notes in whole or after all of the Rated Notes have been repaid in full and payment in full of (and/or creation of a reserve for) all expenses (including all Management Fees and Administrative Expenses) of the Co-Issuers) that is distributable to the Subordinated Notes; *provided* that Holders of 100% of the Aggregate Outstanding Amount of any Class of Rated Notes may elect to receive less than 100% of the Redemption Price that would otherwise be payable to the Holders of such Class of Rated Notes in any Optional Redemption (including a Refinancing).

“Reference Banks”: The meaning set forth in Exhibit C hereto.

“Refinancing”: In addition to (or in lieu of) a sale of Collateral Obligations and/or Eligible Investments in the manner provided in Section 9.2, all Classes of Rated Notes may, after the Non-Call Period, be redeemed in whole from Refinancing Proceeds and Sale Proceeds or one or more Classes of Rated Notes may be redeemed in whole from Refinancing Proceeds by obtaining a loan or an issuance of replacement notes, whose terms in each case will be negotiated by the Investment Manager on behalf of the Issuer, from one or more financial or other institutions; provided that the terms of such Refinancing must be acceptable to the Investment Manager and a Majority of the Subordinated Notes, and such Refinancing otherwise satisfies the conditions described below. Any rating of a class of replacement notes by a Rating Agency will be based on a credit analysis specific to such replacement notes and independent of the rating of the Rated Notes being refinanced.

“Refinancing Proceeds”: The Cash proceeds from the Refinancing.

“Register” and “Registrar”: The respective meanings specified in Section 2.5(a).

“Registered”: In registered form for U.S. federal income tax purposes and issued after July 18, 1984, *provided* that a certificate of interest in a grantor trust shall not be treated as Registered unless each of the obligations or notes held by the trust was issued after that date.

“Registered Office Agreement”: The registered office agreement, dated September 5, 2013, between the Issuer and the Administrator (as amended from time to time).

“Regulation S”: Regulation S under the Securities Act.

“Regulation S Global Note”: Any Note sold outside the United States to non-“U.S. persons” (as defined in Regulation S) in reliance on Regulation S and issued in the form of a permanent Global Note in definitive, fully registered form without interest coupons.

“Reinvestment Agreement”: A guaranteed reinvestment agreement from a bank, insurance company or other corporation or entity having an Eligible Investment Required Rating; *provided* that such agreement provides that it is terminable by the purchaser, without penalty, in the event that the rating assigned to such agreement by either Rating Agency is at any time lower than such agreement’s Eligible Investment Required Rating.

“Reinvestment Balance Criteria”: Any of the following requirements, in each case determined prior to giving effect to the sale and after giving effect to the proposed purchase of Collateral Obligations and all other sales or purchases previously or simultaneously

committed to: (1) the Adjusted Collateral Principal Amount is maintained or increased, prior to giving effect to the sale, (2) the Aggregate Principal Balance of the Collateral Obligations and Eligible Investments constituting Principal Proceeds is greater than the Reinvestment Target Par Balance, or (3) the Aggregate Principal Balance of the Collateral Obligations and Eligible Investments constituting Principal Proceeds is maintained or increased.

“Reinvestment Period”: The period from and including the Closing Date to and including the earliest of (i) the Payment Date in October 2016, (ii) any date on which the Maturity of any Class of Rated Notes is accelerated following an Event of Default pursuant to this Indenture (*provided* that, if the Reinvestment Period is terminated pursuant to this clause (ii) and such acceleration is subsequently rescinded, then the Reinvestment Period will be reinstated) and (iii) any date on which the Investment Manager reasonably determines that it can no longer reinvest in additional Collateral Obligations in accordance with this Indenture or the Investment Management Agreement, *provided* that, in the case of this clause (iii), the Investment Manager notifies the Issuer, the Trustee (who shall notify the Holders) and the Collateral Administrator thereof at least five Business Days prior to such date. No reinvestment will be permitted after the last day of the Reinvestment Period.

“Reinvestment Target Par Balance”: As of any date of determination, the Target Initial Par Amount *minus* the amount of any reduction in the Aggregate Outstanding Amount of the Rated Notes through the payment of Principal Proceeds.

“Repurchased Notes”: The meaning specified in Section 2.9(a).

“Required Interest Coverage Ratio”: (a) For the Class A Notes and the Class B Notes, collectively, 120.0%, (b) for the Class C Notes, 115.0%, (c) for the Class D Notes, 110.0%; and (d) for the Class E Notes, 105.0%.

“Required Overcollateralization Ratio”: (a) For the Class A Notes and the Class B Notes, collectively, 117.8%, (b) for the Class C Notes, 111.6%, (c) for the Class D Notes, 107.3%, and (d) for the Class E Notes, 103.5%.

“Required Redemption Amount”: The meaning specified in Section 9.2(b).

“Resolution”: With respect to the Issuer, a resolution of the Board of Directors of the Issuer and, with respect to the Co-Issuer, a resolution of the Board of Directors of the Co-Issuer.

“Restricted Manager Event”: The meaning set forth in the Investment Management Agreement.

“Restricted Trading Period”: The period while (a) any Class A Notes or Class B Notes are Outstanding during which either the Moody’s rating of the Class A Notes or the S&P rating of the Class A Notes or Class B Notes, as the case may be, is one or more subcategories below its rating on the Closing Date (and, solely if such Moody’s rating of the Class A Notes or such S&P Rating of the Class A Notes or Class B Notes is one subcategory below its initial rating, not on watch for possible upgrade), (b) any Class C Notes, Class D Notes, Class E Notes or Class F Notes are Outstanding, the S&P rating of the Class C Notes, Class D Notes, Class E

Notes or Class F Notes, as the case may be, is two or more subcategories below its rating on the Closing Date (and, solely if such S&P rating of the Class C Notes, Class D Notes, Class E Notes or Class F Notes, as applicable, is two subcategory below its initial rating, not on watch for possible upgrade); *provided* that (1) such period will not be a Restricted Trading Period if the Aggregate Principal Balance of all Collateral Obligations and Eligible Investments representing Principal Proceeds will be at least equal to the Reinvestment Target Par Balance; (2) such period will not be a Restricted Trading Period (so long as such Moody's rating or S&P rating, as applicable, has not been further downgraded, withdrawn or put on watch for potential downgrade) upon the direction of the Issuer with the consent of a Majority of the Controlling Class, which direction shall remain in effect until the earlier of (i) a further downgrade or withdrawal of such Moody's rating or S&P rating, as applicable, that, disregarding such direction, would cause the conditions set forth above to be true and (ii) a subsequent direction to the Issuer (with a copy to the Trustee and the Collateral Administrator) by a Majority of the Controlling Class declaring the beginning of a Restricted Trading Period; and (3) no Restricted Trading Period will restrict any sale of a Collateral Obligation entered into by the Issuer at a time when a Restricted Trading Period was not in effect, regardless of whether such sale has settled or (c) a Restricted Manager Event has occurred and is continuing.

“Reuters Screen”: The meaning set forth in Exhibit C hereto.

“Revolver Funding Account”: The account established pursuant to Section 10.4.

“Revolving Collateral Obligation”: Any Collateral Obligation (other than a Delayed Drawdown Collateral Obligation) that is a loan (including, without limitation, revolving loans, including funded and unfunded portions of revolving credit lines and letter of credit facilities, unfunded commitments under specific facilities and other similar loans and investments) that by its terms may require one or more future advances to be made to the borrower by the Issuer; *provided* that any such Collateral Obligation will be a Revolving Collateral Obligation only until all commitments to make advances to the borrower expire or are terminated or irrevocably reduced to zero.

“Rule 144A”: Rule 144A under the Securities Act.

“Rule 144A Global Note”: Any Note sold in reliance on Rule 144A and issued in the form of a permanent Global Note in definitive, fully registered form without interest coupons.

“Rule 144A Information”: The meaning specified in Section 7.15.

“Rule 17g-5”: Rule 17g-5 under the Exchange Act.

“Rule 17g-5 Information”: The meaning specified in Section 14.4(b).

“Rule 17g-5 Procedures”: The meaning specified in Section 14.4(b).

“S&P”: Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business, and any successor or successors thereto.

“S&P Additional Current Pay Criteria”: Criteria satisfied with respect to any Collateral Obligation (other than a DIP Collateral Obligation) if either (i)(A) the issuer of such Collateral Obligation has made a Distressed Exchange Offer and such Collateral Obligation is subject to the Distressed Exchange Offer or ranks equal to or higher in priority than the obligation subject to the Distressed Exchange Offer, (B) in the case of a Distressed Exchange Offer that is a repurchase of debt for Cash, the repurchased debt will be extinguished and (C) the Issuer does not hold any obligation of the issuer making the Distressed Exchange Offer that ranks lower in priority than the obligation subject to the Distressed Exchange Offer or (ii) such Collateral Obligation has a Market Value (determined under clauses (i) or (ii) of the definition thereof) of at least 80% of its par value.

“S&P CDO Monitor”: Each dynamic, analytical computer model developed by S&P used to calculate the default frequency in terms of the amount of debt assumed to default as a percentage of the original principal amount of the Collateral Obligations consistent with a specified benchmark rating level based upon certain assumptions (including the applicable Weighted Average S&P Recovery Rate) and S&P’s proprietary corporate default studies, as may be amended by S&P from time to time upon notice to the Issuer, the Collateral Administrator and the Trustee. Each S&P CDO Monitor shall be chosen by the Investment Manager and associated with either (x) a Weighted Average S&P Recovery Rate and a Weighted Average Floating Spread from Section 2 of Schedule 5 or (y) a Weighted Average S&P Recovery Rate and a Weighted Average Floating Spread confirmed by S&P, *provided* that as of any date of determination the Weighted Average S&P Recovery Rate for each Class of Rated Notes Outstanding equals or exceeds the Weighted Average S&P Recovery Rate for such Class chosen by the Investment Manager and the Weighted Average Floating Spread equals or exceeds the Weighted Average Floating Spread chosen by the Investment Manager.

“S&P CDO Monitor Test”: A test that will be satisfied on any date of determination following receipt by the Issuer and the Collateral Administrator of the S&P CDO Monitor (along with the assumptions and instructions to run the S&P CDO Monitor) if, after giving effect to the sale of a Collateral Obligation or the purchase of a Collateral Obligation, each Class Default Differential of the Proposed Portfolio is positive. The S&P CDO Monitor Test will be considered to be improved if each Class Default Differential of the Proposed Portfolio is greater than the corresponding Class Default Differential of the Current Portfolio.

“S&P Collateral Value”: With respect to any Defaulted Obligation or Deferring Security, the lesser of (i) the S&P Recovery Amount of such Defaulted Obligation or Deferring Security, respectively, as of the relevant Measurement Date and (ii) the Market Value of such Defaulted Obligation or Deferring Security, respectively, as of the relevant Measurement Date.

“S&P Excel Default Model Input File”: An electronic spreadsheet file in Microsoft Excel format to be provided to S&P by the Investment Manager or by the Collateral Administrator at the direction of the Investment Manager, which file shall include the balance of Cash and Eligible Investments in each Account and the following information with respect to each Collateral Obligation: (a) the name and country of domicile of the issuer thereof and the particular issue held by the Issuer, (b) the CUSIP or other applicable identification number associated with such Collateral Obligation, (c) the par value of such Collateral Obligation, (d) the type of issue (including, by way of example, whether such Collateral Obligation is a bond, loan,

a Cov-Lite Loan or an asset-backed security), using such abbreviations as may be selected by the Collateral Administrator, (e) a description of the index or other applicable benchmark upon which the interest payable on such Collateral Obligation is based (including, by way of example, fixed rate, step-up rate, zero coupon and LIBOR), (f) the coupon (in the case of a Collateral Obligation which bears interest at a fixed rate) or the spread over the applicable index (in the case of a Collateral Obligation which bears interest at a floating rate), including any LIBOR floor, if applicable, (g) the S&P Industry Classification Group for such Collateral Obligation, (h) the stated maturity date of such Collateral Obligation, (i) the S&P Rating of such Collateral Obligation or the issuer thereof, as applicable, and any recovery rating by S&P, (j) the priority category of such Collateral Obligation used to determine the S&P Recovery Rate, if available, (k) the balance in Cash and Eligible Investments for each Account of the Issuer, (l) the settlement date of the Issuer's purchase, (m) the Loan-X ID of such Collateral Obligation, (n) the identity of any First Lien Last Out Loan, (o) for any unsettled trades, the Market Value of such Collateral Obligations and (m) such other information as the Investment Manager may determine to include in such file.

"S&P Industry Classification": The S&P Industry Classifications set forth in Schedule 2 hereto, and such industry classifications shall be updated at the option of the Investment Manager if S&P publishes revised industry classifications.

"S&P Rating": With respect to any Collateral Obligation, as of any date of determination, the rating determined in accordance with the following methodology:

(i) (a) if there is an issuer credit rating of the issuer of such Collateral Obligation by S&P as published by S&P, or the guarantor which unconditionally and irrevocably guarantees such Collateral Obligation pursuant to a guarantee in the form required by current S&P guidelines for use in connection with this transaction, then the S&P Rating shall be such rating (regardless of whether there is a published rating by S&P on the Collateral Obligations of such issuer held by the Issuer, provided that private ratings (that is, ratings provided at the request of the obligor) may be used for purposes of this definition if the related obligor has consented to the disclosure thereof and a copy of such consent has been provided to S&P) or (b) if there is no issuer credit rating of the issuer by S&P but (1) there is a senior secured rating on any obligation or security of the issuer, then the S&P Rating of such Collateral Obligation shall be one subcategory below such rating; (2) if clause (1) above does not apply, but there is a senior unsecured rating on any obligation or security of the issuer, the S&P Rating of such Collateral Obligation shall equal such rating; and (3) if neither clause (1) nor clause (2) above applies, but there is a subordinated rating on any obligation or security of the issuer, then the S&P Rating of such Collateral Obligation shall be one subcategory above such rating if such rating is higher than "BB+," and shall be two subcategories above such rating if such rating is "BB+" or lower;

(ii) with respect to any Collateral Obligation that is a DIP Collateral Obligation, the S&P Rating thereof shall be the credit rating assigned to such issue by S&P;

(iii) if there is not a rating by S&P on the issuer or on an obligation of the issuer, then the S&P Rating may be determined pursuant to clauses (a) through (c) below:

(a) if an obligation of the issuer is not a DIP Collateral Obligation and is publicly rated by Moody's, then the S&P Rating will be determined in accordance with the methodologies for establishing the Moody's Rating set forth above except that the S&P Rating of such obligation will be (1) one subcategory below the S&P equivalent of the Moody's Rating if such Moody's Rating is "Baa3" or higher and (2) two subcategories below the S&P equivalent of the Moody's Rating if such Moody's Rating is "Ba1" or lower;

(b) the S&P Rating may be based on a credit estimate *provided* by S&P, and in connection therewith, the Issuer, the Investment Manager on behalf of the Issuer or the issuer of such Collateral Obligation shall, prior to or within 30 days after the acquisition of such Collateral Obligation, apply (and concurrently submit all available Information in respect of such application) to S&P for a credit estimate which shall be its S&P Rating; *provided* that, if such Information is submitted within such 30-day period, then, pending receipt from S&P of such estimate, such Collateral Obligation shall have an S&P Rating as determined by the Investment Manager in its sole discretion if the Investment Manager certifies to the Trustee and the Collateral Administrator that it believes that such S&P Rating determined by the Investment Manager is commercially reasonable and will be at least equal to such rating; *provided further*, that if such Information is not submitted within such 30-day period, then, pending receipt from S&P of such estimate, the Collateral Obligation shall have (1) the S&P Rating as determined by the Investment Manager for a period of up to 90 days after the acquisition of such Collateral Obligation and (2) an S&P Rating of "CCC-" following such 90-day period; unless, during such 90-day period, the Investment Manager has requested the extension of such period and S&P, in its sole discretion, has granted such request; *provided further*, that if such 90-day period (or other extended period) elapses pending S&P's decision with respect to such application, the S&P Rating of such Collateral Obligation shall be "CCC-"; *provided further*, that if the Collateral Obligation has had a public rating by S&P that S&P has withdrawn or suspended within six months prior to the date of such application for a credit estimate in respect of such Collateral Obligation, the S&P Rating in respect thereof shall be "CCC-" pending receipt from S&P of such estimate, and S&P may elect not to provide such estimate until a period of six months have elapsed after the withdrawal or suspension of the public rating; *provided further* that the S&P Rating may not be determined pursuant to this clause (b) if the Collateral Obligation is a DIP Collateral Obligation; *provided further* that such credit estimate shall expire 12 months after the receipt thereof, following which such Collateral Obligation shall have an S&P Rating of "CCC-" unless, during such 12-month period following the receipt of such credit estimate, the Issuer applies for renewal thereof in accordance with this Indenture, in which case such credit estimate shall continue to be the S&P Rating of such Collateral Obligation until S&P has confirmed or revised such credit estimate, upon which such confirmed or revised credit estimate shall be the S&P Rating of such Collateral Obligation; *provided further* that such confirmed or revised credit estimate shall expire on the next succeeding 12-month anniversary of the date of the receipt thereof and (when renewed annually in accordance with this Indenture) on each 12-month anniversary

thereafter; *provided, further*, that the Issuer will, following receipt of notification from the Investment Manager, promptly notify S&P of any material event with respect to any such Collateral Obligation if the Investment Manager determines that such event is a material event as described in S&P's published criteria for credit estimates titled "What Are Credit Estimates And How Do They Differ From Ratings?" dated April 2011 (as the same may be amended or updated from time to time); and

(c) with respect to a Collateral Obligation that is not a Defaulted Obligation, the S&P Rating of such Collateral Obligation will at the election of the Issuer (at the direction of the Investment Manager) be "CCC-" and the Investment Manager will, prior to or within 30 days after the acquisition of such Collateral Obligation, submit all available Information to S&P; provided (i) neither the issuer of such Collateral Obligation nor any of its Affiliates are subject to any bankruptcy or reorganization proceedings, (ii) the issuer has not defaulted on any payment obligation in respect of any debt security or other obligation of the issuer at any time within the two year period ending on such date of determination, all such debt securities and other obligations of the issuer that are pari passu with or senior to the Collateral Obligation are current and the Investment Manager reasonably expects them to remain current, and (iii) the Issuer will, following receipt of notification from the Investment Manager, promptly notify S&P of any material event with respect to any such Collateral Obligation if the Investment Manager determines that such event is a material event as described in S&P's published criteria for credit estimates titled "What Are Credit Estimates And How Do They Differ From Ratings?" dated April 2011 (as the same may be amended or updated from time to time); or

with respect to a DIP Collateral Obligation that has no issue rating by S&P or a Current Pay Obligation that is rated "D" or "SD" by S&P, the S&P Rating of such DIP Collateral Obligation or Current Pay Obligation, as applicable, will be, at the election of the Issuer (at the direction of the Investment Manager), "CCC " or the S&P Rating determined pursuant to clause (iii)(b) above;

provided that for purposes of the determination of the S&P Rating, (x) if the applicable rating assigned by S&P to an obligor or its obligations is on "credit watch positive" by S&P, such rating will be treated as being one subcategory above such assigned rating and (y) if the applicable rating assigned by S&P to an obligor or its obligations is on "credit watch negative" by S&P, such rating will be treated as being one subcategory below such assigned rating.

"S&P Recovery Amount": With respect to any Collateral Obligation, an amount equal to: (a) the applicable S&P Recovery Rate multiplied by (b) the Principal Balance of such Collateral Obligation.

"S&P Recovery Rate": With respect to a Collateral Obligation, the recovery rate set forth in Section 1 of Schedule 5 using the Initial Rating of the most senior Class of Rated Notes Outstanding at the time of determination.

"S&P Recovery Rating": With respect to a Collateral Obligation for which an S&P Recovery Rate is being determined, the "Recovery Rating" assigned by S&P to such Collateral Obligation based upon the following table:

Recovery Rating	Description of Recovery	Recovery Range (%)
1+	High expectation, full recovery	75-95
1	Very high recovery	65-95
2	Substantial recovery	50-85
3	Meaningful recovery	30-65
4	Average recovery	20-45
5	Modest recovery	5-25
6	Negligible recovery	2-10

“Sale”: The meaning specified in Section 5.17(a).

“Sale Proceeds”: All proceeds (excluding accrued interest, if any) received with respect to Assets as a result of sales or other dispositions of such Assets in accordance with Article XII (or Section 4.4 or Article V, as applicable) less any reasonable expenses incurred by the Investment Manager, the Collateral Administrator or the Trustee in connection with such sales or other dispositions. Sale Proceeds of a Collateral Obligation sold by the Issuer shall include any Principal Financed Accrued Interest received in respect of such sale or other disposition.

“Schedule of Collateral Obligations”: The schedule of Collateral Obligations attached to the Officer’s certificate delivered by the Investment Manager on the Closing Date pursuant to Section 3.1(a)(vii), which schedule shall list each Collateral Obligation owned by the Issuer as of the Closing Date and shall include, with respect to each such Collateral Obligation, the issuer, Principal Balance, coupon/spread, the stated maturity, the Moody’s Rating, the S&P Rating (unless such rating is based on a credit estimate or is a private or confidential rating from S&P), the Moody’s Industry Classification and the S&P Industry Classification for each Collateral Obligation and the percentage of the aggregate commitment under each Revolving Collateral Obligation and Delayed Drawdown Collateral Obligation that is funded.

“Scheduled Distribution”: With respect to any Asset, for each Due Date, the scheduled payment of principal and/or interest due on such Due Date with respect to such Asset, determined in accordance with the assumptions specified in Section 1.2.

“Second Lien Loan”: Any assignment of or Participation Interest in or other interest in a Loan that: (i) (a) is not (and that by its terms is not permitted to become) subordinate in right of payment to any other obligation of the obligor of the Loan other than a Moody’s Senior Secured Loan with respect to the liquidation of such obligor or the collateral for such Loan (subject to customary exceptions for permitted liens) and (ii) is secured by a valid second priority perfected security interest or lien in, to or on specified collateral securing the obligor’s obligations under the Second Lien Loan (subject to customary exceptions for permitted liens) the value of which is adequate (in the commercially reasonable judgment of the Investment Manager) to repay the Loan in accordance with its terms and to repay all other Loans of equal or higher seniority secured by a lien or security interest in the same collateral, which security interest or lien is not subordinate to the security interest or lien securing any other debt for borrowed money other than a Moody’s Senior Secured Loan on such collateral or (iii) solely for the purposes of calculating S&P Recovery Rate, is a First Lien Last Out Loan.

“Secured Obligations”: The meaning specified in the Granting Clauses.

“Secured Parties”: The meaning specified in the Granting Clauses.

“Securities Account”: As defined in Section 8-501(a) of the UCC.

“Securities Act”: The United States Securities Act of 1933, as amended.

“Securities Intermediary”: As defined in Section 8-102(a)(14) of the UCC.

“Security”: As defined in Section 8-102(a)(15) of the UCC.

“Selling Institution”: The entity obligated to make payments to the Issuer under the terms of a Participation Interest.

“Selling Institution Collateral”: The meaning specified in Section 10.4

“Senior Secured Bond”: Any obligation that: (a) constitutes borrowed money, (b) is in the form of, or represented by, a bond, note, certificated debt security or other debt security (other than any of the foregoing that evidences a Loan or Participation Interest), (c) is not secured solely by common stock or other equity interests, (d) if it is subordinated by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations and (e) is secured by a valid perfected security interest or lien in, to or on specified collateral securing the obligor’s obligations under such obligation.

“Senior Secured Floating Rate Note”: Any obligation that: (a) constitutes borrowed money, (b) is in the form of, or represented by, a bond, note (other than any note evidencing a Loan), certificated debt security or other debt security, (c) is expressly stated to bear interest based upon a London interbank offered rate for Dollar deposits in Europe or a relevant reference bank’s published base rate or prime rate for Dollar-denominated obligations in the United States or the United Kingdom, (d) does not constitute, and is not secured by, Margin Stock, (e) if it is subordinated by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations and (f) is secured by a valid perfected security interest or lien in, to or on specified collateral securing the obligor’s obligations under such obligation.

“Senior Secured Loan”: Any assignment of or Participation Interest in a Loan (other than, solely for the purposes of calculating S&P Recovery Rate, a First Lien Last Out Loan) that: (a) is not (and cannot by its terms become) subordinate in right of payment to any other obligation of the obligor of the Loan (other than with respect to trade claims, capitalized leases or similar obligations); (b) is secured by a valid first-priority perfected security interest or lien in, to or on specified collateral securing the obligor’s obligations under the Loan; (c) the value of the collateral securing the Loan together with other attributes of the obligor (including, without limitation, its general financial condition, ability to generate cash flow available for debt service and other demands for that cash flow) is adequate (in the commercially reasonable

judgment of the Investment Manager) to repay the Loan in accordance with its terms and to repay all other Loans of equal seniority secured by a first lien or security interest in the same collateral and (d) is not secured solely or primarily by common stock or other equity interests; *provided* that the limitation set forth in this clause (d) shall not apply with respect to a Loan made to a parent entity that is secured solely or primarily by the stock of one or more of the subsidiaries of such parent entity to the extent that the granting by any such subsidiary of a lien on its own property would violate law or regulations applicable to such subsidiary (whether the obligation secured is such Loan or any other similar type of indebtedness owing to third parties); *provided, further*, that, for obligations to which, due to the operation of the foregoing proviso, the limitation set forth in this clause (d) does not apply, the S&P Recovery Rate will be determined on a case by case basis if there is no assigned S&P Recovery Rating.

“Senior Unsecured Bond”: Any unsecured obligation that: (a) constitutes borrowed money, (b) is in the form of, or represented by, a bond, note, certificated debt security or other debt security (other than any of the foregoing that evidences a Loan or Participation Interest) and (c) if it is subordinated by its terms, is subordinated only to indebtedness for borrowed money, trade claims, capitalized leases or other similar obligations.

“Similar Laws”: Local, state, federal or non-U.S. laws that are substantially similar to the fiduciary responsibility provisions of ERISA and Section 4975 of the Code.

“Special Priority of Payments”: The meaning specified in Section 11.1(a)(iii).

“Special Redemption”: As defined in Section 9.6.

“Special Redemption Date”: As defined in Section 9.6.

“Specified Amendment”: With respect to any Collateral Obligation that is the subject of: (i) a rating estimate or is a private or confidential rating by S&P or (ii) a rating estimate by Moody’s, any waiver, modification, amendment or variance that would:

(a) modify the amortization schedule with respect to such Collateral Obligation in a manner that:

- (i) reduces the Dollar amount of any Scheduled Distribution by more than the greater of (x) 20% and (y) U.S.\$250,000;
- (ii) postpones any Scheduled Distribution by more than two payment periods or eliminates a Scheduled Distribution; or
- (iii) causes the Weighted Average Life of the applicable Collateral Obligation to increase by more than 10%;

(b) reduce or increase the Cash interest rate payable by the Obligor thereunder by more than 1.00% (excluding any increase in an interest rate arising by operation of a default or penalty interest clause under a Collateral Obligation);

(c) extend the stated maturity date of such Collateral Obligation by more than 24 months; *provided* that (x) any such extension shall be deemed not to have been made until the Business Day following the original stated maturity date of such Collateral Obligation and (y) such extension shall not cause the Weighted Average Life of such Collateral Obligation to increase by more than 25%;

(d) release any party from its obligations under such Collateral Obligation, if such release would have a material adverse effect on the Collateral Obligation;

(e) reduce the principal amount thereof; or

(f) in the reasonable business judgment of the Investment Manager, have a material adverse impact on the value of such Collateral Obligation.

“Specified Equity Securities”: The securities or interests resulting from the exercise of an option, warrant, right of conversion, preemptive right, rights offering, credit bid or similar right in connection with the workout or restructuring of a Collateral Obligation or an equity security or interest received in connection with the workout or restructuring of a Collateral Obligation.

“Stated Maturity”: With respect to the Rated Notes of any Class, the date specified as such in Section 2.3(b).

“Step-Up/Step-Down Obligation”: An obligation or security which by the terms of the related Underlying Instruments provides for an increase or decrease in the per annum interest rate on such obligation or security (other than by reason of any change in the applicable index or benchmark rate used to determine such interest rate), or in the spread over the applicable index or benchmark rate, solely as a function of the passage of time; *provided* that an obligation or security providing for payment of a constant rate of interest at all times after the date of acquisition by the Issuer shall not constitute a Step-Up/Step-Down Obligation.

“Structured Finance Obligation”: Any obligation secured directly by, referenced to, or representing ownership of, a pool of receivables or other financial assets of any obligor, including collateralized debt obligations and mortgage-backed securities, or secured by a single asset in a repackaging.

“Subordinated Management Fee”: The fee payable to the Investment Manager in arrears on each Payment Date (prorated for the related Interest Accrual Period) that accrues during each Interest Accrual Period at a rate equal to 0.25% per annum (calculated on the basis of a 360-day year consisting of twelve 30-day months) of the Fee Basis Amount at the beginning of the Collection Period relating to such Payment Date (as certified by the Investment Manager to the Trustee).

“Subordinated Note Paying Agency Agreement”: An agreement dated as of the January 22, 2008 between the Issuer and U.S. Bank National Association, in its capacity as subordinated note paying agent, as amended from time to time.

“Subordinated Note Paying Agent”: U.S. Bank National Association, in its capacity as subordinated note paying agent under the Subordinated Note Paying Agency Agreement, as amended, and any successor thereto.

“Subordinated Notes”: The Subordinated Notes issued pursuant to the Original Indenture and having the characteristics specified in the Subordinated Note Paying Agency Agreement.

“Subordinated Notes Internal Rate of Return”: An annualized internal rate of return (computed using the “XIRR” function in Microsoft® Excel 2002 or an equivalent function in another software package), stated on a per annum basis, for each distribution made to the Holders of the Subordinated Notes on any prior date and, to the extent necessary to reach the applicable Subordinated Notes Internal Rate of Return, the current Payment Date, assuming all Subordinated Notes were purchased on January 22, 2008 for an aggregate purchase price equal to 100% of the initial principal amount thereof:

“Successor Entity”: The meaning specified in Section 7.10(a).

“Supermajority”: With respect to any Class, the Holders of at least 66²/₃% of the Aggregate Outstanding Amount of the Notes of such Class.

“Surrendered Notes”: Any Rated Notes or beneficial interests in Rated Notes tendered by any Holder or beneficial owner, respectively, for cancellation by the Trustee in accordance with Section 2.9 without receiving any payment.

“Swapped Non-Discount Obligation”: Any Collateral Obligation that would otherwise be considered a Discount Obligation, but that is purchased with the proceeds of a sale of a Collateral Obligation that was not a Discount Obligation at the time of its purchase, and will not be considered a Discount Obligation so long as such purchased Collateral Obligation (a) is purchased or committed to be purchased within 30 Business Days of such sale, (b) is purchased at a price (as a percentage of par) equal to or greater than the sale price of the sold Collateral Obligation, (c) has Rating(s) equal to or greater than the Ratings of the sold Collateral Obligation and (d) is purchased at a price not less than 65% of the Principal Balance thereof; *provided* that to the extent the Aggregate Principal Balance of Swapped Non-Discount Obligations exceeds (i) 5.0% of the Collateral Principal Amount at such time or (ii) on a cumulative, aggregate basis, 10.0% of the Collateral Principal Amount at such time, such excess will not constitute Swapped Non-Discount Obligations; *provided, further*, that such Collateral Obligation will cease to be a Swapped Non-Discount Obligation at such time as such Swapped Non-Discount Obligation would no longer otherwise be considered a Discount Obligation.

“Synthetic Security”: A security or swap transaction, other than a Participation Interest, that has payments associated with either payments of interest on and/or principal of a reference obligation or the credit performance of a reference obligation.

“Target Initial Par Amount”: U.S.\$ 300,000,000.

“Tax”: Any tax, levy, impost, duty, charge or assessment of any nature (including interest, penalties and additions thereto) imposed by any governmental taxing authority.

“Target Initial Par Condition”: A condition satisfied if the Aggregate Principal Balance of Collateral Obligations that are held by the Issuer and that the Issuer has committed to purchase on such date, together with the amount of any Sale Proceeds and any proceeds of Unscheduled Principal Payments, maturities or redemptions of Collateral Obligations purchased by the Issuer prior to such date (other than any such proceeds that have been reinvested in Collateral Obligations held by the Issuer), will equal or exceed the Target Initial Par Amount; provided that for purposes of this definition, any Collateral Obligation that becomes a Defaulted Obligation shall be treated as having a Principal Balance equal to its Moody’s Collateral Value.

“Tax Event”: An event that occurs if (i) any obligor under any Collateral Obligation is required to deduct or withhold from any payment under such Collateral Obligation to the Issuer for or on account of any Tax for whatever reason (other than withholding tax on (1) fees received with respect to a Letter of Credit Reimbursement Obligation, (2) amendment, waiver, consent and extension fees and (3) commitment fees and other similar fees in respect of Revolving Collateral Obligations and Delayed Drawdown Collateral Obligations, in each case to the extent that such withholding tax does not exceed 30% of the amount of such fees) and such obligor is not required to pay to the Issuer such additional amount as is necessary to ensure that the net amount actually received by the Issuer (free and clear of Taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding occurred, or (ii) any jurisdiction imposes net income, profits or similar Tax on the Issuer (including any Tax liability imposed pursuant to Section 1446 of the Code or any similar provision of law).

“Tax Guidelines”: The Tax Guidelines set forth in Exhibit A of the Investment Management Agreement.

“Tax Jurisdiction”: The Bahamas, Bermuda, the British Virgin Islands, the Cayman Islands, the Channel Islands or Curaçao and any other tax advantaged jurisdiction as may be notified by Moody’s to the Investment Manager from time to time; *provided* that if the sovereign rating of any such Tax Jurisdiction falls below “Aa2” by Moody’s, it will cease to be an eligible Tax Jurisdiction.

“Tax Redemption”: The meaning specified in Section 9.3(a).

“Temporary Global Note”: Any Co-Issued Rated Notes sold outside the United States to non-“U.S. persons” (as defined in Regulation S) in reliance on Regulation S and issued in the form of a temporary Global Note in definitive, fully registered form without interest coupons.

“Third Party Credit Exposure”: As of any date of determination, the Principal Balance of each Collateral Obligation that consists of a Participation Interest or a Letter of Credit Reimbursement Obligation.

“Third Party Credit Exposure Limits”: Limits that shall be satisfied if the Third Party Credit Exposure with counterparties having the ratings below from S&P do not exceed the percentage of the Collateral Principal Amount specified below:

S&P's credit rating of Selling Institution	Aggregate Percentage Limit	Individual Percentage Limit
AAA	20%	20%
AA+	10%	10%
AA	10%	10%
AA-	10%	10%
A+	5%	5%
A	5%	5%
A- and below	0%	0%

provided that a Selling Institution having an S&P credit rating of "A" must also have a short-term S&P rating of "A-1" otherwise its Aggregate Percentage Limit and Individual Percentage Limit shall be 0%.

"Trading Plan": The meaning specified in Section 1.2(j).

"Trading Plan Period": The meaning specified in Section 1.2(j).

"Transaction Documents": The Indenture, the Investment Management Agreement, the Collateral Administration Agreement, the Account Agreement, the Amended and Restated Subordinated Note Paying Agency Agreement, the Registered Office Agreement and the Administration Agreement.

"Transaction Parties": The Co-Issuers, the Investment Manager, the Placement Agent, the Trustee, the Collateral Administrator, the Administrator and the Registrar.

"Transfer Agent": The Person or Persons, which may be the Issuer, authorized by the Issuer to exchange or register the transfer of Notes.

"Transfer Certificate": A duly executed certificate substantially in the form of the applicable Exhibit B.

"Trust Officer": When used with respect to the Trustee, any Officer within the Corporate Trust Office (or any successor group of the Trustee) including any Officer to whom any corporate trust matter is referred at the Corporate Trust Office because of such person's knowledge of and familiarity with the particular subject and, in each case, having direct responsibility for the administration of this transaction.

"Trustee": As defined in the first sentence of this Indenture.

"Trustee's Website": The Trustee's internet website, which shall initially be located at <https://usbtrustgateway.usbank.com>, or such other address as the Trustee may provide to the Issuer, the Investment Manager and the Rating Agencies.

"UCC": The Uniform Commercial Code, as in effect from time to time in the State of New York, unless the Uniform Commercial Code, as in effect from time to time in another jurisdiction is specified, in which case "UCC" shall refer to such other specified jurisdiction.

“Uncertificated Note”: The meaning specified in Article 8 of the UCC.

“Underlying Instrument”: The indenture or other agreement pursuant to which an Asset has been issued or created and each other agreement that governs the terms of or secures the obligations represented by such Asset or of which the holders of such Asset are the beneficiaries.

“Unregistered Notes”: The meaning specified in Section 5.17(c).

“Unscheduled Principal Payments”: All Principal Proceeds received in respect of Collateral Obligations from optional or nonscheduled mandatory redemptions or amortizations, exchange offers, tender offers or other payments made at the option of the issuer thereof or that are otherwise not scheduled to be made.

“Unsecured Loan”: A senior unsecured Loan which is not (and by its terms is not permitted to become) subordinate in right of payment to any other debt for borrowed money incurred by the obligor under such Loan.

“U.S. Person” and “U.S. person”: The meanings specified in Section 7701(a)(30) of the Code or in Regulation S, as the context requires.

“Weighted Average Coupon”: As of any Measurement Date, the number obtained by dividing:

(a) the amount equal to the Aggregate Coupon *minus* any amount required to be deposited in the LC Reserve Account in accordance with Section 10.5 in respect of any Fixed Rate Obligation; by

(b) an amount equal to the Aggregate Principal Balance (including for this purpose any capitalized interest) of all Fixed Rate Obligations as of such Measurement Date.

“Weighted Average Floating Spread”: As of any Measurement Date, the number obtained by dividing: (a) the amount equal to (i) the Aggregate Funded Spread *plus* (ii) the Aggregate Unfunded Spread *plus* (iii) the Aggregate Excess Funded Spread, *minus* any amount required to be deposited in the LC Reserve Account in accordance with Section 10.5 in respect of any Floating Rate Obligation by (b) an amount equal to the lesser of (i) the Reinvestment Target Par Balance and (ii) an amount equal to the Aggregate Principal Balance (including for this purpose any capitalized interest) of all Floating Rate Obligations as of such Measurement Date; *provided* that, for the purposes of the S&P CDO Monitor Test (1) the Aggregate Excess Funded Spread shall not be included in the calculation of the amount described in clause (a) and (2) clause (b) shall in all cases be equal to the Aggregate Principal Balance (including for this purpose any capitalized interest) of all Floating Rate Obligations as of such Measurement Date.

“Weighted Average Life”: As of any date of determination with respect to all Collateral Obligations other than Defaulted Obligations, the number of years following such date obtained by summing the products obtained by *multiplying*:

(a) the Average Life at such time of each such Collateral Obligation, by

(b) the outstanding Principal Balance of such Collateral Obligation,

and *dividing* such sum by:

(c) the Aggregate Principal Balance at such time of all Collateral Obligations other than Defaulted Obligations.

For the purposes of the foregoing, the “Average Life” is, on any date of determination with respect to any Collateral Obligation, the quotient obtained by dividing (i) the sum of the products of (a) the number of years (rounded to the nearest one hundredth thereof) from such date of determination to the respective dates of each successive Scheduled Distribution of principal on such Collateral Obligation and (b) the respective amounts of principal on such Scheduled Distributions by (ii) the sum of all successive Scheduled Distributions of principal on such Collateral Obligation.

“Weighted Average Life Test”: A test satisfied on any date of determination if the Weighted Average Life of all Collateral Obligations as of such date is less than the number of years (rounded to the nearest one hundredth thereof) during the period from such date of determination through to October 20, 2020.

“Weighted Average Moody’s Rating Factor”: The number (rounded up to the nearest whole number) determined by:

(a) summing the products of (i) the Principal Balance of each Collateral Obligation (excluding Equity Securities) multiplied by (ii) the Moody’s Rating Factor of such Collateral Obligation (as described below) and

(b) dividing such sum by the outstanding Principal Balance of all such Collateral Obligations.

For purposes of the foregoing, the Moody’s Rating Factor relating to any Collateral Obligation is the number set forth in the table below opposite the Moody’s Default Probability Rating of such Collateral Obligation.

<u>Moody's Default Probability Rating</u>	<u>Moody's Rating Factor</u>	<u>Moody's Default Probability Rating</u>	<u>Moody's Rating Factor</u>
Aaa	1	Ba1	940
Aa1	10	Ba2	1,350
Aa2	20	Ba3	1,766
Aa3	40	B1	2,220
A1	70	B2	2,720
A2	120	B3	3,490
A3	180	Caa1	4,770
Baa1	260	Caa2	6,500
Baa2	360	Caa3	8,070
Baa3	610	Ca or lower	10,000

For purposes of the Maximum Moody's Rating Factor Test, any Collateral Obligation issued or guaranteed by the United States government or any agency or instrumentality thereof is assigned a Moody's Rating Factor of 1.

"Weighted Average Moody's Recovery Rate": As of any date of determination, the number, expressed as a percentage, obtained by summing the product of the Moody's Recovery Rate on such Measurement Date of each Collateral Obligation and the Principal Balance of such Collateral Obligation, dividing such sum by the Aggregate Principal Balance of all such Collateral Obligations and rounding up to the first decimal place.

"Weighted Average S&P Recovery Rate": As of any date of determination, the number, expressed as a percentage and determined separately for each Class of Rated Notes, obtained by summing the products obtained by multiplying the outstanding Principal Balance of each Collateral Obligation by its corresponding recovery rate as determined in accordance with Section 1 of Schedule 5 hereto, dividing such sum by the Aggregate Principal Balance of all Collateral Obligations, and rounding to the nearest tenth of a percent.

"Zero Coupon Security": Any debt security that by its terms (a) does not bear interest for all or part of the remaining period that it is outstanding, (b) provides for periodic payments of interest in Cash less frequently than semi-annually or (c) pays interest only at its stated maturity.

Section 1.2. **Assumptions as to Assets**. In connection with all calculations required to be made pursuant to this Indenture with respect to Scheduled Distributions on any Asset, or any payments on any other assets included in the Assets, with respect to the sale of and reinvestment in Collateral Obligations, and with respect to the income that can be earned on Scheduled Distributions on such Assets and on any other amounts that may be received for deposit in the Collection Account, the provisions set forth in this Section 1.2 shall be applied. The provisions of this Section 1.2 shall be applicable to any determination or calculation that is covered by this Section 1.2, whether or not reference is specifically made to Section 1.2, unless some other method of calculation or determination is expressly specified in the particular provision.

(a) All calculations with respect to Scheduled Distributions on the Assets shall be made on the basis of information as to the terms of each such Asset and upon reports of payments, if any, received on such Asset that are furnished by or on behalf of the issuer of such Asset and, to the extent they are not manifestly in error, such information or reports may be conclusively relied upon in making such calculations.

(b) For purposes of calculating the Coverage Tests and the Interest Diversion Test, except as otherwise specified in the definitions thereof, such calculations will not include scheduled interest and principal payments on Defaulted Obligations, unless such payments have actually been received in cash.

(c) For each Collection Period and as of any date of determination, the Scheduled Distribution on any Asset (other than a Defaulted Obligation, which, except as otherwise provided herein, shall be assumed to have a Scheduled Distribution of zero) shall be the sum of (i) the total amount of payments and collections to be received during such Collection Period in respect of such Asset (including the proceeds of the sale of such Asset received and, in the case of sales which have not yet settled, to be received during the Collection Period and not reinvested in additional Collateral Obligations or Eligible Investments or retained in the Collection Account for subsequent reinvestment pursuant to Section 12.2) that, if received as scheduled, will be available in the Collection Account at the end of the Collection Period and (ii) any such amounts received in prior Collection Periods that were not disbursed on a previous Payment Date.

(d) Each Scheduled Distribution receivable with respect to an Asset shall be assumed to be received on the applicable Due Date, and each such Scheduled Distribution shall be assumed to be immediately deposited in the Collection Account to earn interest at the Assumed Reinvestment Rate. All such funds shall be assumed to continue to earn interest until the date on which they are required to be available in the Collection Account for application, in accordance with the terms hereof, to payments on the Rated Notes or other amounts payable pursuant to this Indenture. For purposes of the applicable determinations required by Section 10.7(b)(iv), Article XII and the definition of Interest Coverage Ratio, the expected interest on the Rated Notes and Floating Rate Obligations will be calculated using the then current interest rates applicable thereto.

(e) References in Section 11.1(a) to calculations made on a “pro forma basis” shall mean such calculations after giving effect to all payments, in accordance with the Priority of Payments described herein, that precede (in priority of payment) or include the clause in which such calculation is made.

(f) For purposes of calculating all Concentration Limitations, in both the numerator and the denominator of any component of the Concentration Limitations, Defaulted Obligations will be treated as having a Principal Balance equal to zero.

(g) If a Collateral Obligation included in the Assets would be deemed to be a Current Pay Obligation but for the applicable percentage limitation in the proviso to clause (x) of the proviso to the definition of Defaulted Obligation, then the Current Pay Obligations with the lowest Market Value (assuming that such Market Value is expressed as a percentage of the

Principal Balance of such Current Pay Obligations as of the date of determination) shall be deemed Defaulted Obligations. Each such Defaulted Obligation will be treated as a Defaulted Obligation for all purposes until such time as the Aggregate Principal Balance of Current Pay Obligations would not exceed, on a pro forma basis including such Defaulted Obligation, the applicable percentage of the Collateral Principal Amount.

(h) Defaulted Obligations will not be included in the calculation of the Collateral Quality Test.

(i) For purposes of calculating the Collateral Quality Test, DIP Collateral Obligations will be treated as having an S&P Recovery Rate equal to the S&P Recovery Rate for Senior Secured Loans.

(j) For purposes of calculating compliance with the Investment Criteria, at the election of the Investment Manager in its sole discretion, any proposed investment (whether a single Collateral Obligation or a group of Collateral Obligations identified by the Investment Manager as such at the time when compliance with the Investment Criteria is required to be calculated (a "Trading Plan")) may be evaluated after giving effect to all sales and reinvestments proposed to be entered into within a specified period of no longer than 10 Business Days (which period does not extend over a Determination Date) following the date of determination of such compliance (such period, the "Trading Plan Period"); *provided* that (w) no Trading Plan may result in the purchase of Collateral Obligations having an Aggregate Principal Balance that exceeds 5.0% of the Collateral Principal Amount as of the first day of the Trading Plan Period, (x) no Trading Plan Period may include a Determination Date, (y) no more than one Trading Plan may be in effect at any time during a Trading Plan Period and (z) if the Investment Criteria are not satisfied with respect to Trading Plan, notice will be provided to each Rating Agency and the Issuer shall obtain Rating Agency Confirmation from S&P for each subsequent Trading Plan until a subsequent Trading Plan (for which Rating Agency Confirmation from S&P was obtained) is successfully completed.

(k) For purposes of calculating compliance with the Investment Criteria, upon the direction of the Investment Manager by notice to the Trustee and the Collateral Administrator, any Eligible Investment representing Principal Proceeds received upon the sale or other disposition of a Collateral Obligation may be deemed to have the characteristics of such Collateral Obligation until reinvested in an additional Collateral Obligation. Such calculations shall be based upon the principal amount of such Collateral Obligation, except in the case of Defaulted Obligations and Credit Risk Obligations, in which case the calculations will be based upon the Principal Proceeds received on the sale or other disposition of such Defaulted Obligation or Credit Risk Obligation.

(l) For purposes of calculating the Sale Proceeds of a Collateral Obligation in sale transactions, sale proceeds will include any Principal Financed Accrued Interest received in respect of such sale.

(m) For purposes of calculating the Concentration Limitations, the amounts on deposit in the Collection Account (including Eligible Investments therein) representing Principal Proceeds shall each be deemed to be a Floating Rate Obligation that is a Senior Secured Loan.

(n) For the purposes of calculating compliance with each of the Concentration Limitations all calculations will be rounded to the nearest 0.1%. All other calculations, unless otherwise set forth herein or the context otherwise requires, shall be rounded to the nearest ten-thousandth if expressed as a percentage, and to the nearest one-hundredth if expressed otherwise.

(o) Notwithstanding any other provision of this Indenture to the contrary, all monetary calculations under this Indenture shall be in Dollars.

(p) If withholding tax is imposed on (w) the fees associated with any Letter of Credit Reimbursement Obligation, (x) any amendment, waiver, consent or extension fees, (y) commitment fees or other similar fees in respect of Revolving Collateral Obligations and Delayed Drawdown Collateral Obligations or (z) any other payments on any Collateral Obligation, the calculations of the Weighted Average Floating Spread, the Weighted Average Coupon and the Interest Coverage Test (and all component calculations of such calculations and tests, including when such a component calculation is calculated independently), as applicable, shall be made on a net basis after taking into account such withholding, unless the Obligor is required to make "gross-up" payments to the Issuer that cover the full amount of any such withholding tax on an after-tax basis pursuant to the Underlying Instrument with respect thereto.

(q) Any reference in this Indenture to an amount of the Trustee's or the Collateral Administrator's fees calculated with respect to a period at a per annum rate shall be computed on the basis of a 360-day year of twelve 30-day months prorated for the related Interest Accrual Period and shall be based on the Fee Basis Amount.

(r) To the extent there is, in the reasonable determination of the Collateral Administrator or the Trustee, any ambiguity in the interpretation of any definition or term contained in this Indenture or to the extent the Collateral Administrator or the Trustee reasonably determines that more than one methodology can be used to make any of the determinations or calculations set forth herein, the Collateral Administrator and/or the Trustee, as the case may be, shall be entitled to request direction from the Investment Manager as to the interpretation and/or methodology to be used, and the Collateral Administrator and the Trustee, as applicable, shall be entitled to follow such direction and conclusively rely thereon without any responsibility or liability therefor.

(s) For purposes of calculating compliance with any tests under this Indenture (including the Target Initial Par Condition, Collateral Quality Tests and Concentration Limitations), the trade date (and not the settlement date) with respect to any acquisition or disposition of a Collateral Obligation or Eligible Investment shall be used to determine whether and when such acquisition or disposition has occurred.

(t) The equity interest in any Issuer Subsidiary and each Issuer Subsidiary Asset shall be deemed to constitute an Asset and be deemed to be a Collateral Obligation (or, if such asset would constitute an Equity Security if acquired and held by the Issuer, an Equity Security) for all purposes of this Indenture and each reference to Assets, Collateral Obligations and Equity Securities herein shall be construed accordingly. Any future anticipated tax liabilities of an asset held by such Issuer Subsidiary shall be excluded from the calculation of the Weighted Average Floating Spread, the Weighted Average Coupon and the Interest Coverage Test (and all interest-related component calculations of such calculations and tests, including when such a component calculation is calculated independently).

(u) When used with respect to payments on the Subordinated Notes, the term “principal amount” will mean amounts distributable to Holders of Subordinated Notes from Principal Proceeds, and the term “interest” will mean Excess Interest distributable to Holders of Subordinated Notes in accordance with the Priority of Payments.

(v) Any reference to LIBOR applicable to any Floating Rate Note as of any Measurement Date during the first Interest Accrual Period shall mean LIBOR for the relevant portion of the first Interest Accrual Period as determined on the preceding Interest Determination Date.

ARTICLE II

THE RATED NOTES

Section 2.1. Forms Generally. The Rated Notes and the Trustee’s or Authenticating Agent’s certificate of authentication thereon (the “Certificate of Authentication”) shall be in substantially the forms required by this Article, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon, as may be consistent herewith, determined by the Authorized Officers of the Applicable Issuers executing such Rated Notes as evidenced by their execution of such Rated Notes. Global Notes and Certificated Notes may have the same identifying number (e.g. CUSIPs). Any portion of the text of any such Note may be set forth on the reverse thereof, with an appropriate reference thereto on the face of such Note.

Section 2.2. Forms of Rated Notes. (a) The forms of the Rated Notes will be as set forth in the applicable Exhibit A hereto.

(b) Rated Notes of each Class will be duly executed by the Applicable Issuers and authenticated by the Trustee or the Authenticating Agent as hereinafter provided.

(c) Except as provided in clause (g), Co-Issued Notes offered to non-“U.S. persons” (as defined in Regulation S) in reliance on Regulation S will be issued as Temporary Global Notes (or, in the case of the Issuer Only Notes, Regulation S Global Notes) and with the applicable legend set forth in the applicable Exhibit A added thereto, which will be deposited on behalf of the subscribers for such Notes represented thereby with the Trustee as custodian for DTC and registered in the name of a nominee of DTC for the respective accounts of Euroclear and Clearstream. On or after the 40th day after the later of the Closing Date and the commencement of the offering of the Co-Issued Notes, interests in a Temporary Global Note of any Class of Co-Issued Notes will be exchangeable for interests in a Regulation S Global Note of the same Class upon certification that the beneficial interests in such Temporary Global Note are owned by Persons who are not “U.S. persons” (as defined in Regulation S). Upon the exchange of a Temporary Global Note for a Regulation S Global Note, the Regulation S Global Note will be deposited with the Trustee as custodian for DTC and registered in the name of a nominee of DTC for the account of Euroclear and Clearstream.

(d) Except as provided in clause (g), Rated Notes sold to persons that are QIB/QPs in reliance on Rule 144A will be issued as Rule 144A Global Notes and will be deposited on behalf of the subscribers for such Notes represented thereby with the Trustee as custodian for DTC and registered in the name of a nominee of DTC.

(e) Issuer Only Notes may be issued in the form of Rule 144A Global Notes and Regulation S Global Notes; however, no Benefit Plan Investor or Controlling Person (other than a Benefit Plan Investor or a Controlling Person purchasing on the Closing Date) may hold Issuer Only Notes in the form of a Rule 144A Global Note or a Regulation S Global Note. Other than a Benefit Plan Investor or a Controlling Person purchasing on the Closing Date, interests in Issuer Only Notes held by Benefit Plan Investors or Controlling Persons will be evidenced by Certificated Notes.

(f) Rated Notes sold to persons who are not U.S. persons in offshore transactions in reliance on Regulation S or that, at the time of the acquisition, are QIB/QPs, in each case that so request shall be issued in the form of a Certificated Note registered in the name of the beneficial owner or a nominee thereof, duly executed by the Applicable Issuers and authenticated by the Trustee as hereinafter provided.

(g) Book Entry Provisions. This Section 2.2(g) shall apply only to Rated Notes represented by Global Notes deposited with or on behalf of DTC.

(i) The aggregate principal amount of such Global Notes may from time to time be increased or decreased by adjustments made on the records of the Trustee or DTC or its nominee, as the case may be, as hereinafter provided.

(ii) The provisions of the "Operating Procedures of the Euroclear System" of Euroclear and the "Terms and Conditions Governing Use of Participants" of Clearstream, respectively, will be applicable to such Global Notes insofar as interests in such Global Notes are held by the Agent Members of Euroclear or Clearstream, as the case may be.

(iii) Agent Members shall have no rights under this Indenture with respect to such Global Notes held on their behalf by the Trustee, as custodian for DTC and DTC may be treated by the Applicable Issuer, the Trustee, and any agent of the Applicable Issuer or the Trustee as the absolute owner of such Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Applicable Issuer, the Trustee, or any agent of the Applicable Issuer or the Trustee, from giving effect to any written certification, proxy or other authorization furnished by DTC or impair, as between DTC and its Agent Members, the operation of customary practices governing the exercise of the rights of a Holder of any Rated Note.

(h) CUSIPs. As an administrative convenience or as otherwise permitted under this Indenture, the Applicable Issuers or the Issuer's agent may obtain a separate CUSIP or separate CUSIPs (or similar identifying numbers) for all or a portion of any Class of Rated Notes.

Section 2.3. Authorized Amount; Stated Maturity; Denominations. (a) The aggregate principal amount of Rated Notes that may be authenticated and delivered under this Indenture is limited to U.S.\$284,900,000 aggregate principal amount of Rated Notes (except for (i) Deferred Interest with respect to the Deferred Interest Notes, (ii) Rated Notes authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Rated Notes pursuant to Section 2.5, Section 2.6 or Section 8.5 or (iii) replacement notes issued in connection with a Refinancing.

(b) Such Rated Notes shall be divided into the Classes having the designations, original principal amounts and other characteristics as follows:

Designation	Class X Notes	Class A-1 Notes	Class A-2 Notes	Class B Notes	Class C Notes	Class D Notes	Class E Notes	Class F Notes
Type	Floating Rate	Floating Rate	Floating Rate	Floating Rate	Deferrable Floating Rate	Deferrable Floating Rate	Deferrable Floating Rate	Deferrable Floating Rate
Issuer(s)	Co-Issuers	Co-Issuers	Co-Issuers	Co-Issuers	Co-Issuers	Co-Issuers	Issuer	Issuer
Initial Principal Amount (U.S.\$)	2,500,000	170,000,000	20,000,000	44,800,000	16,000,000	14,000,000	13,100,000	4,500,000
Expected S&P Initial Rating	"AAA (sf)"	"AAA (sf)"	"AAA (sf)"	"AA (sf)"	"A (sf)"	"BBB (sf)"	"BB (sf)"	"B (sf)"
Expected Moody's Initial Rating	"Aaa (sf)"	"Aaa (sf)"	"Aaa (sf)"	N/A	N/A	N/A	N/A	N/A
Interest Rate	LIBOR(3) + 1.05%	LIBOR(3) + 1.30%	LIBOR(3) + 1.50%	LIBOR(3) + 2.00%	LIBOR(3) + 2.90%	LIBOR(3) + 3.50%	LIBOR(3) + 4.50%	LIBOR(3) + 5.75%
Deferred Interest Notes	No	No	No	No	Yes	Yes	Yes	Yes
Stated Maturity	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023	Payment Date in October 2023
Minimum Denominations (U.S.\$) (Integral Multiples)	\$200,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)	\$250,000 (\$1)
Ranking:								
Priority Class(es)	None	None	X, A-1	X, A	X, A, B	X, A, B, C	X, A, B, C, D	X, A, B, C, D, E
Pari Passu Class(es)	A-1	X	None	None	None	None	None	None
Junior Class(es)(2)	A-2, B, C, D, E, F, Subordinated	A-2, B, C, D, E, F, Subordinated	B, C, D, E, F, Subordinated	C, D, E, F, Subordinated	D, E, F, Subordinated	E, F, Subordinated	F, Subordinated	F, Subordinated
Listed Notes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

- (1) In accordance with the definition of LIBOR set forth in Exhibit C hereto, LIBOR shall be calculated by reference to the Designated Maturity.
- (2) The Class X Notes are entitled to payment of interest and Scheduled Amortization Amount pari passu with the Class A-1 Notes and senior to the other Classes of Rated Notes.

(c) The Rated Notes will be issued in Minimum Denominations. Rated Notes shall only be transferred or resold in compliance with the terms of this Indenture.

Section 2.4. Execution, Authentication, Delivery and Dating. The Rated Notes shall be executed on behalf of each of the Applicable Issuers by one of their respective Authorized Officers. The signature of such Authorized Officer on the Rated Notes may be manual or facsimile.

Rated Notes bearing the manual or facsimile signatures of individuals who were at any time the Authorized Officers of the Applicable Issuer, shall bind the Issuer and the Co-Issuer, as applicable, notwithstanding the fact that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Rated Notes or did not hold such offices at the date of issuance of such Rated Notes.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer and the Co-Issuer may deliver Rated Notes executed by the Applicable Issuers to the Trustee or the Authenticating Agent for authentication and the Trustee or the Authenticating Agent, upon Issuer Order, shall authenticate and deliver such Rated Notes as provided in this Indenture and not otherwise.

Each Rated Note authenticated and delivered by the Trustee or the Authenticating Agent upon Issuer Order on the Closing Date shall be dated as of the Closing Date. All other Rated Notes that are authenticated and delivered after the Closing Date for any other purpose under this Indenture shall be dated the date of their authentication.

Rated Notes issued upon transfer, exchange or replacement of other Rated Notes shall be issued in authorized denominations reflecting the original Aggregate Outstanding Amount of the Rated Notes so transferred, exchanged or replaced, but shall represent only the Aggregate Outstanding Amount of the Rated Notes so transferred, exchanged or replaced. In the event that any Rated Note is divided into more than one Rated Note in accordance with this Article II, the original principal amount of such Rated Note shall be proportionately divided among the Rated Notes delivered in exchange therefor and shall be deemed to be the original aggregate principal amount of such subsequently issued Rated Notes.

No Rated Note shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose, unless there appears on such Rated Note a Certificate of Authentication, substantially in the form provided for herein, executed by the Trustee or by the Authenticating Agent by the manual signature of one of its Authorized Officers, and such certificate upon any Rated Note shall be conclusive evidence, and the only evidence, that such Rated Note has been duly authenticated and delivered hereunder.

Section 2.5. Registration, Registration of Transfer and Exchange. (a) The Issuer shall cause the Rated Notes to be registered and shall cause to be kept a register (the "Register") at the office of the Registrar in which, subject to such reasonable regulations as it may prescribe, the Issuer shall procure the registration of Rated Notes and the registration of transfers of Rated Notes. The Trustee is hereby initially appointed "registrar" (the "Registrar") for the purpose of maintaining the Register and registering Rated Notes and transfers of such Rated Notes in the Register. Upon any resignation or removal of the Registrar, the Issuer shall promptly appoint a successor or, in the absence of such appointment or until such appointment is effective, assume the duties of Registrar. At any time, the Placement Agent may request a list of Holders from the Registrar.

If a Person other than the Trustee is appointed by the Issuer as Registrar, the Issuer will give the Trustee prompt written notice (with a copy to the Investment Manager) of the appointment of a Registrar and of the location, and any change in the location, of the Register,

and the Trustee shall have the right to inspect the Register at all reasonable times and to obtain copies thereof and the Trustee shall have the right to rely upon a certificate executed on behalf of the Registrar by an Officer thereof as to the names and addresses of the Holders of the Rated Notes and the principal or face amounts and numbers of such Rated Notes. Upon written request at any time, the Registrar shall provide to the Issuer, the Investment Manager, the Placement Agent or any Holder a current list of Holders as reflected in the Register.

Subject to this Section 2.5, upon surrender for registration of transfer of any Rated Note at the office or agency of the Co-Issuers to be maintained as provided in Section 7.2, the Applicable Issuers shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Rated Notes of any authorized Minimum Denomination and of a like aggregate principal or face amount.

At the option of the Holder, Rated Notes may be exchanged for Rated Notes of like terms, in any authorized Minimum Denominations and of like aggregate principal amount, upon surrender of the Rated Notes to be exchanged at such office or agency. Whenever any Rated Note is surrendered for exchange, the Applicable Issuers shall execute, and the Trustee shall authenticate and deliver, the Rated Notes that the Holder making the exchange is entitled to receive.

All Rated Notes authenticated and delivered upon any registration of transfer or exchange of Rated Notes shall be the valid obligations of the Applicable Issuers, evidencing the same debt (to the extent they evidence debt), and entitled to the same benefits under this Indenture as the Rated Notes surrendered upon such registration of transfer or exchange.

Every Rated Note presented or surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Registrar duly executed by the Holder thereof or such Holder's attorney duly authorized in writing, with such signature guaranteed by an "eligible guarantor institution" meeting the requirements of the Registrar, which requirements include membership or participation in Securities Transfer Agents Medallion Program ("STAMP") or such other "signature guarantee program" as may be determined by the Registrar in addition to, or in substitution for, STAMP, all in accordance with the Exchange Act.

No service charge shall be made to a Holder for any registration of transfer or exchange of Rated Notes, but the Co-Issuers, the Registrar or the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. The Registrar or the Trustee shall be permitted to request such evidence reasonably satisfactory to it documenting the identity and/or signatures of the transferor and transferee.

(b) (i) No Rated Note may be sold or transferred (including, without limitation, by pledge or hypothecation) unless such sale or transfer is exempt from the registration requirements of the Securities Act, is exempt from the registration requirements under applicable state securities laws and will not cause either of the Co-Issuers or the pool of collateral to become subject to the requirement that it register as an investment company under the Investment Company Act.

(ii) No Rated Note may be offered, sold or delivered or transferred (including, without limitation, by pledge or hypothecation) except (i) to (A) a non-“U.S. person” (as defined under Regulation S) in accordance with the requirements of Regulation S or (B) a QIB/QP and (ii) in accordance with any applicable law.

(iii) No Rated Note may be offered, sold or delivered (i) as part of the distribution by the Placement Agent at any time or (ii) otherwise until 40 days after the Closing Date within the United States or to, or for the benefit of, “U.S. persons” (as defined in Regulation S) except in accordance with Rule 144A or an exemption from the registration requirements of the Securities Act, to Persons purchasing for their own account or for the accounts of one or more Qualified Institutional Buyers for which the purchaser is acting as a fiduciary or agent. The Rated Notes may be sold or resold, as the case may be, in offshore transactions to non-“U.S. persons” (as defined in Regulation S) in reliance on Regulation S. No Rule 144A Global Note may at any time be held by or on behalf of any Person that is not a QIB/QP, and no Temporary Global Note or Regulation S Global Note may be held at any time by or on behalf of any U.S. person. None of the Co-Issuers, the Trustee or any other Person may register the Rated Notes under the Securities Act or any state securities laws or the applicable laws of any other jurisdiction.

(c) (i) Issuer Only Notes may be sold to a Controlling Person or a Benefit Plan Investor only if such sale will not result in Benefit Plan Investors holding 25% or more of the Aggregate Outstanding Amount of the Class of Issuer Only Notes being sold or transferred determined in accordance with the Plan Asset Regulation and this Indenture and assuming, for this purpose, that all of the representations made (or, in the case of Global Notes, deemed to be made) by Holders of such Notes are true. Each prospective purchaser of Issuer Only Notes on the Closing Date and each transferee of Issuer Only Notes taking delivery in the form of Certificated Notes will be required to make a written representation as to whether it is a Benefit Plan Investor or Controlling Person. Each transferee of Issuer Only Notes taking delivery in the form of an interest in Global Notes will be deemed to represent, warrant and covenant that, for so long as it holds a beneficial interest in such Global Notes, it (and each account for which it is acquiring such Global Notes) is not a Benefit Plan Investor or a Controlling Person (other than a Benefit Plan Investor or Controlling Person purchasing on the Closing Date). No sale or transfer of an interest in any Issuer Only Note to a proposed transferee that has represented that it is a Benefit Plan Investor or a Controlling Person will be effective, and the Trustee, the Registrar and the Issuer will not recognize any such sale or transfer, if such sale or transfer would result in Benefit Plan Investors holding 25% or more of the Aggregate Outstanding Amount of the Class of Issuer Only Notes being sold or transferred determined in accordance with the Plan Asset Regulation and this Indenture and assuming, for this purpose, that all of the representations made (or, in the case of Global Notes, deemed to be made) by Holders of such Issuer Only Notes are true. For purposes of such calculations, (x) the investment by a Plan Asset Entity shall be treated as plan assets for purposes of calculating the 25% threshold under Section 3(42) of ERISA only to the extent of the percentage of its equity interests held by Benefit Plan Investors and (y) any Issuer Only Notes held by a Controlling Person shall be excluded and treated as not being Outstanding.

(ii) No transfer of a beneficial interest in a Rated Note will be effective, and the Trustee and the Applicable Issuer will not recognize any such transfer, if the transferee's acquisition, holding and disposition of such interest would constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in a violation of any Similar Laws or other applicable law), unless an exemption is available and all conditions have been satisfied.

(iii) In respect of the purchase of Issuer Only Notes, if the purchaser is a bank organized outside the United States, (i) it is acquiring such Issuer Only Notes as a capital markets investment and will not for any purpose treat such Issuer Only Notes or assets of the Issuer as loans acquired in its banking business, and (ii) it is not acquiring such Issuer Only Notes as part of a plan having as one of its principal purposes the avoidance of U.S. withholding taxes.

(d) Notwithstanding anything contained herein to the contrary, the Trustee will not be responsible for ascertaining whether any transfer complies with, or for otherwise monitoring or determining compliance with, the registration provisions of or any exemptions from the Securities Act, applicable state securities laws or the applicable laws of any other jurisdiction, ERISA, the Code or the Investment Company Act; *provided* that if a Transfer Certificate is specifically required by the terms of this Section 2.5 to be provided to the Trustee, the Trustee shall be under a duty to receive and examine the same to determine whether or not the certificate substantially conforms on its face to the applicable requirements of this Indenture and shall promptly notify the party delivering the same if such certificate does not comply with such terms.

(e) For so long as any of the Rated Notes are Outstanding, the Issuer shall not issue or permit the transfer of any ordinary shares of the Issuer to U.S. persons.

(f) Transfers of Rated Notes represented by Global Notes shall only be made in accordance with this Section 2.5(f).

(i) Rule 144A Global Note to Regulation S Global Note. If a holder of a beneficial interest in a Rule 144A Global Note wishes at any time to exchange its interest in such Rule 144A Global Note for an interest in the corresponding Regulation S Global Note, or to transfer its interest in such Rule 144A Global Note to a Person who wishes to take delivery thereof in the form of an interest in the corresponding Regulation S Global Note, such holder (*provided* that such holder or, in the case of a transfer, the transferee is not a U.S. person and is acquiring such interest in an offshore transaction) may, subject to the immediately succeeding sentence and the rules and procedures of DTC, exchange or transfer, or cause the exchange or transfer of, such interest for an equivalent beneficial interest in the corresponding Regulation S Global Note. Upon receipt by the Registrar of (A) instructions given in accordance with DTC's procedures from an Agent Member directing the Registrar to credit or cause to be credited a beneficial interest in the corresponding Regulation S Global Note, but not less than the Minimum Denomination applicable to such holder's Rated Notes, in an amount equal to the beneficial interest in the Rule 144A Global Note to be exchanged or transferred, (B) a written order given in accordance with DTC's procedures containing information regarding the participant account of DTC and the Euroclear or Clearstream account to be credited with such increase and (C) a Transfer Certificate, then the Registrar will implement the Global Note Procedures with respect to the applicable Global Note.

(ii) Regulation S Global Note to Rule 144A Global Note. If a holder of a beneficial interest in a Regulation S Global Note deposited with DTC wishes at any time to exchange its interest in such Regulation S Global Note for an interest in the corresponding Rule 144A Global Note or to transfer its interest in such Regulation S Global Note to a Person who wishes to take delivery thereof in the form of an interest in the corresponding Rule 144A Global Note, such holder may, subject to the immediately succeeding sentence and the rules and procedures of Euroclear, Clearstream and/or DTC, as the case may be, exchange or transfer, or cause the exchange or transfer of, such interest for an equivalent beneficial interest in the corresponding Rule 144A Global Note. Upon receipt by the Registrar of (A) instructions from Euroclear, Clearstream and/or DTC, as the case may be, directing the Registrar to cause to be credited a beneficial interest in the corresponding Rule 144A Global Note in an amount equal to the beneficial interest in such Regulation S Global Note, but not less than the Minimum Denomination applicable to such holder's Notes to be exchanged or transferred, such instructions to contain information regarding the participant account with DTC to be credited with such increase and (B) a Transfer Certificate, then the Registrar will implement the Global Note Procedures with respect to the applicable Global Note.

(g) Transfer of Certificated Notes. Transfers of Rated Notes represented by Certificated Notes will only be made in accordance with this Section 2.5(g).

(i) Transfer and Exchange of Certificated Notes to Certificated Notes. If a holder of a Certificated Note wishes at any time to exchange its interest in such Certificated Note for a Certificated Note of the same Class or to transfer such Certificated Note to a Person who wishes to take delivery in the form of a Certificated Note of the same Class, such holder may exchange or transfer its interest upon delivery of the documents set forth in the following sentence. Upon receipt by the Registrar of (A) a Holder's Certificated Note properly endorsed for assignment to the transferee, and (B) a Transfer Certificate, the Registrar shall cancel such Certificated Note, record the transfer in the Register and upon execution by the Applicable Issuers and authentication and delivery by the Trustee, deliver one or more Certificated Notes bearing the same designation as the Certificated Note endorsed for transfer, registered in the names specified in the assignment described in clause (A) above, in principal amounts designated by the transferee (the aggregate of such principal amounts being equal to the aggregate principal amount of the Certificated Note surrendered by the transferor), and in authorized denominations.

(ii) Transfer of Regulation S Global Notes to Certificated Notes. If a holder of a beneficial interest in a Regulation S Global Note wishes at any time to exchange its interest in such Regulation S Global Note for a Certificated Note of the same Class, or to transfer its interest in such Regulation S Global Note to a Person who wishes to take delivery thereof in the form of a Certificated Note of the same Class, such holder may, subject to the immediately succeeding sentence and the rules and procedures of

Euroclear, Clearstream and/or DTC, as the case may be, exchange or transfer, or cause the exchange or transfer of, such interest for a Certificated Note. Upon receipt by the Registrar of (A) Transfer Certificates and (B) appropriate instructions from DTC, if required, the Registrar will (1) approve the instructions at DTC to reduce, or cause to be reduced, the applicable Regulation S Global Note by the aggregate principal amount of the beneficial interest in the applicable Regulation S Global Note to be transferred or exchanged, (2) record the transfer in the Register and (3) upon execution by the Issuer and authentication and delivery by the Trustee, deliver one or more Certificated Notes, registered in the names specified in the instructions described in clause (B) above, in principal amounts designated by the transferee (the aggregate of such principal amounts being equal to the aggregate principal amount of the interest in the Regulation S Global Note transferred by the transferor), and in authorized Minimum Denominations.

(iii) Transfer of Certificated Notes to Regulation S Global Notes. If a Holder of a Certificated Note wishes at any time to exchange its interest in such Note for a beneficial interest in a Regulation S Global Note of the same Class or to transfer such Certificated Note to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Regulation S Global Note of the same Class, such Holder may, subject to the immediately succeeding sentence and the rules and procedures of Euroclear, Clearstream and/or DTC, as the case may be, exchange or transfer, or cause the exchange or transfer of, such Certificated Note for a beneficial interest in a Regulation S Global Note of the same Class. Upon receipt by the Registrar of (A) in the case of the Holder of a Certificated Note, such Holder's Certificated Note properly endorsed for assignment to the transferee, (B) a Transfer Certificate, (C) instructions given in accordance with Euroclear, Clearstream or DTC's procedures, as the case may be, from an Agent Member to instruct DTC to cause to be credited a beneficial interest in the Regulation S Global Notes of the same Class in an amount equal to the Certificated Notes to be transferred or exchanged and (D) a written order given in accordance with DTC's procedures containing information regarding the participant's account at DTC and/or Euroclear or Clearstream to be credited with such increase, the Registrar shall (1) in the case of a Certificated Note, cancel such Certificated Note, (2) record the transfer in the Register and (3) implement the Global Note Procedures with respect to the applicable Global Note.

(iv) Transfer of Certificated Notes to Rule 144A Global Notes. If a Holder of a Certificated Note wishes at any time to exchange its interest in such Certificated Note for a beneficial interest in a Rule 144A Global Note of the same Class or to transfer such Certificated Note to a Person who wishes to take delivery thereof in the form of a beneficial interest in a Rule 144A Global Note of the same Class, such Holder may, subject to the immediately succeeding sentence and the rules and procedures of DTC, exchange or transfer, or cause the exchange or transfer of, such Certificated Note for a beneficial interest in a Rule 144A Global Note of the same Class. Upon receipt by the Registrar of (A) in the case of the Holder of a Certificated Note, such Holder's Certificated Note properly endorsed for assignment to the transferee, (B) a Transfer Certificate, (C) instructions given in accordance with DTC's procedures from an Agent Member to instruct DTC to cause to be credited a beneficial interest in the Rule 144A Global Notes of the same Class in an amount equal to the Certificated Notes to be

transferred or exchanged and (D) a written order given in accordance with DTC's procedures containing information regarding the participant's account at DTC to be credited with such increase, the Registrar shall (1) in the case of a Certificated Note, cancel such Certificated Note, (2) record the transfer in the Register and (3) implement the Global Note Procedures with respect to the applicable Global Note.

(h) If Rated Notes are issued upon the transfer, exchange or replacement of Rated Notes bearing the applicable legends set forth in the applicable Exhibit A hereto, and if a request is made to remove such applicable legend on such Rated Notes, the Rated Notes so issued shall bear such applicable legend, or such applicable legend shall not be removed, as the case may be, unless there is delivered to the Trustee and the Applicable Issuers such satisfactory evidence, which may include an Opinion of Counsel acceptable to them, as may be reasonably required by the Applicable Issuers (and which shall by its terms permit reliance by the Trustee), to the effect that neither such applicable legend nor the restrictions on transfer set forth therein are required to ensure that transfers thereof comply with the provisions of the Securities Act, the Investment Company Act, ERISA or the Code. Upon provision of such satisfactory evidence, the Trustee or its Authenticating Agent, at the written direction of the Applicable Issuers shall, after due execution by the Applicable Issuers authenticate and deliver Rated Notes that do not bear such applicable legend.

(i) Each Person who becomes a beneficial owner of an interest in a Global Note will be deemed to have represented and agreed as follows (or, in the case of the purchase of Issuer Only Notes on the Closing Date, will be required to represent and agree in a subscription agreement):

(i) In connection with the purchase of such Rated Notes: (A) none of the Transaction Parties or any of their respective Affiliates is acting as a fiduciary or financial or investment advisor for such beneficial owner; (B) such beneficial owner is not relying (for purposes of making any investment decision or otherwise) upon any advice, counsel or representations (whether written or oral) of the Transaction Parties or any of their respective Affiliates other than any statements in the final Offering Memorandum for such Notes, and such beneficial owner has read and understands such final Offering Memorandum; (C) such beneficial owner has consulted with its own legal, regulatory, tax, business, investment, financial and accounting advisors to the extent it has deemed necessary and has made its own investment decisions (including decisions regarding the suitability of any transaction pursuant to this Indenture) based upon its own judgment and upon any advice from such advisors as it has deemed necessary and not upon any view expressed by the Transaction Parties or any of their respective Affiliates; (D) such beneficial owner is either (1) (in the case of a beneficial owner of an interest in a Rule 144A Global Note) both (a) a "qualified institutional buyer" (as defined under Rule 144A under the Securities Act) that is not a broker-dealer which owns and invests on a discretionary basis less than U.S.\$25,000,000 in notes of issuers that are not affiliated persons of the dealer and is not a plan referred to in paragraph (a)(1)(i)(d) or (a)(1)(i)(e) of Rule 144A under the Securities Act or a trust fund referred to in paragraph (a)(1)(i)(f) of Rule 144A under the Securities Act that holds the assets of such a plan, if investment decisions with respect to the plan are made by beneficiaries of the plan and (b) a "qualified purchaser" for purposes of Section 3(c)(7) of the Investment Company

Act or an entity owned exclusively by “qualified purchasers” or (2) not a “U.S. person” as defined in Regulation S and is acquiring such Notes in an offshore transaction (as defined in Regulation S) in reliance on the exemption from registration provided by Regulation S; (E) such beneficial owner is acquiring its interest in such Notes for its own account (or, in the case of a Qualified Institutional Buyer, as principal for its own account or for one or more accounts all of the holders of which are Qualified Institutional Buyers and Qualified Purchasers and as to which accounts the Purchaser exercises sole investment discretion) for investment; (F) such beneficial owner was not formed for the purpose of investing in such Notes; (G) such beneficial owner understands that the Issuer may receive a list of participants holding interests in such Notes from one or more book-entry depositories, (H) such beneficial owner will hold and transfer at least the Minimum Denomination of such Notes, (I) such beneficial owner is a sophisticated investor and is purchasing such Notes with a full understanding of all of the terms, conditions and risks thereof, and is capable of and willing to assume those risks, (J) such beneficial owner will provide notice of the relevant transfer restrictions to subsequent transferees and (K) if it is not a U.S. person, it is not acquiring such Notes as part of a plan to reduce, avoid or evade U.S. federal income tax.

(ii) Such beneficial owner’s acquisition, holding and disposition of the Rated Notes will not constitute or result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or in a violation of any substantially similar non-U.S., federal, state, local or other applicable law) unless an exemption is available and all conditions have been satisfied. Such beneficial owner understands that the representations made in this clause will be deemed made on each day from the date of its acquisition through and including the date it disposes of such Notes. If this representation becomes untrue, the beneficial owner shall immediately notify the Trustee.

(iii) With respect to the purchase of Issuer Only Notes, unless otherwise specified in a signed subscription agreement in connection with the Closing Date, for so long as it holds a beneficial interest in Issuer Only Notes, such beneficial owner is not a Benefit Plan Investor or a Controlling Person. The purchaser understands that the representations made in this clause will be deemed to be made on each day from the date of its acquisition through and including the date on which it disposes of such Notes. If, with respect to Issuer Only Notes, there is a change in the status of the beneficial owner as a Benefit Plan Investor or Controlling Person, the beneficial owner shall immediately notify the Trustee.

(iv) Such beneficial owner understands that such Rated Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, such Rated Notes have not been and will not be registered under the Securities Act, and, if in the future such beneficial owner decides to offer, resell, pledge or otherwise transfer such Rated Notes, such Rated Notes may be offered, resold, pledged or otherwise transferred only in accordance with the provisions of this Indenture and the legend on such Rated Notes. Such beneficial owner acknowledges that no representation has been made as to the availability of any exemption under the Securities Act or any state securities laws for resale of such Rated Notes. Such beneficial owner understands that neither of the Co-Issuers has been registered under the Investment Company Act, and that the Co-Issuers are exempt from registration as such by virtue of Section 3(c)(7) of the Investment Company Act.

(v) Such beneficial owner is aware that, except as otherwise provided in this Indenture, any Rated Notes being sold to it in reliance on Regulation S will be represented by one or more Regulation S Global Notes, and beneficial interests therein may be held only through DTC for the respective accounts of Euroclear or Clearstream.

(vi) Such beneficial owner will provide notice to each person to whom it proposes to transfer any interest in the Rated Notes of the transfer restrictions and representations set forth in this Section 2.5, including the Exhibits referenced herein.

(vii) Such beneficial owner agrees that it will not cause the filing of a petition in bankruptcy against the Issuer, the Co-Issuer or any Issuer Subsidiary prior to the date which is one year (or, if longer, the applicable preference period then in effect) *plus* one day after the payment in full of all Notes.

(viii) Such beneficial owner understands and agrees that the Rated Notes are limited recourse obligations of the Issuer (and in the case of the Co-Issued Notes, the Co-Issuer), payable solely from proceeds of the Assets and following realization of the Assets, and application of the proceeds thereof in accordance with this Indenture, all obligations of and any claims against the Issuer (and in the case of the Co-Issued Notes, the Co-Issuer) thereunder or in connection therewith after such realization shall be extinguished and shall not thereafter revive.

(ix) In the case of beneficial interests in Issuer Only Notes, if the beneficial owner is a bank organized outside the United States, such beneficial owner will be deemed to represent that (i) it is acquiring such Issuer Only Notes as a capital markets investment and will not for any purpose treat the assets of the Issuer as loans acquired in its banking business, and (ii) it is not acquiring such Issuer Only Notes as part of a plan having as one of its principal purposes the avoidance of U.S. withholding taxes.

(x) Such beneficial owners shall be bound by the provisions set forth in Section 2.12.

(xi) Such beneficial owner acknowledges and agrees that the Issuer has the right to compel any Non-Permitted Holder, or any beneficial owner of Rated Notes, pursuant to the applicable terms of this Indenture, to sell its interest in such Notes or may sell such interest in such Rated Notes on behalf of such Non-Permitted Holder.

(xii) Such beneficial owner is not a member of the public in the Cayman Islands.

(j) Each Person who becomes an owner of a Certificated Note will be required to provide a Transfer Certificate.

(k) Any purported transfer of a Rated Note not in accordance with this Section 2.5 shall be null and void and shall not be given effect for any purpose whatsoever.

(l) The Registrar, the Trustee and the Issuer shall be entitled to conclusively rely on any transferor and transferee certificate delivered pursuant to this Section 2.5 (or any certificate of ownership delivered pursuant to Section 2.10(d)) and shall be able to presume conclusively the continuing accuracy thereof, in each case without further inquiry or investigation.

(m) Neither the Trustee nor the Registrar shall be liable for any delay in the delivery of directions from DTC and may conclusively rely on, and shall be fully protected in relying on, such direction as to the names of the beneficial owners in whose names such Certificated Notes shall be registered or as to delivery instructions for such Certificated Notes.

Section 2.6. Mutilated, Defaced, Destroyed, Lost or Stolen Rated Note. If (a) any mutilated or defaced Rated Note is surrendered to a Transfer Agent, or if there shall be delivered to the Applicable Issuers, the Trustee and the relevant Transfer Agent evidence to their reasonable satisfaction of the destruction, loss or theft of any Rated Note, and (b) there is delivered to the Applicable Issuers, the Trustee and such Transfer Agent such security or indemnity as may be required by them to save each of them harmless, then, in the absence of notice to the Applicable Issuers, the Trustee or such Transfer Agent that such Rated Note has been acquired by a Protected Purchaser, the Applicable Issuers shall execute and, upon Issuer Order, the Trustee shall authenticate and deliver to the Holder, in lieu of any such mutilated, defaced, destroyed, lost or stolen Rated Note, a new Rated Note, of like tenor (including the same date of issuance) and equal principal or face amount, registered in the same manner, dated the date of its authentication, bearing interest from the date to which interest has been paid on the mutilated, defaced, destroyed, lost or stolen Rated Note and bearing a number not contemporaneously outstanding.

If, after delivery of such new Rated Note, a Protected Purchaser of the predecessor Rated Note presents for payment, transfer or exchange such predecessor Rated Note, the Applicable Issuers, the Transfer Agent and the Trustee shall be entitled to recover such new Rated Note from the Person to whom it was delivered or any Person taking therefrom, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Applicable Issuers, the Trustee and the Transfer Agent in connection therewith.

In case any such mutilated, defaced, destroyed, lost or stolen Rated Note has become due and payable, the Applicable Issuers in their discretion may, instead of issuing a new Rated Note pay such Rated Note without requiring surrender thereof except that any mutilated or defaced Rated Note shall be surrendered.

Upon the issuance of any new Rated Note under this Section 2.6, the Applicable Issuers may require the payment by the Holder thereof of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Rated Note issued pursuant to this Section 2.6 in lieu of any mutilated, defaced, destroyed, lost or stolen Rated Note shall constitute an original additional contractual obligation of the Applicable Issuers and such new Rated Note shall be entitled, subject to the second paragraph of this Section 2.6, to all the benefits of this Indenture equally and proportionately with any and all other Rated Notes of the same Class duly issued hereunder.

The provisions of this Section 2.6 are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, defaced, destroyed, lost or stolen Rated Notes.

Section 2.7. Payment of Principal and Interest and Other Amounts; Principal and Interest Rights Preserved. (a) Each Class of Rated Notes shall accrue interest during each Interest Accrual Period at the applicable Interest Rate and such interest will be payable in arrears on each Payment Date on the Aggregate Outstanding Amount thereof on the first day of the related Interest Accrual Period (after giving effect to payments of principal thereof on such date), except as otherwise set forth below. Payment of interest on each Class of Rated Notes (and payments of available Interest Proceeds to the Holders of the Subordinated Notes) will be subordinated to the payment of interest on each related Priority Class. Any payment of interest due on a Class of Deferred Interest Notes on any Payment Date to the extent sufficient funds are not available to make such payment in accordance with the Priority of Payments on such Payment Date, but only if one or more Priority Classes is Outstanding with respect to such Class of Deferred Interest Notes, shall constitute “Deferred Interest” with respect to such Class and shall not be considered “due and payable” for the purposes of Section 5.1(a) (and the failure to pay such interest shall not be an Event of Default) until the earliest of (i) the Payment Date on which funds are available to pay such Deferred Interest in accordance with the Priority of Payments, (ii) the Redemption Date with respect to such Class of Deferred Interest Notes and (iii) the Stated Maturity (or the earlier date of Maturity) of such Class of Deferred Interest Notes. Deferred Interest on any Class of Deferred Interest Notes shall be added to the principal balance of such Class of Deferred Interest Notes and shall be payable on the first Payment Date on which funds are available to be used for such purpose in accordance with the Priority of Payments, but in any event no later than the earlier of the Payment Date (A) which is the Redemption Date with respect to such Class of Deferred Interest Notes and (B) which is the Stated Maturity (or the earlier date of Maturity) of such Class of Deferred Interest Notes. Regardless of whether any Priority Class is Outstanding with respect to any Class of Deferred Interest Notes, to the extent that funds are not available on any Payment Date (other than the Redemption Date with respect to, or Stated Maturity of, such Class of Deferred Interest Notes) to pay previously accrued Deferred Interest, such previously accrued Deferred Interest will not be due and payable on such Payment Date and any failure to pay such previously accrued Deferred Interest on such Payment Date will not be an Event of Default. Interest will cease to accrue on each Rated Note, or in the case of a partial repayment, on such repaid part, from the date of repayment or Stated Maturity unless payment of principal is improperly withheld or unless an Event of Default occurs with respect to such payments of principal. To the extent lawful and enforceable, interest on any interest that is not paid when due on the Class X Notes, the Class A Notes or the Class B Notes; or, if no Class X Notes, Class A Notes or Class B Notes are Outstanding, the Rated Notes of the Controlling Class shall accrue at the Interest Rate for such Class until paid as provided herein.

(b) The Subordinated Notes will receive as distributions on each Payment Date the Excess Interest payable on the Subordinated Notes, if any, subject to the Priority of Payments. If no Excess Interest is available for distribution on the Subordinated Notes on a Payment Date in accordance with the Priority of Payments, no amount with respect thereto will be payable on such Payment Date or any date or considered “due and payable” for purposes of Section 5.1(a) (and the failure to pay such interest shall not be an Event of Default).

(c) The principal of each Rated Note of each Class matures at par and is due and payable on the date of the Stated Maturity for such Class, unless such principal has been previously repaid or unless the unpaid principal of such Rated Note becomes due and payable at an earlier date by declaration of acceleration, call for redemption or otherwise. Notwithstanding the foregoing, the payment of principal of each Class of Rated Notes may only occur (other than amounts constituting Deferred Interest thereon which will be payable from Interest Proceeds) pursuant to the Priority of Payments. Except as otherwise provided in Article XI and the Priority of Payments, the payment of principal on any Rated Note (x) may only occur after each Priority Class is no longer Outstanding and (y) is subordinated to the payment on each Payment Date of the principal due and payable on each Priority Class and other amounts in accordance with the Priority of Payments. Payments of principal on any Class of Rated Notes which are not paid, in accordance with the Priority of Payments, on any Payment Date (other than the Payment Date which is the Stated Maturity (or the earlier date of Maturity) of such Class of Rated Notes or any Redemption Date), because of insufficient funds therefor shall not be considered "due and payable" for purposes of Section 5.1(a) until the Payment Date on which such principal may be paid in accordance with the Priority of Payments or all Priority Classes with respect to such Class have been paid in full. The Subordinated Notes will mature on the Stated Maturity, unless such principal has been previously repaid or unless the unpaid principal of such Note becomes due and payable at an earlier date by call for redemption or otherwise and the final payments of principal, if any, will occur on that date; *provided* that, the payment of principal of the Subordinated Notes (x) may only occur after the Rated Notes are no longer Outstanding and (y) is subordinated to the payment on each Payment Date of the principal and interest due and payable on the Rated Notes and other amounts in accordance with the Priority of Payments; and any payment of principal of the Subordinated Notes that is not paid, in accordance with the Priority of Payments, on any Payment Date, shall not be considered "due and payable" for purposes of Section 5.1(a).

(d) Principal payments on the Rated Notes will be made in accordance with the Priority of Payments and Section 9.1.

(e) The Paying Agent shall require the previous delivery of properly completed and signed applicable tax certifications (generally, in the case of U.S. federal income tax, an Internal Revenue Service Form W-9 (or applicable successor form) in the case of a United States person within the meaning of Section 7701(a)(30) of the Code or the applicable Internal Revenue Service Form W-8 (or applicable successor form) in the case of a Person that is not a United States person within the meaning of Section 7701(a)(30) of the Code) and any other certification acceptable to it to enable the Issuer, the Co-Issuer, the Trustee and any Paying Agent (including, in each case, as any such other party may instruct) to determine their duties and liabilities with respect to any taxes or other charges that they may be required to pay, deduct or withhold from payments in respect of such Rated Note or the Holder or beneficial owner of such Rated Note under any present or future law or regulation of the Cayman Islands, the United States, any other jurisdiction or any political subdivision thereof or taxing authority therein or to comply with any reporting or other requirements under any such law or regulation. The Co-Issuers shall not be obligated to pay any additional amounts to the Holders or beneficial owners

of the Rated Notes as a result of deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges with respect to the Rated Notes. Nothing herein shall be construed to impose upon the Paying Agent a duty to determine the duties, liabilities or responsibilities of any other party described herein under any applicable law or regulation.

(f) Payments in respect of any Rated Note will be made by the Trustee, in Dollars to DTC or its nominee with respect to a Global Note and to the Holder or its nominee with respect to a Certificated Note, by wire transfer, as directed by the Holder, in immediately available funds to a Dollar account maintained by DTC or its nominee with respect to a Global Note, and to the Holder or its nominee with respect to a Certificated Note; *provided* that (1) in the case of a Certificated Note, the Holder thereof shall have provided written wiring instructions to the Trustee on or before the related Record Date and (2) if appropriate instructions for any such wire transfer are not received by the related Record Date, then such payment shall be made by check drawn on a U.S. bank mailed to the address of the Holder specified in the Register. In the case of a Certificated Note, the Holder thereof shall present and surrender such Note at the office designated by the Trustee upon final payment; *provided* that in the absence of notice to the Applicable Issuers or the Trustee that the applicable Note has been acquired by a Protected Purchaser, such final payment shall be made without presentation or surrender, if the Trustee and the Applicable Issuers shall have been furnished such security or indemnity as may be required by them to save each of them harmless and an undertaking thereafter to surrender such certificate. None of the Co-Issuers, the Trustee, the Investment Manager or any Paying Agent will have any responsibility or liability for any aspects of the records maintained by DTC, Euroclear, Clearstream or any of the Agent Members relating to or for payments made thereby on account of beneficial interests in a Global Note. In the case where any final payment of principal and interest is to be made on any Rated Note (other than on the Stated Maturity thereof) or any final payment is to be made on any Subordinated Note (other than on the Stated Maturity thereof), the Trustee, in the name and at the expense of the Applicable Issuers shall provide to the applicable Holders a notice which shall specify the date on which such payment will be made, the amount of such payment per U.S.\$1,000 original principal amount of Rated Notes, original principal amount of Subordinated Notes and the place where Certificated Notes may be presented and surrendered for such payment.

(g) Payments to Holders of each Class on each Payment Date shall be made ratably among the Holders of such Class in the proportion that the Aggregate Outstanding Amount of the Rated Notes of such Class registered in the name of each such Holder on the applicable Record Date bears to the Aggregate Outstanding Amount of all Rated Notes of such Class on such Record Date.

(h) Interest accrued with respect to any Rated Note shall be calculated on the basis of the actual number of days elapsed in the applicable Interest Accrual Period divided by 360.

(i) All reductions in the principal amount of a Rated Note (or one or more predecessor Rated Notes) effected by payments of installments of principal made on any Payment Date or Redemption Date shall be binding upon all future Holders of such Rated Note and of any Rated Note issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof, whether or not such payment is noted on such Note.

(j) Notwithstanding any other provision of this Indenture, the obligations of the Co-Issuer under the Co-Issued Notes and this Indenture are non-recourse obligations of the Co-Issuer and the obligations of the Issuer under the Rated Notes are limited recourse obligations of the Issuer, payable solely from proceeds of the Assets and following realization of the Assets, and application of the proceeds thereof in accordance with this Indenture, all obligations of and any claims against the Co-Issuers (or, in the case of the Issuer Only Notes, the Issuer) hereunder or in connection herewith after such realization shall be extinguished and shall not thereafter revive. No recourse shall be had against any Officer, director, employee, shareholder or incorporator of the Co-Issuers (or, in the case of the Issuer Only Notes, the Issuer), the Investment Manager or their respective Affiliates, successors or assigns for any amounts payable under the Rated Notes or this Indenture. It is understood that, except as expressly provided in this Indenture, the foregoing provisions of this paragraph shall not (i) prevent recourse to the Assets for the sums due or to become due under any security, instrument or agreement which is part of the Assets or (ii) constitute a waiver, release or discharge of any indebtedness or obligation evidenced by the Rated Notes or secured by this Indenture until such Assets have been realized. It is further understood that the foregoing provisions of this paragraph (j) shall not limit the right of any Person to name the Co-Issuers (or, in the case of the Issuer Only Notes, the Issuer) as a party defendant in any Proceeding or in the exercise of any other remedy under the Rated Notes or this Indenture, so long as no judgment in the nature of a deficiency judgment or seeking personal liability shall be asked for or (if obtained) enforced against any such Person or entity.

(k) Subject to the foregoing provisions of this Section 2.7, each Rated Note delivered under this Indenture and upon registration of transfer of or in exchange for or in lieu of any other Rated Note shall carry the rights to unpaid interest and principal (or other applicable amount) that were carried by such other Rated Note.

Section 2.8. Persons Deemed Owners. The Issuer, the Co-Issuer, the Trustee, and any agent of the Issuer, the Co-Issuer or the Trustee shall treat as the owner of each Note the Person in whose name such Rated Note is registered on the Register on the applicable Record Date for the purpose of receiving payments on such Rated Note and on any other date for all other purposes whatsoever (whether or not such Rated Note is overdue), and none of the Issuer, the Co-Issuers, the Trustee or any agent of the Issuer, the Co-Issuer or the Trustee shall be affected by notice to the contrary.

Section 2.9. Purchase and Surrender of Rated Notes; Cancellation. (a) The Issuer may apply during the Reinvestment Period only, Principal Proceeds in order to acquire Rated Notes (or beneficial interests therein) of the Class designated by the Investment Manager or the Contributor, as applicable, through a tender offer in the open market, subject to applicable law (any such Rated Notes, the "Repurchased Notes"); *provided* that no purchases of Rated Notes may occur using Principal Proceeds unless: (i) such purchases of Rated Notes will be effected in the order of priority set out in the Note Payment Sequence, (ii) each such purchase will be effected only at prices discounted from par, (iii) the Interest Diversion Test is satisfied immediately prior to each such purchase and will be satisfied after giving effect to such

purchase, (iv) each requirement or test, as the case may be, of the Concentration Limitations and the Collateral Quality Test will be satisfied or, if any such requirement or test was not satisfied immediately prior to such purchases, such requirement or test will be maintained or improved after giving effect to such purchases, (v) no Event of Default has occurred and is continuing and (vi) a Majority of the Subordinated Notes has consented to such purchases. Any such Repurchased Notes shall be submitted to the Trustee for cancellation.

The Issuer shall provide notice to the Co-Issuer and to the Trustee of any Surrendered Notes tendered to it and the Trustee shall provide notice to the Applicable Issuers of any Surrendered Note tendered to it. Any such Surrendered Notes shall be submitted to the Trustee for cancellation.

(b) All Repurchased Notes, Surrendered Notes and Rated Notes that are surrendered for payment, registration of transfer, exchange or redemption, or are deemed lost or stolen, shall be promptly canceled by the Trustee and may not be reissued or resold; *provided* that, other than Repurchased Notes of the Controlling Class, Repurchased Notes and Surrendered Notes shall continue to be treated as Outstanding for purposes of calculation of the Overcollateralization Ratio until all Rated Notes of the applicable Class and each Priority Class have been retired or redeemed, having an Aggregate Outstanding Amount equal to the Aggregate Outstanding Amount as of the date of repurchase or surrender, reduced proportionately with, and to the extent of, any payments of principal on Rated Notes of the same Class thereafter. Any such Rated Notes shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee. No Rated Notes shall be authenticated in lieu of or in exchange for any Rated Notes canceled as provided in this Section 2.9, except as expressly permitted by this Indenture. All canceled Rated Notes held by the Trustee shall be destroyed or held by the Trustee in accordance with its standard retention policy, unless the Co-Issuers shall direct by an Issuer Order received prior to destruction that they be returned to it. Other than under the circumstances set forth in Section 2.9(a), no Rated Notes may be surrendered for cancellation without consideration or compensation to the Rated Noteholder thereof, and the Trustee shall not cancel any Rated Notes surrendered voluntarily by a Noteholder without consideration or compensation therefor, and any Rated Note so surrendered shall remain Outstanding for purposes of determining compliance with the Coverage Tests.

Section 2.10. DTC Ceases to be Depository. (a) A Global Note deposited with DTC pursuant to Section 2.2 shall be transferred in the form of a corresponding Certificated Note to the beneficial owners thereof (as instructed by DTC) only if (A) such transfer complies with Section 2.5 and (B) either (x) (i) DTC notifies the Co-Issuers that it is unwilling or unable to continue as depository for such Global Note or (ii) DTC ceases to be a Clearing Agency registered under the Exchange Act and, in each case, a successor depository is not appointed by the Co-Issuers within 90 days after such event or (y) an Event of Default or Enforcement Event has occurred and is continuing and such transfer is requested by the Holder of such Global Note.

(b) Any Global Note that is transferable in the form of a corresponding Certificated Note to the beneficial owner thereof pursuant to this Section 2.10 shall be surrendered by DTC to the Trustee's Corporate Trust Office to be so transferred, in whole or from time to time in part, without charge, and the Applicable Issuers shall execute and the Trustee shall authenticate and deliver, upon such transfer of each portion of such Global Note, an

equal aggregate principal amount of definitive physical certificates (pursuant to the instructions of DTC) in authorized Minimum Denominations. Any Certificated Note delivered in exchange for an interest in a Global Note shall, except as otherwise provided by Section 2.5, bear the legends set forth in the applicable Exhibit A and shall be subject to the transfer restrictions referred to in such legends.

(c) Subject to the provisions of paragraph (b) of this Section 2.10, the Holder of a Global Note may grant proxies and otherwise authorize any Person, including Agent Members and Persons that may hold interests through Agent Members, to take any action which such Holder is entitled to take under this Indenture or the Rated Notes.

(d) In the event of the occurrence of either of the events specified in subsection (a) of this Section 2.10, the Co-Issuers will promptly make available to the Trustee a reasonable supply of Certificated Notes.

In the event that Certificated Notes are not so issued by the Applicable Issuers to such beneficial owners of interests in Global Notes as required by subsection (a) of this Section 2.10, the Issuer expressly acknowledges that the beneficial owners shall be entitled to pursue any remedy that the Holders of a Global Note would be entitled to pursue in accordance with Article V (but only to the extent of such beneficial owner's interest in the Global Note) as if corresponding Certificated Notes had been issued; *provided* that the Trustee shall be entitled to receive and rely upon any certificate of ownership provided by such beneficial owners (including a certificate in the form of Exhibit D) and/or other forms of reasonable evidence of such ownership as it may require.

Section 2.11. Rated Notes Beneficially Owned by Persons Not QIB/QPs or in Violation of ERISA Representations. (a) Notwithstanding anything to the contrary elsewhere in this Indenture, any transfer of a beneficial interest in any Rated Note to a U.S. person that is not a QIB/QP and that is not made pursuant to an applicable exemption under the Securities Act and the Investment Company Act shall be null and void and any such purported transfer of which the Issuer, the Co-Issuer or the Trustee shall have notice may be disregarded by the Issuer, the Co-Issuer and the Trustee for all purposes.

(b) The Issuer will promptly after discovery that a Holder or beneficial owner is a Non-Permitted Holder, send notice (with a copy to the Investment Manager) to such Non-Permitted Holder demanding that such Non-Permitted Holder transfer its Rated Notes or interest in the Rated Notes to a Person that is not a Non-Permitted Holder within 30 days (or, in the case of a Non-Permitted ERISA Holder, within 10 days) after the date of such notice. If such Person fails to transfer its Rated Notes (or the required portion of its Rated Notes), the Issuer will have the right to sell such Rated Notes to a purchaser selected by the Issuer. The Issuer (or its agent) will request such Person to provide (within 7 days after such request) the names of prospective purchasers, and the Issuer (or its agent) will solicit bids from any such identified prospective purchasers and may also solicit bids from one or more brokers or other market professionals that regularly deal in notes similar to the Rated Notes. The Issuer agrees that it will accept the highest of such bids, subject to the bidder satisfying the transfer restrictions set forth in this Indenture. If the procedure above does not result in any bids from qualified investors, the Issuer may select a purchaser by any other means determined by it in its sole discretion.

(c) A “Non-Permitted Holder” is (A) any U.S. person that is not a QIB/QP or that does not have an exemption available under the Securities Act and the Investment Company Act that becomes the Holder or beneficial owner of an interest in any Global Note, or (B) any Non-Permitted ERISA Holder.

(d) If the Trustee obtains actual knowledge of a Non-Permitted Holder, it will provide notice to the Issuer with a copy to the Investment Manager.

(e) A “Non-Permitted ERISA Holder” is any Person that is or becomes the beneficial owner of an interest in any Note who has made or is deemed to have made a prohibited transaction representation or a Benefit Plan Investor, Controlling Person or Similar Law representation required by Section 2.5 that is subsequently shown to be false or misleading or whose beneficial ownership otherwise results in Benefit Plan Investors owning 25% or more of the Aggregate Outstanding Amount of the Class of Issuer Only Notes being transferred.

(f) The proceeds of such sale, net of any commissions, expenses and taxes due in connection with such sale shall be remitted to the Non-Permitted Holder or Non-Permitted ERISA Holder, as applicable.

(g) The terms and conditions of any sale under this Section 2.11 shall be determined in the sole discretion of the Issuer, and none of the Issuer, the Investment Manager or the Trustee shall be liable to any Person having an interest in the Rated Notes sold as a result of any such sale or the exercise of such discretion.

Section 2.12. Tax Certification. (a) Each Holder (including, for purposes of this Section 2.12, any beneficial owner of Notes) will treat the Issuer, the Co-Issuer and the Notes as described in the “*Certain U.S. Federal Income Tax Considerations*” section of the Offering Memorandum for all U.S. federal, state and local income tax purposes and will take no action inconsistent with such treatment unless required by law.

(b) Each Holder will timely furnish the Issuer and its agents with any tax certifications, information, or documentation (including, without limitation, IRS Form W-9 (Request for Taxpayer Identification Number and Certification), IRS Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding), IRS Form W-8IMY (Certificate of Foreign Intermediary, Foreign Flow-Through Entity, or Certain U.S. Branches for United States Tax Withholding), IRS Form W-8ECI (Certificate of Foreign Person’s Claim That Income Is Effectively Connected With the Conduct of a Trade or Business in the United States), or any successors to such IRS forms) that the Issuer or its agents reasonably request (A) to permit the Issuer or its agents to make payments to the Holder without, or at a reduced rate of, deduction or withholding, (B) to enable the Issuer, or its agents to qualify for a reduced rate of withholding or deduction in any jurisdiction from or through which they receive payments, and (C) to enable the Issuer, or its agents to satisfy reporting and other obligations under any applicable law or regulation, and will update or replace such certifications, information, and documentation in accordance with its terms or subsequent amendments. The Purchaser acknowledges that the failure to provide, update or replace any such certifications, information, and documentation may result in the imposition of withholding or back-up withholding on payments to the Holder. Amounts withheld pursuant to applicable tax laws will be treated as having been paid to the Holder.

(c) Each Holder, if it is not a “United States person” (as defined in Section 7701(a)(30) of the Code), represents that it either:

(i) (A) is not a bank that has purchased the Rated Notes in the ordinary course of its trade or business of making loans, as described in section 881(c)(3)(A) of the Code and (B) is not a “10-percent shareholder” with respect to the Investment Manager within the meaning of section 871(h)(3)(B) of the Code or a “controlled foreign corporation” that is related to the Investment Manager within the meaning of section 881(c)(3)(C) of the Code,

(ii) has provided an IRS Form W-8ECI representing that all payments received or to be received by it from the Issuer are effectively connected with its conduct of a trade or business in the United States and includible in its gross income, or

(iii) is eligible for benefits under an income tax treaty with the United States that eliminates U.S. federal income taxation of U.S.-source interest not attributable to a permanent establishment in the United States.

(d) Each Holder will provide the Issuer and its agents with any correct, complete and accurate information, and will take any other actions, that may be required for the Issuer to comply with FATCA and to avoid the imposition of tax under FATCA on any payment to or for the benefit of the Issuer, and, in the event the Holder fails to provide such information or take such actions or in the event that the Holder’s ownership of any Notes would otherwise cause the Issuer to be subject to withholding tax under FATCA, (A) the Issuer is authorized to withhold amounts otherwise distributable to the Holder as compensation for tax imposed under FATCA as a result of such failure or the Holder’s ownership of Notes, and (B) to the extent necessary to avoid an adverse effect on the Issuer as a result of such failure or the Holder’s ownership of Notes, the Issuer will have the right to compel the Holder to sell its Notes and, if the Holder does not sell its Notes within 10 business days after notice from the Issuer or an agent of the Issuer, to sell such Notes at a public or private sale called and conducted in any manner permitted by law, and to remit the net proceeds of such sale (taking into account any taxes incurred by the Issuer in connection with such sale) to the Holder as payment in full for such Notes. The Issuer may also assign each such Note a separate CUSIP number in the Issuer’s sole discretion.

(e) Each Holder of Class E Notes or Class F Notes acknowledges and agrees that:

(i) It will not (1) acquire or directly or indirectly sell, encumber, assign, participate, pledge, hypothecate, rehypothecate, exchange, or otherwise dispose of, suffer the creation of a lien on, or transfer or convey in any manner (each, a “Transfer”) such Notes (or any interest therein that is described in Treasury regulations section 1.7704-1(a)(2)(i)(B)) on or through (x) a United States national, regional or local securities exchange, (y) a foreign securities exchange or (z) an interdealer quotation system that regularly disseminates firm buy or sell quotations by identified brokers or dealers ((x), (y) and (z), collectively, an “Exchange”) or (2) cause any of such Notes or any interest therein to be marketed on or through an Exchange.

(ii) It will not enter into any financial instrument payments on which are, or the value of which is, determined in whole or in part by reference to such Notes or the Issuer (including the amount of Issuer distributions on such Notes, the value of the Issuer's assets, or the result of the Issuer's operations), or any contract that otherwise is described in Treasury regulations section 1.7704-1(a)(2)(i)(B).

(iii) If it is, for U.S. federal income tax purposes, a partnership, grantor trust or S corporation, then less than 50% of the value of any person's interest in it will be attributable to such Notes, unless the Issuer has otherwise determined that such Holder will not cause the Issuer to be unable to rely on the "private placement" safe harbor of Treasury regulations Section 1.7704-1(h).

(iv) It will not Transfer all or any portion of such Notes unless: (1) the person to which it Transfers such Notes agrees to be bound by the restrictions, conditions, representations, warrants, and covenants set forth in this Section 2.12(e), and (2) such Transfer does not violate this Section 2.12(e).

Any Transfer made in violation of this Section 2.12(e), or that otherwise would cause the Issuer to be unable to rely on the "private placement" safe harbor of Treasury regulations section 1.7704-1(h), will be void and of no force or effect, and will not bind or be recognized by the Issuer or any other person, and no person to which such Notes are Transferred shall become a Holder unless such person agrees to be bound by this Section 2.12(e). However, notwithstanding the immediately preceding sentence, a Transfer in violation of this Section 2.12(e)(i), (ii), (iii) or (iv) shall be permitted if the Trustee receives advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of another nationally recognized tax counsel experienced in such matters, to the effect that the Transfer will not cause the Issuer to be treated as a "publicly traded partnership" taxable as a corporation for U.S. federal income tax purposes.

(f) Each Holder of Class E Notes or Class F Notes understands and agrees that it will indemnify the Issuer for any U.S. federal withholding tax imposed on payments made to or for the benefit of the Issuer that is attributable to such Holder's ownership of such Notes, including such Holder's failure to timely provide or update any tax forms, certifications, or other information required under this Indenture to be provided by it, or the inaccuracy of any such tax forms, certifications, or other information, or the inaccuracy of any such tax forms, certifications or other information. This indemnification will continue with respect to any period during which the Holder held a Note, notwithstanding such Holder's ceasing to be a Holder.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.1. Conditions to Issuance of Rated Notes on Closing Date. (a) The Rated Notes to be issued on the Closing Date may be registered in the names of the respective Holders thereof and may be executed by the Applicable Issuers and delivered to the Trustee for authentication and thereupon the same shall be authenticated and delivered by the Trustee upon Issuer Order and upon receipt by the Trustee of the following:

(i) Officers' Certificates of the Co-Issuers Regarding Corporate Matters. An Officer's certificate of each of the Co-Issuers (A) evidencing the authorization by Resolution of the execution and delivery of this Indenture (and, in the case of the Issuer, the Investment Management Agreement, the Collateral Administration Agreement and related transaction documents), the execution, authentication and delivery of the Rated Notes applied for by it and specifying the principal amount of each Class of Rated Notes applied for by it and (B) certifying that (1) the attached copy of the Resolution is a true and complete copy thereof, (2) such resolutions have not been rescinded and are in full force and effect on and as of the Closing Date and (3) the Officers authorized to execute and deliver such documents hold the offices and have the signatures indicated thereon.

(ii) Governmental Approvals. From each of the Co-Issuers either (A) a certificate of the Applicable Issuer or other official document evidencing the due authorization, approval or consent of any governmental body or bodies, at the time having jurisdiction in the premises, together with an Opinion of Counsel of such Applicable Issuer that no other authorization, approval or consent of any governmental body is required for the performance by the Applicable Issuer of its obligations under this Indenture (and, in the case of the Issuer, the Investment Management Agreement and the Collateral Administration Agreement) or (B) an Opinion of Counsel of the Applicable Issuer that no such authorization, approval or consent of any governmental body is required for the performance by the Applicable Issuer of its obligations under this Indenture (and, in the case of the Issuer, the Investment Management Agreement and the Collateral Administration Agreement) except as has been given.

(iii) U.S. Counsel Opinions. Opinions of Cadwalader, Wickersham & Taft LLP, special U.S. counsel to the Co-Issuers, Alston & Bird LLP, counsel to the Trustee and Collateral Administrator, and Pillsbury Winthrop Shaw Pittman LLP, counsel to the Investment Manager, each dated the Closing Date.

(iv) Cayman Counsel Opinion. An opinion of Maples and Calder, Cayman Islands counsel to the Issuer, dated the Closing Date.

(v) Officers' Certificates of Co-Issuers Regarding Indenture. An Officer's certificate of each of the Co-Issuers stating that, to the best of the signing Officer's knowledge, the Applicable Issuer is not in default under this Indenture and that the issuance of the Rated Notes applied for by it will not result in a default or a breach of any of the terms, conditions or provisions of, or constitute a default under, its organizational

documents, any indenture or other agreement or instrument to which it is a party or by which it is bound, or any order of any court or administrative agency entered in any Proceeding to which it is a party or by which it may be bound or to which it may be subject; that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Rated Notes applied for by it have been complied with; and that all expenses due or accrued with respect to the Offering of the Rated Notes or relating to actions taken on or in connection with the Closing Date, including deposit with the Legacy Custodian of the Closing Date Deposit and confirmation of payment by the Legacy Custodian of the Closing Date Deposit to the Legacy Rated Noteholders have been paid in full. The Officer's certificate of the Issuer shall also state that all of its representations and warranties contained in this Indenture are true and correct as of the Closing Date.

(vi) Investment Management Agreement, Collateral Administration Agreement and Account Agreement. An executed counterpart of the Investment Management Agreement, the Collateral Administration Agreement and the Account Agreement.

(vii) Certificate of the Investment Manager. An Officer's certificate of the Investment Manager stating that, to the best of the signing Officer's knowledge, dated as of the Closing Date, to the effect that:

(A) each Collateral Obligation owned by the Issuer as of the Closing Date is listed in the Schedule of Collateral Obligations;

(B) the information in the Schedule of Collateral Obligations is complete and correct;

(C) each Collateral Obligation on the Schedule of Collateral Obligations satisfies, as of the Closing Date, the requirements of the definition of Collateral Obligation;

(D) the Issuer purchased, or committed to purchase, each Collateral Obligation on the Schedule of Collateral Obligations in compliance with the Investment Guidelines; and

(E) the Aggregate Principal Balance of the Collateral Obligations which the Issuer has purchased or has entered into binding commitments prior to the Closing Date for settlement on or after the Closing Date, plus all amounts credited to the Principal Collection Account as of the Closing Date (but excluding any amounts deposited with the Legacy Custodian for redemption of the Legacy Rated Notes) is at least U.S.\$ 300,000,000.

(viii) Grant of Collateral Obligations. The Grant pursuant to the Granting Clauses of this Indenture of all of the Issuer's right, title and interest in and to the Collateral Obligations pledged to the Trustee for inclusion in the Assets on the Closing Date shall be effective, and Delivery of such Collateral Obligations as contemplated by Section 3.2 shall have been effected.

(ix) Certificate of the Issuer Regarding Assets. A certificate of an Authorized Officer of the Issuer, dated as of the Closing Date, with respect to each Collateral Obligation pledged by the Issuer to the effect that:

(A) the Issuer is the owner of such Collateral Obligation free and clear of any liens, claims or encumbrances of any nature whatsoever except for those which are being released on the Closing Date and except for those Granted pursuant to or permitted by this Indenture and encumbrances arising from due bills, if any, with respect to interest, or a portion thereof, accrued on such Collateral Obligation prior to the first payment date and owed by the Issuer to the seller of such Collateral Obligation;

(B) the Issuer has acquired its ownership in such Collateral Obligation in good faith without notice of any adverse claim, except as described in paragraph (A) above;

(C) the Issuer has not assigned, pledged or otherwise encumbered any interest in such Collateral Obligation (or, if any such interest has been assigned, pledged or otherwise encumbered, it has been released) other than interests Granted pursuant to or permitted by this Indenture;

(D) based on the certificate of the Investment Manager delivered pursuant to Section 3.1(a)(vii), the Issuer has full right to Grant a security interest in and assign and pledge such Collateral Obligation to the Trustee;

(E) based on the certificate of the Investment Manager delivered pursuant to Section 3.1(a)(vii), each Collateral Obligation owned by the Issuer satisfies the requirements of the definition of Collateral Obligation;

(F) based on the certificate of the Investment Manager delivered pursuant to Section 3.1(a)(vii), the information set forth with respect to such Collateral Obligation in the Schedule of Collateral Obligations is correct;

(G) upon Grant by the Issuer, the Trustee has a first priority perfected security interest in such Collateral Obligation (assuming that any Clearing Corporation, Intermediary or other entity not within the control of the Issuer involved in the Delivery of such Collateral Obligation takes the actions required of it for perfection of that interest); and

(H) based on the certificate of the Investment Manager delivered pursuant to Section 3.1(a)(vii), the Aggregate Principal Balance of the Collateral Obligations owned by the Issuer as of the Closing Date, plus all amounts credited to the Principal Collection Account as of the Closing Date (but excluding any amounts deposited with the Legacy Custodian for redemption of the Legacy Rated Notes) is at least U.S.\$ 300,000,000.

(x) Rating Letters. An Officer's certificate of the Issuer to the effect that attached thereto with respect to the applicable Class of Rated Notes is a true and correct copy of a letter signed by the respective Rating Agency assigning the applicable Initial Rating.

(xi) Accounts. Evidence of the establishment of each of the Accounts.

(xii) Deposit of Funds into Accounts. The Trustee has deposited proceeds of the issuance of the Rated Notes as set forth below:

<u>Account</u>	<u>Closing Date Deposit</u>	
Expense Reserve Account	U.S.\$	35,000
Revolver Funding Account	U.S.\$	0

(xiii) Certificate As To Collateral. The Issuer shall provide, or (at the Issuer's expense) cause the Investment Manager to provide, the following documents:

(A) to each Rating Agency (in the case of delivery to S&P, via email to CDOEffectiveDatePortfolios@standardandpoors.com, and in the case of delivery to Moody's, via email to cdomonitoring@moodys.com), a report identifying the Collateral Obligations and to S&P, the S&P Excel Default Model Input File, requesting that S&P reaffirm its Initial Ratings of the Rated Notes;

(B) to the Trustee and each Rating Agency (in the case of delivery to S&P, via email to CDOEffectiveDatePortfolios@standardandpoors.com, and in the case of delivery to Moody's, via email to cdomonitoring@moodys.com) a report, prepared by the Investment Manager on behalf of the Issuer (the "Collateral Report"), (i) setting forth the issuer, principal balance, coupon/spread, Stated Maturity, S&P Rating, Moody's Default Probability Rating, Moody's Rating and country of Domicile with respect to each Collateral Obligation as of the day that is three days prior to the Closing Date, and (ii) calculating as of the day that is three days prior to the Closing Date, the level of compliance with, or satisfaction or non-satisfaction of (1) each Overcollateralization Ratio Test, (2) the Collateral Quality Tests (excluding the S&P CDO Monitor Test), (3) the Concentration Limitations, and (4) the Target Initial Par Condition;

(C) to the Trustee, an Accountants' Certificate recalculating and comparing the following items in the Collateral Report: (i) each Overcollateralization Ratio Test, the Collateral Quality Tests (excluding the S&P CDO Monitor Test) and the Concentration Limitations, and (ii) whether the Target Initial Par Condition is satisfied, together with a statement specifying the procedures undertaken by them to review data and computations relating to the Accountants' Certificate; and

(D) to the Trustee and each Rating Agency (in the case of delivery to S&P, via email to CDOEffectiveDatePortfolios@standardandpoors.com, and in the case of delivery to Moody's, via email to cdomonitoring@moodys.com) an Officer's certificate of the Issuer (the "Collateral Certificate") certifying as to the

level of compliance with, or satisfaction or non-satisfaction of, (1) each Overcollateralization Ratio Test, (2) the Collateral Quality Tests (excluding the S&P CDO Monitor Test), (3) the Concentration Limitations, and (4) the Target Initial Par Condition, in each case, as of the Closing Date.

(xiv) Other Documents. Such other documents as the Trustee may reasonably require; *provided* that nothing in this clause (xiii) shall imply or impose a duty on the part of the Trustee to require any other documents.

(xv) The Trustee is hereby authorized and directed to provide its consent to the Administrator's exercising the power of amendment conferred on the Administrator by clause 19 of the Issuer's declaration of trust by executing a further amended and restated declaration of trust on October, 17, 2013, in the form provided and prepared by the Administrator, and the Trustee shall have no liability in respect of providing the foregoing consent.

Section 3.2. Delivery of Collateral Obligations and Eligible Investments. (a) Except as otherwise provided in this Indenture, the Trustee shall hold all Collateral Obligations purchased in accordance with this Indenture in the relevant Account established and maintained pursuant to Article X, as to which in each case the Trustee shall have entered into an Account Agreement, providing, inter alia, that the establishment and maintenance of such Account will be governed by the law of a jurisdiction satisfactory to the Issuer and the Trustee.

(b) Each time that the Investment Manager on behalf of the Issuer directs or causes the acquisition of any Collateral Obligation, Eligible Investment or other investment, the Investment Manager (on behalf of the Issuer) shall, if the Collateral Obligation, Eligible Investment or other investment is required to be, but has not already been, transferred to the relevant Account, cause the Collateral Obligation, Eligible Investment or other investment to be Delivered to the Intermediary to be held in the Custodial Account (or in the case of any such investment that is not a Collateral Obligation, in the Account in which the funds used to purchase the investment are held in accordance with Article X) for the benefit of the Trustee in accordance with this Indenture. The security interest of the Trustee shall nevertheless come into existence and continue in the Collateral Obligation, Eligible Investment or other investment so acquired, including all interests of the Issuer in any contracts related to and proceeds of such Collateral Obligation, Eligible Investment or other investment.

ARTICLE IV

SATISFACTION AND DISCHARGE; ILLIQUID ASSETS; LIMITATION ON ADMINISTRATIVE EXPENSES

Section 4.1. Satisfaction and Discharge of Indenture. This Indenture shall be discharged and shall cease to be of further effect except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, destroyed, lost or stolen Rated Notes, (iii) rights of Holders of Rated Notes to receive payments of principal thereof and interest that accrued prior to Maturity (and to the extent lawful and enforceable, interest on due and unpaid accrued interest) thereon and the Subordinated Notes to receive Excess Interest and principal

payments as provided for under the Priority of Payments, subject to Section 2.7(j), (iv) the rights, obligations and immunities of the Investment Manager hereunder and under the Investment Management Agreement and of the Collateral Administrator under the Collateral Administration Agreement, (v) the rights of Holders as beneficiaries hereof with respect to the property deposited with the Trustee and payable to all or any of them (subject to Section 2.7(j)) and (vi) the rights and immunities of the Trustee hereunder, and the obligations of the Trustee hereunder in connection with the foregoing clauses (i) through (v) and otherwise under this Article IV (and the Trustee, on demand of and at the expense of the Issuer, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture) when:

(a) (x) either:

(i) all Rated Notes theretofore authenticated and delivered to Holders (other than (A) Rated Notes which have been mutilated, defaced, destroyed, lost or stolen and which have been replaced or paid as provided in Section 2.6 or, (B) Rated Notes for whose payment Money has theretofore irrevocably been deposited in trust and thereafter repaid to the Issuer or discharged from such trust, as provided in Section 7.3) have been delivered to the Trustee for cancellation; or

(ii) all Rated Notes not theretofore delivered to the Trustee for cancellation (A) have become due and payable, or (B) will become due and payable at their Stated Maturity within one year, or (C) are to be called for redemption pursuant to Article IX under an arrangement satisfactory to the Trustee for the giving of notice of redemption by the Applicable Issuers pursuant to Section 9.4 and the Issuer has irrevocably deposited or caused to be deposited with the Trustee, in trust for such purpose, Cash or non-callable direct obligations of the United States of America (*provided* that the obligations are entitled to the full faith and credit of the United States of America or are debt obligations which are rated “Aaa” by Moody’s and “AAA” by S&P, in an amount sufficient, as verified in writing by a firm of Independent certified public accountants which are nationally recognized) sufficient to pay and discharge the entire indebtedness on such Rated Notes, for principal and interest payable thereon under this Indenture to the date of such deposit (in the case of Rated Notes which have become due and payable), or to their Stated Maturity or Redemption Date, as the case may be, and shall have Granted to the Trustee a valid perfected security interest in such Cash or obligations that is of first priority or free of any adverse claim, as applicable, and shall have furnished an Opinion of Counsel with respect to the creation and perfection of such security interest; *provided* that this subsection (ii) shall not apply if an election to act in accordance with the provisions of Section 5.5(a) shall have been made and not rescinded; or

(y) all Collateral Obligations, Eligible Investments and Equity Securities that are subject to the lien of this Indenture have been sold or otherwise disposed of and the proceeds thereof have been distributed, in each case in accordance with this Indenture; or

(b) the Co-Issuers have paid or caused to be paid all other sums payable by the Co-Issuers hereunder and under the Collateral Administration Agreement and the Investment Management Agreement;

provided that, in each case, the Co-Issuers have delivered to the Trustee Officer's certificates and an Opinion of Counsel (which may rely on information provided by the Trustee or the Collateral Administrator as to the Collateral Obligations, Equity Securities and Eligible Investments (including Cash) included in the Assets and any paid and unpaid obligations of the Co-Issuers), each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the rights and obligations of the Co-Issuers, the Trustee, the Investment Manager and, if applicable, the Holders, as the case may be, under Sections 2.7, 4.2, 5.4(d), 5.9, 5.18, 6.1, 6.3, 6.6, 6.7, 7.1, 7.3, 13.1 and 14.17 shall survive.

Section 4.2. Application of Trust Money. All Cash and obligations deposited with the Trustee pursuant to Section 4.1 shall be held in an Account and applied by it in accordance with the provisions of the Rated Notes and this Indenture, including, without limitation, the Priority of Payments, to the payment of principal and interest (or other amounts with respect to the Subordinated Notes), either directly or through any Paying Agent, as the Trustee may determine; and such Cash and obligations shall be held in an Account.

Section 4.3. Repayment of Amounts Held by Paying Agent. In connection with the satisfaction and discharge of this Indenture with respect to the Rated Notes, all amounts then held by any Paying Agent other than the Trustee under the provisions of this Indenture shall, upon demand of the Co-Issuers, be paid to the Trustee to be held and applied pursuant to Section 7.3 and in accordance with the Priority of Payments and thereupon such Paying Agent shall be released from all further liability with respect to such amounts.

Section 4.4. Disposition of Illiquid Assets. (a) Notwithstanding Article XII (or any other term to the contrary contained herein), if at any time the Assets consists exclusively of Illiquid Assets and/or Eligible Investments (including Cash), the Investment Manager may request bids with respect to each such Illiquid Asset as described below after providing notice to the Holders and requesting that any Holder that wishes to bid on any such Illiquid Asset notify the Trustee (with a copy to the Investment Manager) of such intention within 15 Business Days after the date of such notice. The Trustee shall, after the end of such 15 Business Day period, offer the Illiquid Assets for sale as determined and directed by the Investment Manager (in a manner and according to terms determined by the Investment Manager (including from Persons identified to the Trustee by the Investment Manager) and pursuant to sale documentation provided by the Investment Manager) and, if any Holder so notifies the Trustee that it wishes to bid, such Holder shall be included in the distribution of sale offering or bid solicitation material in connection therewith and thereby given an opportunity to participate with other bidders, if any. The Trustee shall request bids for the sale of each such Illiquid Asset, in accordance with the procedures established by the Investment Manager, from (i) at least three Persons identified to the Trustee by the Investment Manager that make a market in or specialize in obligations of the nature of such Illiquid Asset, (ii) the Investment Manager, (iii) each Holder that so notified the Trustee that it wishes to bid and (iv) in the case of a public sale, any other participating bidders, and the Trustee shall have no responsibility for the sufficiency or acceptability of such procedures for any purpose or for any results obtained. The Trustee shall notify the Investment Manager promptly of the results of such bids. Subject to the requirements of applicable law, (x)

if the aggregate amount of the highest bids received (if any) is greater than or equal to U.S.\$100,000, the Issuer shall sell each Illiquid Asset to the highest bidder (which may include the Investment Manager and its Affiliates) and (y) if the aggregate amount of the highest bids received is less than U.S.\$100,000 or no bids are received, the Trustee shall dispose of the Illiquid Assets as directed by the Investment Manager in its reasonable business judgment, which may include (with respect to each Illiquid Asset) (I) selling it to the highest bidder (which may include the Investment Manager and its Affiliates) if a bid was received; (II) donating it to a charitable organization designated by the Investment Manager or (III) returning it to its issuer or obligor for cancellation.

(b) Notwithstanding the foregoing, the Trustee shall not be under any obligation to dispose of or offer for sale any Illiquid Assets pursuant to clause (a) above if the Trustee is not reasonably satisfied that payment of all expenses, costs and liabilities to be incurred by the Trustee in connection with such disposition or offer, as the case may be, are indemnified or provided for in a manner acceptable to the Trustee. In addition, the Trustee will not dispose of Illiquid Assets in accordance with Section 4.4(a) if directed not to do so by the Issuer or by the Investment Manager on behalf of the Issuer, at any time following notice of such disposal and prior to release, or acceptance of an offer for sale, of such Illiquid Asset, by a Majority of the Controlling Class or a Majority of the Subordinated Notes in accordance with Section 4.4(a); *provided* that arrangements satisfactory to the Trustee have been made to pay for any accrued and unpaid Administrative Expenses and any additional Administrative Expenses (including any dissolution and discharge expenses) reasonably expected to be incurred (after giving effect to Section 4.5). If the Trustee is so directed and no satisfactory arrangements for payment have been made, then the Trustee shall be entitled to disregard such direction and shall have no liability for taking or omitting to take any action in respect of such direction. In any event, the Trustee shall have no liability for the results of any such sale or disposition of Illiquid Assets, including if the proceeds received, if any, are insufficient to pay all outstanding Administrative Expenses in full.

Section 4.5. Limitation on Obligation to Incur Administrative Expenses. If at any time the sum of (i) Eligible Investments (including Cash) and (ii) amounts reasonably expected to be received by the Issuer in Cash during the current Collection Period (as certified by the Investment Manager in its reasonable judgment) is less than the Dissolution Expenses, then notwithstanding any other provision of this Indenture, the Issuer shall no longer be required to incur Administrative Expenses as otherwise required by this Indenture to any Person in respect of services of accountants under Section 10.9 and fees of the Rating Agencies under Section 7.14, failure to pay such amounts or provide or obtain such reports or services shall not constitute a Default hereunder, and the Trustee shall have no liability for any failure to obtain or receive any of the foregoing reports or services. The foregoing shall not, however, limit, supersede or alter any right afforded to the Trustee under this Indenture to refrain from taking action in the absence of its receipt of any such report or service which it reasonably determines is necessary for its own protection.

ARTICLE V

REMEDIES

Section 5.1. Events of Default. “Event of Default,” wherever used herein, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) a default in the payment, when due and payable, of (i) any interest on the Class X Notes, the Class A Notes or the Class B Notes or, if there are no Class X Notes, Class A Notes or Class B Notes Outstanding, any Notes of the Controlling Class and, in each case, the continuation of any such default for five Business Days, or (ii) any principal of, or interest or Deferred Interest on, or any Redemption Price in respect of, any Rated Note at its Stated Maturity or on any Redemption Date; *provided* that, in the case of a default resulting from a failure to disburse due to an administrative error or omission by the Investment Manager, the Trustee, the Collateral Administrator, the Administrator, the Registrar or any Paying Agent, such default will not be an Event of Default unless such failure continues for five Business Days after a Trust Officer of the Trustee receives written notice or has actual knowledge of such administrative error or omission (irrespective of whether the cause of such administrative error or omission has been determined);

(b) either of the Co-Issuers or the Assets becomes an investment company required to be registered under the Investment Company Act (and such requirement has not been eliminated after a period of 45 days);

(c) except as otherwise provided in this Section 5.1, a default in the performance, or breach, of any other covenant or other agreement of the Issuer or the Co-Issuer in this Indenture (it being understood, without limiting the generality of the foregoing, that any failure to meet any Concentration Limitation, Collateral Quality Test, Coverage Test or Interest Diversion Test is not an Event of Default), or the failure of any representation or warranty of the Issuer or the Co-Issuer made in this Indenture or in any certificate or other writing delivered pursuant hereto or in connection herewith to be correct when the same shall have been made, which default or failure has a material adverse effect on the Holders of the Notes, and the continuation of such default, breach or failure for a period of 30 Business Days (or, if such default, breach or failure can be cured only on a Payment Date, the next Payment Date) after notice by the Trustee at the direction of a Majority of the Controlling Class to the Issuer or the Co-Issuer, as applicable, and the Investment Manager, specifying such default, breach or failure and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder;

(d) the entry of a decree or order by a court having competent jurisdiction adjudging the Issuer or the Co-Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Issuer or the Co-Issuer under the Bankruptcy Law or any other applicable law, or appointing a receiver, liquidator, assignee, or sequestrator (or other similar official) of the Issuer or the Co-Issuer or of any substantial part of its property, respectively, or ordering the winding up or liquidation of its affairs, respectively, and the continuance of any such decree or order unstayed and in effect for a period of 60 consecutive days;

(e) the institution by the Issuer or the Co-Issuer of Proceedings to have the Issuer or Co-Issuer, as the case may be, adjudicated as bankrupt or insolvent, or the consent of the Issuer or the Co-Issuer to the institution of bankruptcy or insolvency Proceedings against the Issuer or Co-Issuer, as the case may be, or the filing by the Issuer or the Co-Issuer of a petition or answer or consent seeking reorganization or relief under the Bankruptcy Law or any other similar applicable law, or the consent by the Issuer or the Co-Issuer to the filing of any such petition or to the appointment in a Proceeding of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or the Co-Issuer or of any substantial part of its property, respectively, or the making by the Issuer or the Co-Issuer of an assignment for the benefit of creditors, or the admission by the Issuer or the Co-Issuer in writing of its inability to pay its debts generally as they become due, or the taking of any action by the Issuer or the Co-Issuer in furtherance of any such action; or

(f) on any Measurement Date on which any Class X Notes or Class A Notes are Outstanding, failure of the percentage equivalent of a fraction, (i) the numerator of which is equal to (1) the sum of (x) the Aggregate Principal Balance of the Collateral Obligations, excluding Defaulted Obligations and (y) without duplication, the amounts on deposit in the Collection Account (including Eligible Investments therein) representing Principal Proceeds *plus* (2) the Market Value of all Defaulted Obligations and (ii) the denominator of which is equal to the Aggregate Outstanding Amount of the Class A Notes, to equal or exceed 102.0%.

Promptly upon obtaining knowledge of the occurrence of an Event of Default, each of (i) the Co-Issuers, (ii) the Trustee and (iii) the Investment Manager shall notify each other. Upon the occurrence of an Event of Default known to a Trust Officer of the Trustee, the Trustee shall, not later than five Business Days thereafter, notify the Holders, each Paying Agent, each of the Rating Agencies and the Irish Stock Exchange (with respect to Listed Notes so long as the guidelines of such exchange so require) of such Event of Default in writing (unless such Event of Default has been waived as provided in Section 5.14).

Section 5.2. Acceleration of Maturity; Rescission and Annulment. (a) If an Event of Default occurs and is continuing (other than an Event of Default specified in Section 5.1(d) or (e)), the Trustee may (with the written consent of a Majority of the Controlling Class), and shall (upon the written direction of a Majority of the Controlling Class), by notice to the Co-Issuers, each Rating Agency and the Investment Manager, declare the principal of all the Rated Notes to be immediately due and payable, and upon any such declaration such principal, together with all accrued and unpaid interest thereon (including, in the case of the Deferred Interest Notes, any Deferred Interest) through the date of acceleration and other amounts payable hereunder, shall become immediately due and payable. If an Event of Default specified in Section 5.1(d) or (e) occurs, all unpaid principal, together with all accrued and unpaid interest thereon, of all the Rated Notes, and other amounts payable thereunder and hereunder, shall automatically become due and payable without any declaration or other act on the part of the Trustee or any Holder.

(b) At any time after such a declaration of acceleration of maturity has been made and before a judgment or decree for payment of the Money due has been obtained by the Trustee as hereinafter provided in this Article V, a Majority of the Controlling Class by written notice to the Issuer, the Trustee and the Investment Manager, may rescind and annul such declaration and its consequences if:

(i) The Issuer or the Co-Issuer has paid or deposited with the Trustee a sum sufficient to pay:

(A) all unpaid installments of interest and principal then due on the Rated Notes (other than the non-payment of amounts that have become due solely due to acceleration);

(B) to the extent that the payment of such interest is lawful, interest upon any Deferred Interest at the applicable Interest Rate; and

(C) all unpaid taxes and Administrative Expenses of the Co-Issuers and other sums paid or advanced by the Trustee hereunder or by the Collateral Administrator under the Collateral Administration Agreement or hereunder, accrued and unpaid Base Management Fees and any other amounts then payable by the Co-Issuers hereunder prior to such Administrative Expenses and such Base Management Fees; and

(ii) It has been determined that all Events of Default, other than the nonpayment of the interest on or principal of the Rated Notes that has become due solely by such acceleration, have (A) been cured, and a Majority of the Controlling Class by written notice to the Trustee, with a copy to the Investment Manager, has agreed with such determination (which agreement shall not be unreasonably withheld), or (B) been waived as provided in Section 5.14.

No such rescission shall affect any subsequent Default or impair any right consequent thereon.

Section 5.3. Collection of Indebtedness and Suits for Enforcement by Trustee. The Applicable Issuers covenant that if a default shall occur in respect of the payment of any principal of or interest when due and payable on any Rated Note, the Applicable Issuers will, upon demand of the Trustee, pay to the Trustee, for the benefit of the Holder of such Rated Note, the whole amount, if any, then due and payable on such Rated Note for principal and interest with interest upon the overdue principal and, to the extent that payments of such interest shall be legally enforceable, upon overdue installments of interest, at the applicable Interest Rate, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee and its agents and counsel.

If the Issuer or the Co-Issuer fails to pay such amounts forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, may, and shall upon direction of a Majority of the Controlling Class, institute a Proceeding for the collection of the sums so due and unpaid, may prosecute such Proceeding to judgment or final decree, and may enforce the same against the Applicable Issuers or any other obligor upon the Rated Notes and collect the amounts adjudged or decreed to be payable in the manner provided by law out of the Assets.

If an Event of Default or Enforcement Event occurs and is continuing, the Trustee may in its discretion, and shall (subject to its rights hereunder, including pursuant to Section 6.3(e)) upon written direction of the Majority of the Controlling Class, proceed to protect and enforce its rights and the rights of the Secured Parties by such appropriate Proceedings as the Trustee shall deem most effectual (if no such direction is received by the Trustee) or as the Trustee may be directed by the Majority of the Controlling Class, to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy or legal or equitable right vested in the Trustee by this Indenture or by law.

In case there shall be pending Proceedings relative to the Issuer or the Co-Issuer or any other obligor upon the Rated Notes under the Bankruptcy Law or any other applicable bankruptcy, insolvency or other similar law, or in case a receiver, assignee or trustee in bankruptcy or reorganization, liquidator, sequestrator or similar official shall have been appointed for or taken possession of the Issuer, the Co-Issuer or their respective property or such other obligor or its property, or in case of any other comparable Proceedings relative to the Issuer, the Co-Issuer or other obligor upon the Rated Notes, or the creditors or property of the Issuer, the Co-Issuer or such other obligor, the Trustee, regardless of whether the principal of any Rated Note shall then be due and payable as therein expressed or by declaration or otherwise and regardless of whether the Trustee shall have made any demand pursuant to the provisions of this Section 5.3, shall be entitled and empowered, by intervention in such Proceedings or otherwise:

(a) to file and prove a claim or claims for the whole amount of principal and interest owing and unpaid in respect of the Rated Notes upon direction by a Majority of the Controlling Class and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for reasonable compensation to the Trustee and each predecessor Trustee, and their respective agents, attorneys and counsel, and for reimbursement of all reasonable expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee, except as a result of negligence or bad faith) and of the Rated Noteholders allowed in any Proceedings relative to the Issuer, the Co-Issuer or other obligor upon the Rated Notes or to the creditors or property of the Issuer, the Co-Issuer or such other obligor;

(b) unless prohibited by applicable law and regulations, to vote on behalf of the Rated Noteholders upon the direction of a Majority of the Controlling Class, in any election of a trustee or a standby trustee in arrangement, reorganization, liquidation or other bankruptcy or insolvency Proceedings or person performing similar functions in comparable Proceedings; and

(c) to collect and receive any amounts or other property payable to or deliverable on any such claims, and to distribute all amounts received with respect to the claims of the Holders and of the Trustee on their behalf; and any trustee, receiver or liquidator, custodian or other similar official is hereby authorized by each of the Rated Noteholders to make payments to the Trustee, and, in the event that the Trustee shall consent to the making of

payments directly to the Rated Noteholders to pay to the Trustee such amounts as shall be sufficient to cover reasonable compensation to the Trustee, each predecessor Trustee and their respective agents, attorneys and counsel, and all other reasonable expenses and liabilities incurred, and all advances made, by the Trustee and each predecessor Trustee except as a result of negligence or bad faith.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or vote for or accept or adopt on behalf of any Rated Noteholders, any plan of reorganization, arrangement, adjustment or composition affecting the Rated Notes or any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Rated Noteholders, as applicable, in any such Proceeding except, as aforesaid, to vote for the election of a trustee in bankruptcy or similar person.

In any Proceedings brought by the Trustee on behalf of the Holders of the Rated Notes (and any such Proceedings involving the interpretation of any provision of this Indenture to which the Trustee shall be a party), the Trustee shall be held to represent all the Holders of the Rated Notes.

Notwithstanding anything in this Section 5.3 to the contrary, the Trustee may not sell or liquidate the Assets or institute Proceedings in furtherance thereof pursuant to this Section 5.3 except according to the provisions specified in Section 5.5(a).

Section 5.4. Remedies. (a) If the maturity of the Rated Notes has been accelerated as provided in Section 5.2(a) and such acceleration and its consequences have not been rescinded and annulled as provided in Section 5.2(b) or if the Rated Notes have become due and payable at Stated Maturity or on any Redemption Date and shall remain unpaid (either such event, an "Enforcement Event"), the Co-Issuers agree that the Trustee may, and shall, upon written direction (with a copy to the Investment Manager) of a Majority of the Controlling Class (subject to the Trustee's rights hereunder, including pursuant to Section 6.3(e)), to the extent permitted by applicable law, exercise one or more of the following rights, privileges and remedies:

(i) institute Proceedings for the collection of all amounts then payable on the Rated Notes or otherwise payable under this Indenture, whether by declaration or otherwise, enforce any judgment obtained, and collect from the Assets any amounts adjudged due;

(ii) sell or cause the sale of all or a portion of the Assets or rights or interests therein, at one or more public or private sales called and conducted in any manner permitted by law and in accordance with Section 5.17;

(iii) institute Proceedings from time to time for the complete or partial foreclosure of this Indenture with respect to the Assets;

(iv) exercise any remedies of a secured party under the UCC and take any other appropriate action to protect and enforce the rights and remedies of the Trustee and the Holders of the Rated Notes hereunder (including exercising all rights of the Trustee under the Account Agreement); and

(v) exercise any other rights and remedies that may be available at law or in equity;

provided that the Trustee may not sell or liquidate the Assets or institute Proceedings in furtherance thereof pursuant to this Section 5.4 except according to the provisions of Section 5.5(a).

The Trustee may, but need not, obtain and rely upon an opinion or advice of an Independent investment banking firm of national reputation (the cost of which shall be payable as an Administrative Expense) in structuring and distributing notes similar to the Rated Notes, which may be the Placement Agent, or other appropriate advisors, as to the feasibility of any action proposed to be taken in accordance with this Section 5.4 and as to the sufficiency of the proceeds and other amounts receivable with respect to the Assets to make the required payments of principal of and interest on the Rated Notes, which opinion or advice shall be conclusive evidence as to such feasibility or sufficiency.

(b) If an Event of Default as described in Section 5.1(c) has occurred and is continuing the Trustee may, and at the direction of the Holders of not less than 25% of the Aggregate Outstanding Amount of the Controlling Class in accordance with Section 5.8(b) shall (subject to the Trustee's rights hereunder, including pursuant to Section 6.3(e)), institute a Proceeding solely to compel performance of the covenant or agreement or to cure the representation or warranty, the breach of which gave rise to the Event of Default under such Section, and enforce any equitable decree or order arising from such Proceeding.

(c) Upon any sale, whether made under the power of sale hereby given or by virtue of judicial Proceedings, any Secured Party may bid for and purchase the Assets or any part thereof and, upon compliance with the terms of sale, may hold, retain, possess or dispose of such property in its or their own absolute right without accountability.

Upon any sale, whether made under the power of sale hereby given or by virtue of judicial Proceedings, the receipt of the Trustee, or of the Officer making a sale under judicial Proceedings, shall be a sufficient discharge to the purchaser or purchasers at any sale for its or their purchase Money, and such purchaser or purchasers shall not be obliged to see to the application thereof.

Any such sale, whether under any power of sale hereby given or by virtue of judicial Proceedings, shall bind the Co-Issuers, the Trustee and the Holders of the Rated Notes, shall operate to divest all right, title and interest whatsoever, either at law or in equity, of each of them in and to the property sold, and shall be a perpetual bar, both at law and in equity, against each of them and their successors and assigns, and against any and all Persons claiming through or under them.

(d) Notwithstanding any other provision of this Indenture, none of the Trustee, the Secured Parties or the beneficial owners or Holders of any Notes may (and the beneficial owners and Holders of each Class of Notes agree, for the benefit of all beneficial owners and Holders of each Class of Notes, that they shall not), prior to the date which is one year (or if longer, any applicable preference period then in effect) *plus* one day after the payment

in full of all Notes, institute against, or join any other Person in instituting against, the Issuer, the Co-Issuer or any Issuer Subsidiary any bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation Proceedings, or other Proceedings under Cayman Islands, U.S. federal or state bankruptcy or similar laws. Nothing in this Section 5.4 shall preclude, or be deemed to estop, the Trustee, any Secured Party or any Holder (i) from taking any action prior to the expiration of the aforementioned period in (A) any case or Proceeding voluntarily filed or commenced by the Issuer, the Co-Issuer or any Issuer Subsidiary or (B) any involuntary insolvency Proceeding filed or commenced by a Person other than the Trustee, such Secured Party or such Holder, respectively, or (ii) from commencing against the Issuer, the Co-Issuer or any Issuer Subsidiary or any of their respective properties any legal action which is not a bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation Proceeding.

(e) The Issuer, the Co-Issuer or any Issuer Subsidiary, as applicable, shall, subject to the availability of funds therefor, timely file an answer and any other appropriate pleading objecting to (i) the institution of any Proceeding to have the Issuer, the Co-Issuer or any Issuer Subsidiary, as the case may be, adjudicated as bankrupt or insolvent or (ii) the filing of any petition seeking relief, reorganization, arrangement, adjustment or composition of or in respect of the Issuer, the Co-Issuer or any Issuer Subsidiary, as the case may be, under the Bankruptcy Law or any other applicable law. The reasonable fees, costs, charges and expenses incurred by the Issuer (including reasonable attorneys' fees and expenses) in connection with taking any such action shall be paid as Administrative Expenses.

Section 5.5. Optional Preservation of Assets. (a) If an Enforcement Event has occurred and is continuing (unless the Trustee has commenced exercising remedies pursuant to Section 5.4), then the Investment Manager may continue to direct sales and other dispositions, and purchases, of Collateral Obligations in accordance with and to the extent permitted pursuant to Section 4.4 and Article XII. If an Enforcement Event has occurred and is continuing, the Trustee shall retain the Assets securing the Rated Notes intact (subject to the rights of the Investment Manager pursuant to the preceding sentence), collect and cause the collection of the proceeds thereof and make and apply all payments and deposits and maintain all accounts in respect of the Assets and the Notes in accordance with the Priority of Payments and the provisions of Article X, Article XII and Article XIII, unless:

(i) the Trustee, pursuant to Section 5.5(c), determines that the anticipated proceeds of a sale or liquidation of the Assets (after deducting the anticipated reasonable expenses of such sale or liquidation) would be sufficient to discharge in full the amounts then due (or, in the case of interest, accrued) and unpaid on the Rated Notes for principal and interest (including accrued and unpaid Deferred Interest), and all other amounts payable prior to payment of principal on such Rated Notes (including amounts due and owing, and amounts anticipated to be due and owing, as Administrative Expenses (without regard to the Administrative Expense Cap) and due and unpaid Base Management Fee) and the Investment Manager and a Majority of the Controlling Class agrees with such determination;

(ii) a Supermajority of each Class of the Rated Notes (voting separately by Class) directs the sale and liquidation of the Assets; or

(iii) if no Rated Notes are Outstanding, a Majority of the Subordinated Notes directs the sale and liquidation of the Assets.

Directions by Holders under clauses (ii) and (iii) above will be effective when delivered to the Issuer, the Trustee and the Investment Manager.

(b) Nothing contained in Section 5.5(a) shall be construed to require the Trustee to sell the Assets if the conditions set forth in clause (i), (ii) or (iii) of Section 5.5(a) are not satisfied. Nothing contained in Section 5.5(a) shall be construed to require the Trustee to preserve the Assets securing the Rated Notes if prohibited by applicable law.

(c) In determining whether the condition specified in Section 5.5(a)(i) exists, the Trustee shall obtain, with the cooperation and assistance of the Investment Manager, bid prices with respect to each security contained in the Assets from two nationally recognized dealers (as specified by the Investment Manager in writing) at the time making a market in such notes and shall compute the anticipated proceeds of sale or liquidation on the basis of the lower of such bid prices for each such security. In addition, for the purposes of determining issues relating to the execution of a sale or liquidation of the Assets and the execution of a sale or other liquidation thereof in connection with a determination whether the condition specified in Section 5.5(a)(i) exists, the Trustee may retain and rely on an opinion or advice of an Independent investment banking firm of national reputation or other appropriate advisors (the cost of which shall be payable as an Administrative Expense).

The Trustee shall deliver to the Holders and the Investment Manager a report stating the results of any determination required pursuant to Section 5.5(a)(i) no later than 10 days after such determination is made. The Trustee shall make the determinations required by Section 5.5(a)(i) at the written request of a Majority of the Controlling Class at any time during which the second sentence of Section 5.5(a) applies; *provided* that any such request made more frequently than once in any 90-day period shall be at the expense of such requesting party or parties.

Section 5.6. Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under this Indenture or under any of the Rated Notes may be prosecuted and enforced by the Trustee without the possession of any of the Rated Notes or the production thereof in any trial or other Proceeding relating thereto, and any such action or Proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall be applied as set forth in Section 5.7.

Section 5.7. Application of Money Collected. Following the commencement of exercise of remedies by the Trustee pursuant to Section 5.4, any amounts collected by the Trustee with respect to the Notes pursuant to this Article V and any amounts that may then be held or thereafter received by the Trustee with respect to the Notes hereunder shall be applied, subject to Section 13.1 and in accordance with the provisions of Section 11.1(a), at the date or dates fixed by the Trustee. Upon the final distribution of all proceeds of any liquidation effected hereunder, the provisions of Section 4.1(a) shall be deemed satisfied for the purposes of discharging this Indenture pursuant to Article IV.

Section 5.8. Limitation on Suits. No Holder of any Note shall have any right to institute any Proceedings, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Holder has previously given to the Trustee (with a copy to the Investment Manager) written notice of an Event of Default;

(b) the Holders of not less than 25% of the then Aggregate Outstanding Amount of the Controlling Class shall have made written request to the Trustee to institute Proceedings in respect of such Event of Default in its own name as Trustee hereunder and such Holder or Holders have provided the Trustee indemnity reasonably satisfactory to the Trustee against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities to be incurred in compliance with such request;

(c) the Trustee, for 30 days after its receipt of such notice, request and provision of such indemnity, has failed to institute any such Proceeding; and

(d) no direction inconsistent with such written request has been given to the Trustee during such 30-day period by a Majority of the Controlling Class; it being understood and intended that no one or more Holders shall have any right in any manner whatever by virtue of, or by availing itself of, any provision of this Indenture to affect, disturb or prejudice the rights of any other Holders of the Notes of the same Class or to obtain or to seek to obtain priority or preference over any other Holders of the Notes of the same Class or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Notes of the same Class subject to and in accordance with Section 13.1 and the Priority of Payments.

In the event the Trustee shall receive conflicting or inconsistent requests and indemnity pursuant to this Section 5.8 from two or more groups of Holders of the Controlling Class, each representing less than a Majority of the Controlling Class, the Trustee shall act in accordance with the request specified by the group of Holders with the greatest percentage of the Aggregate Outstanding Amount of the Controlling Class, notwithstanding any other provisions of this Indenture. If all such groups represent the same percentage, the Trustee, in its sole discretion, may determine what action, if any, shall be taken.

Section 5.9. Unconditional Rights of Holders to Receive Principal and Interest. (a) Subject to Section 2.7(j), but notwithstanding any other provision of this Indenture, the Holder of any Rated Note shall have the right, which is absolute and unconditional, to receive payment of the principal of and interest on such Rated Note, as such principal, interest and other amounts become due and payable in accordance with the Priority of Payments and Section 13.1, as the case may be, and, subject to the provisions of Section 5.4 and Section 5.8, to institute proceedings for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder. Holders of Rated Notes ranking junior to Rated Notes still Outstanding shall have no right to institute Proceedings for the enforcement of any such payment until such time as no Priority Class to such Rated Note remains Outstanding, which right shall be subject to the provisions of Section 5.4(d) and Section 5.8, and shall not be impaired without the consent of any such Holder.

(b) Subject to Section 2.7(j), but notwithstanding any other provision of this Indenture, the Holder of any Subordinated Notes shall have the right, which is absolute and unconditional, to receive payment of the principal of and Excess Interest payable on such Subordinated Notes, as such principal and Excess Interest becomes due and payable in accordance with the Priority of Payments. Holders of Subordinated Notes shall have no right to institute proceedings for the enforcement of any such payment until such time as no Rated Note remains Outstanding, which right shall be subject to the provisions of Sections 5.4(d) and 5.8 to institute proceedings for the enforcement of any such payment, and such right shall not be impaired without the consent of such Holder.

Section 5.10. Restoration of Rights and Remedies. If the Trustee or any Holder has instituted any Proceeding to enforce any right or remedy under this Indenture and such Proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case the Co-Issuers, the Trustee and the Holder shall, subject to any determination in such Proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee and the Holder shall continue as though no such Proceeding had been instituted.

Section 5.11. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 5.12. Delay or Omission Not Waiver. No delay or omission of the Trustee or any Holder of Rated Notes to exercise any right or remedy accruing upon any Event of Default or Enforcement Event shall impair any such right or remedy or constitute a waiver of any such Event of Default or Enforcement Event or an acquiescence therein or of a subsequent Event of Default or Enforcement Event. Every right and remedy given by this Article V or by law to the Trustee or to the Holders of the Rated Notes may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders of the Rated Notes.

Section 5.13. Control by Majority of Controlling Class. Notwithstanding any other provision of this Indenture, a Majority of the Controlling Class shall have the right, following the occurrence, and during the continuance of, an Event of Default or an Enforcement Event, to cause the institution of and direct the time, method and place of conducting any Proceeding for any remedy available to the Trustee or exercising any trust or power conferred upon the Trustee under this Indenture; *provided that*:

(a) such direction shall not conflict with any rule of law or with any express provision of this Indenture;

(b) the Trustee may take any other action deemed proper by the Trustee that is not inconsistent with such direction; *provided that* subject to Section 6.1, the Trustee need not take any action that it determines might involve it in liability (unless the Trustee has received the indemnity as set forth in (c) below);

(c) the Trustee shall have been provided with indemnity reasonably satisfactory to it; and

(d) notwithstanding the foregoing, any direction to the Trustee to undertake a Sale of the Assets must satisfy the requirements of Section 5.5.

Section 5.14. Waiver of Past Defaults. Prior to the time a judgment or decree for payment of the Money due has been obtained by the Trustee, as provided in this Article V, a Majority of the Controlling Class may on behalf of the Holders of all the Notes waive any past Event of Default or any occurrence that is, or with notice or the lapse of time or both would become, an Event of Default and its consequences, except any such Event of Default or occurrence:

(a) in the payment of the principal of or interest on any Rated Note (which may be waived only with the consent of the Holder of such Rated Note);

(b) in respect of a covenant or provision hereof that under Section 8.2 cannot be modified or amended without the waiver or consent of the Holder of each Outstanding Note materially and adversely affected thereby (which may be waived only with the consent of each such Holder); or

(c) in respect of a representation contained in Section 7.19.

In the case of any such waiver, the Co-Issuers, the Trustee and the Holders of the Notes shall be restored to their former positions and rights hereunder, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereto. The Trustee shall promptly give written notice of any such waiver to each Rating Agency, the Investment Manager and each Holder.

Upon any such waiver, such Event of Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereto.

Section 5.15. Undertaking for Costs. All parties to this Indenture agree, and each Holder of any Note by such Holder's acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section 5.15 shall not apply to any suit instituted by the Trustee, to any suit instituted by any Holder, or group of Holders, holding in the aggregate more than 10% in Aggregate Outstanding Amount of the Controlling Class, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or interest on any Rated Note on or after the applicable Stated Maturity (or, in the case of redemption, on or after the applicable Redemption Date).

Section 5.16. Waiver of Stay or Extension Laws. The Co-Issuers covenant (to the extent that they may lawfully do so) that they will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any valuation, appraisal, redemption or marshaling law or rights, in each case wherever enacted, now or at any time hereafter in force, which may affect the covenants, the performance of or any remedies under this Indenture; and the Co-Issuers (to the extent that they may lawfully do so) hereby expressly waive all benefit or advantage of any such law or rights, and covenant that they will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted or rights created.

Section 5.17. Sale of Assets. (a) The power to effect any sale (a “Sale”) of any portion of the Assets pursuant to Sections 5.4 and 5.5 shall not be exhausted by any one or more Sales as to any portion of such Assets remaining unsold, but shall continue unimpaired until the entire Assets shall have been sold or all amounts secured by the Assets shall have been paid. The Trustee may upon notice to the Holders (with a copy to the Investment Manager), and shall, upon direction of a Majority of the Controlling Class, from time to time postpone any Sale by public announcement made at the time and place of such Sale. The Trustee hereby expressly waives its rights to any amount fixed by law as compensation for any Sale; *provided* that the Trustee shall be authorized to deduct the reasonable costs, charges and expenses incurred by it in connection with such Sale from the proceeds thereof notwithstanding the provisions of Section 6.7.

(b) The Trustee may bid for and acquire any portion of the Assets in connection with a public Sale thereof, and may pay all or part of the purchase price by crediting against amounts owing on the Rated Notes or other amounts secured by the Assets, all or part of the net proceeds of such Sale after deducting the reasonable costs, charges and expenses incurred by the Trustee in connection with such Sale notwithstanding the provisions of Section 6.7. The Rated Notes need not be produced in order to complete any such Sale, or in order for the net proceeds of such Sale to be credited against amounts owing on the Rated Notes. The Trustee may hold, lease, operate, manage or otherwise deal with any property so acquired in any manner permitted by law in accordance with this Indenture.

(c) If any portion of the Assets consists of notes issued without registration under the Securities Act (“Unregistered Notes”), the Trustee may seek an Opinion of Counsel, or, if no such Opinion of Counsel can be obtained and with the consent of a Majority of the Controlling Class, seek a no action position from the Securities and Exchange Commission or any other relevant federal or state regulatory authorities, regarding the legality of a public or private Sale of such Unregistered Notes.

(d) The Trustee shall execute and deliver an appropriate instrument of conveyance transferring its interest in any portion of the Assets in connection with a Sale thereof, without recourse, representation or warranty. In addition, the Trustee is hereby irrevocably appointed the agent and attorney in fact of the Issuer to transfer and convey its interest in any

portion of the Assets in connection with a Sale thereof, and to take all action necessary to effect such Sale. No purchaser or transferee at such a sale shall be bound to ascertain the Trustee's authority, to inquire into the satisfaction of any conditions precedent or see to the application of such Sale proceeds.

Section 5.18. Action on the Notes. The Trustee's right to seek and recover judgment on the Notes or under this Indenture shall not be affected by the seeking or obtaining of or application for any other relief under or with respect to this Indenture. Neither the lien of this Indenture nor any rights or remedies of the Trustee or the Holders shall be impaired by the recovery of any judgment by the Trustee against the Issuer or by the levy of any execution under such judgment upon any portion of the Assets or upon any of the assets of the Issuer or the Co-Issuer.

ARTICLE VI

THE TRUSTEE

Section 6.1. Certain Duties and Responsibilities. (a) Except during the occurrence and continuation of an Event of Default known to the Trustee:

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture; *provided* that in the case of any such certificates or opinions which by any provision hereof are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they substantially conform to the requirements of this Indenture and shall promptly, but in any event within three Business Days in the case of an Officer's certificate furnished by the Investment Manager, notify the party delivering the same if such certificate or opinion does not conform. If a corrected form shall not have been delivered to the Trustee within 15 days after such notice from the Trustee, the Trustee shall so notify the Holders (with a copy to the Investment Manager).

(b) If an Event of Default known to the Trustee has occurred and is continuing, the Trustee shall, prior to the receipt of directions, if any, from a Majority of the Controlling Class, or such other percentage as permitted by this Indenture, exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this subsection shall not be construed to limit the effect of subsection (a) of this Section 6.1;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer, unless it shall be proven that the Trustee was negligent in ascertaining the pertinent facts;

(iii) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Issuer or the Co-Issuer or the Investment Manager in accordance with this Indenture and/or a Majority (or such other percentage as may be required by the terms hereof) of the Controlling Class (or other Class if required or permitted by the terms hereof), relating to the time, method and place of conducting any Proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture;

(iv) no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers contemplated hereunder, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity satisfactory to it against such risk or liability is not reasonably assured to it unless such risk or liability relates to the performance of its ordinary services, including providing notices under Article V, under this Indenture; and

(v) in no event shall the Trustee be liable for special, indirect, punitive or consequential loss or damage (including lost profits) even if the Trustee has been advised of the likelihood of such damages and regardless of such action.

(d) For all purposes under this Indenture, the Trustee shall not be deemed to have notice or knowledge of any Event of Default described in Sections 5.1(b), (c), (d) or (e) unless a Trust Officer assigned to and working in the Corporate Trust Office has actual knowledge thereof or unless written notice of any event which is in fact such an Event of Default or Default is received by the Trustee at the Corporate Trust Office, and such notice states that an Event of Default has occurred and references the Notes generally, the Issuer, the Co-Issuer, the Assets or this Indenture. For purposes of determining the Trustee's responsibility and liability hereunder, whenever reference is made in this Indenture to such an Event of Default or a Default, such reference shall be construed to refer only to such an Event of Default or Default of which the Trustee is deemed to have notice as described in this Section 6.1.

(e) The Trustee will deliver all notices to the Holders forwarded to the Trustee by the Issuer or the Investment Manager for such purpose. Upon the Trustee receiving written notice from the Investment Manager that an event constituting "cause" as defined in the Investment Management Agreement has occurred, the Trustee will, not later than three Business Days thereafter, notify the Holders. The Trustee shall have no responsibility to determine whether or not "cause" exists.

(f) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section 6.1.

(g) If within 80 calendar days of delivery of financial information or disbursements (which delivery may be via posting to the Bank's website) the Bank receives written notice of an error or omission related thereto and within five calendar days of the Bank's receipt of such notice the Investment Manager or the Issuer confirms such error or omission, the Bank agrees to use reasonable efforts to correct such error or omission and such use of reasonable efforts shall be the only obligation of the Bank in connection therewith. In no event shall the Bank be obligated to take any action at any time at the request or direction of any Person unless such Person shall have offered to the Bank indemnity reasonably satisfactory to it.

Section 6.2. Notice of Default. Promptly (and in no event later than five Business Days) after the occurrence of any Default actually known to a Trust Officer of the Trustee or after any declaration of acceleration has been made or delivered to the Trustee pursuant to Section 5.2, the Trustee shall notify the Investment Manager, each Rating Agency and all Holders of all Defaults hereunder known to the Trustee, unless such Default shall have been cured or waived.

Section 6.3. Certain Rights of Trustee. Except as otherwise provided in Section 6.1:

(a) the Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Issuer or the Co-Issuer mentioned herein shall be sufficiently evidenced by an Issuer Request or Issuer Order, as the case may be;

(c) whenever in the administration of this Indenture the Trustee shall (i) deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's certificate or (ii) be required to determine the value of any Assets or funds hereunder or the cash flows projected to be received therefrom, the Trustee may, in the absence of bad faith on its part, rely on reports of nationally recognized accountants, investment bankers or other persons qualified to provide the information required to make such determination, including nationally recognized dealers in notes of the type being valued and securities quotation services;

(d) as a condition to the taking or omitting of any action by it hereunder, the Trustee may consult with counsel and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted by it hereunder in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise or to honor any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have provided to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities which might reasonably be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, note or other paper or document, but the Trustee, in its discretion, may, and upon the written direction of a Majority of the Controlling Class shall (subject to the right of the Trustee hereunder to be satisfactorily indemnified), make such further inquiry or investigation into such facts or matters as it may see fit or as it shall be directed, and the Trustee shall be entitled, on reasonable prior notice to the Co-Issuers and the Investment Manager, to examine the books and records relating to the Notes and the Assets, personally or by agent or attorney, during the Co-Issuers' or the Investment Manager's normal business hours; *provided* that the Trustee shall, and shall cause its agents to, hold in confidence all such information, except (i) to the extent disclosure may be required by law by any regulatory, administrative or governmental authority and (ii) to the extent that the Trustee, in its sole discretion, may determine that such disclosure is consistent with its obligations hereunder; *provided, further*, that the Trustee may disclose on a confidential basis any such information to its agents, attorneys and auditors in connection with the performance of its responsibilities hereunder;

(g) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys; *provided* that the Trustee shall not be responsible for any misconduct or negligence on the part of any agent appointed, or attorney appointed, with due care by it hereunder;

(h) the Trustee shall not be liable for any action it takes or omits to take in good faith that it reasonably believes to be authorized or within its rights or powers hereunder;

(i) nothing herein shall be construed to impose an obligation on the part of the Trustee to recalculate, evaluate or verify or independently determine the accuracy of any report, certificate or information received from the Issuer or Investment Manager (unless and except to the extent otherwise expressly set forth herein);

(j) to the extent any defined term hereunder, or any calculation required to be made or determined by the Trustee hereunder, is dependent upon or defined by reference to generally accepted accounting principles (as in effect in the United States) ("GAAP"), the Trustee shall be entitled to request and receive (and rely upon) instruction from the Issuer or the Independent accountants appointed by the Issuer pursuant to Section 10.9 (and in the absence of its receipt of timely instruction therefrom, shall be entitled to obtain from an Independent accountant at the expense of the Issuer) as to the application of GAAP in such connection, in any instance;

(k) the Trustee shall not be liable for the actions or omissions of, or any inaccuracies in the records of, the Investment Manager, the Issuer, the Co-Issuer, DTC, Euroclear, Clearstream or any other clearing agency or depository or any Paying Agent (other

than the Trustee), and without limiting the foregoing, the Trustee shall not be under any obligation to monitor, evaluate or verify compliance by the Investment Manager with the terms hereof or of the Investment Management Agreement, or to verify or independently determine the accuracy of information received by the Trustee from the Investment Manager (or from any selling institution, agent bank, trustee or similar source) with respect to the Assets;

(l) notwithstanding any term hereof (or any term of the UCC that might otherwise be construed to be applicable to a Securities Intermediary) to the contrary, neither the Trustee nor the Intermediary shall be under a duty or obligation in connection with the acquisition or Grant by the Issuer to the Trustee of any item constituting the Assets, or to evaluate the sufficiency of the documents or instruments delivered to it by or on behalf of the Issuer in connection with its Grant or otherwise, or in that regard to examine any Underlying Instrument, in each case, in order to determine compliance with applicable requirements of and restrictions on transfer in respect of such Assets;

(m) in the event the Bank is also acting in the capacity of Paying Agent, Registrar, Transfer Agent, Calculation Agent or Intermediary, the rights, protections, benefits, immunities and indemnities afforded to the Trustee pursuant to this Article VI shall also be afforded to the Bank acting in such capacities; *provided* that such rights, protections, benefits, immunities and indemnities shall be in addition to any rights, immunities and indemnities provided in the Account Agreement or any other documents to which the Bank in such capacity is a party;

(n) any permissive right of the Trustee to take or refrain from taking actions enumerated in this Indenture shall not be construed as a duty;

(o) to the extent permitted by applicable law, the Trustee shall not be required to give any bond or surety in respect of the execution of this Indenture or otherwise;

(p) the Trustee shall not be deemed to have notice or knowledge of any matter unless a Trust Officer has actual knowledge thereof or unless written notice thereof is received by the Trustee at the Corporate Trust Office and such notice references the Notes generally, the Issuer, the Co-Issuer or this Indenture;

(q) the Trustee shall not be responsible for delays or failures in performance resulting from circumstances beyond its control (such circumstances include but are not limited to acts of God, strikes, lockouts, riots, acts of war, loss or malfunctions of utilities, computer (hardware or software) or communications services);

(r) in making or disposing of any investment permitted by this Indenture, the Trustee is authorized to deal with itself (in its individual capacity) or with any one or more of its Affiliates, in each case on an arm's-length basis, whether it or such Affiliate is acting as a subagent of the Trustee or for any third person or dealing as principal for its own account. If otherwise qualified, obligations of the Bank or any of its Affiliates shall qualify as Eligible Investments hereunder;

(s) the Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (i) serving as investment adviser, administrator, shareholder, servicing agent, custodian or subcustodian with respect to certain of the Eligible Investments, (ii) using Affiliates to effect transactions in certain Eligible Investments and (iii) effecting transactions in certain Eligible Investments. Such compensation is not payable or reimbursable under Section 6.7; and

(t) the Trustee shall have no duty (i) to see to any recording, filing, or depositing of this Indenture or any supplemental indenture or any financing statement or continuation statement evidencing a security interest, or to see to the maintenance of any such recording, filing or depositing or to any rerecording, refiling or redepositing of any thereof or (ii) to maintain any insurance.

Section 6.4. Not Responsible for Recitals or Issuance of Rated Notes. The recitals contained herein and in the Rated Notes, other than the Certificate of Authentication thereon, shall be taken as the statements of the Applicable Issuers; and the Trustee assumes no responsibility for their correctness. The Trustee makes no representation as to the validity or sufficiency of this Indenture (except as may be made with respect to the validity of the Trustee's obligations hereunder), the Assets or the Rated Notes. The Trustee shall not be accountable for the use or application by the Co-Issuers of the Rated Notes or the proceeds thereof or any Money paid to the Co-Issuers pursuant to the provisions hereof.

Section 6.5. May Hold Rated Notes. The Trustee, any Paying Agent, Registrar or any other agent of the Co-Issuers, in its individual or any other capacity, may become the owner or pledgee of Rated Notes and may otherwise deal with the Co-Issuers or any of their Affiliates with the same rights it would have if it were not Trustee, Paying Agent, Registrar or such other agent.

Section 6.6. Money Held in Trust. Money held by the Trustee hereunder shall be held in trust to the extent required herein. The Trustee shall be under no liability for interest on any Money received by it hereunder except to the extent of income or other gain on investments which are deposits in or certificates of deposit of the Bank in its commercial capacity and income or other gain actually received by the Trustee on Eligible Investments.

Section 6.7. Compensation and Reimbursement. (a) The Issuer agrees:

(i) to pay the Trustee on each Payment Date reasonable compensation, as set forth in a separate fee schedule, for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(ii) except as otherwise expressly provided herein, to reimburse the Trustee in a timely manner upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture or other Transaction Document (including, without limitation, securities transaction charges and the reasonable compensation and expenses and disbursements of its agents and legal counsel and of any accounting firm or investment banking firm employed by the Trustee pursuant to Section 5.4, 5.5, 6.3(c) or 10.7, except any such expense, disbursement or advance as may be attributable to its negligence, willful misconduct or bad faith) but with respect to securities transaction charges, only to the extent any such charges have not been waived during a Collection Period due to the Trustee's receipt of a payment from a financial institution with respect to certain Eligible Investments, as specified by the Investment Manager;

(iii) to indemnify the Trustee and its Officers, directors, employees and agents for, and to hold them harmless against, any loss, liability or expense (including reasonable attorney's fees and costs) incurred without negligence, willful misconduct or bad faith on their part, arising out of or in connection with the acceptance or administration of this trust or the performance of duties hereunder, including the costs and expenses of defending themselves against any claim or liability in connection with the exercise or performance of any of their powers or duties hereunder and under any other agreement or instrument related hereto; and

(iv) to pay the Trustee reasonable additional compensation together with its expenses (including reasonable counsel fees) for any collection or enforcement action taken pursuant to Section 6.13 or Article V.

(b) The Trustee shall receive amounts pursuant to this Section 6.7 and any other amounts payable to it under this Indenture only as provided in Sections 11.1(a)(i), (ii) and (iii) and only to the extent that funds are available for the payment thereof. Subject to Section 6.9, the Trustee shall continue to serve as Trustee under this Indenture notwithstanding the fact that the Trustee shall not have received amounts due it hereunder; *provided* that nothing herein shall impair or affect the Trustee's rights under Section 6.9. No direction by the Holders shall affect the right of the Trustee to collect amounts owed to it under this Indenture. If on any date when a fee or expense shall be payable to the Trustee pursuant to this Indenture insufficient funds are available for the payment thereof, any portion of a fee not so paid shall be deferred and payable on such later date on which a fee shall be payable and sufficient funds are available therefor.

(c) The Trustee hereby agrees not to cause the filing of a petition in bankruptcy with respect to the Issuer, the Co-Issuer or any Issuer Subsidiary until at least one year (or if longer the applicable preference period then in effect) *plus* one day, after the payment in full of all Rated Notes issued under this Indenture.

(d) The Issuer's payment obligations to the Trustee under this Section 6.7 shall be secured by the lien of this Indenture, and shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Default or an Event of Default under Section 5.1(d) or (e), the expenses are intended to constitute expenses of administration under Bankruptcy Law or any other applicable federal or state bankruptcy, insolvency or similar law.

Section 6.8. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder which shall be an Independent organization or entity organized and doing business under the laws of the United States of America or of any state thereof, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least U.S.\$200,000,000, subject to supervision or examination by federal or state authority, having a

rating of at least “Baa1” by Moody’s and at least “BBB+” by S&P and having an office within the United States. If such organization or entity publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 6.8, the combined capital and surplus of such organization or entity shall be deemed to be its combined capital and surplus as set forth in its most recent published report of condition. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 6.8, it shall resign immediately in the manner and with the effect hereinafter specified in this Article VI.

Section 6.9. Resignation and Removal; Appointment of Successor. (a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article VI shall become effective until the acceptance of appointment by the successor Trustee under Section 6.10.

(b) The Trustee may resign at any time by giving not less than 30 days’ written notice thereof to the Co-Issuers, the Investment Manager, the Holders and each Rating Agency. Upon receiving such notice of resignation, the Co-Issuers shall promptly appoint a successor trustee or trustees satisfying the requirements of Section 6.8 by written instrument, in duplicate, executed by an Authorized Officer of the Issuer and an Authorized Officer of the Co-Issuer, one copy of which shall be delivered to the Trustee so resigning and one copy to the successor Trustee or Trustees, together with a copy to each Holder and the Investment Manager; *provided* that such successor Trustee shall be appointed only upon the written consent of a Majority of the Rated Notes of each Class or, at any time when an Event of Default or Enforcement Event has occurred and is continuing or when a successor Trustee has been appointed pursuant to Section 6.9(e), by an Act of a Majority of the Controlling Class. If no successor Trustee shall have been appointed and an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee or any Holder, on behalf of itself and all others similarly situated, may petition any court of competent jurisdiction for the appointment of a successor Trustee satisfying the requirements of Section 6.8.

(c) The Trustee may be removed at any time by Act of a Majority of each Class of Rated Notes or, at any time when an Event of Default or Enforcement Event has occurred and is continuing by an Act of a Majority of the Controlling Class, delivered to the Trustee and to the Co-Issuers.

(d) If at any time:

(i) the Trustee shall cease to be eligible under Section 6.8 and shall fail to resign after written request therefor by the Co-Issuers or by any Holder;

or

(ii) the Trustee shall become incapable of acting or shall be adjudged as bankrupt or insolvent or a receiver or liquidator of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case (subject to Section 6.9(a)), (A) the Co-Issuers, by Issuer Order, may remove the Trustee, or (B) subject to Section 5.15, any Holder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of the Trustee for any reason (other than resignation), the Co-Issuers, by Issuer Order, shall promptly appoint a successor Trustee. If the Co-Issuers shall fail to appoint a successor Trustee within 30 days after such resignation, removal or incapability or the occurrence of such vacancy, a successor Trustee may be appointed by a Majority of the Controlling Class by written instrument delivered to the Issuer and the retiring Trustee. The successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede any successor Trustee proposed by the Co-Issuers. If no successor Trustee shall have been so appointed by the Co-Issuers or a Majority of the Controlling Class and shall have accepted appointment in the manner hereinafter provided, subject to Section 5.15, any Holder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Co-Issuers shall give prompt notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by providing notice of such event to the Investment Manager, to each Rating Agency, the Subordinated Note Paying Agent and to the Holders of the Rated Notes. Each notice shall include the name of the successor Trustee and the address of its Corporate Trust Office. If the Co-Issuers fail to provide such notice within ten days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be given at the expense of the Co-Issuers.

(g) If the Bank shall resign or be removed as Trustee, the Bank shall also resign or be removed as Paying Agent, Calculation Agent, Registrar and any other capacity in which the Bank is then acting pursuant to this Indenture or any other Transaction Document.

Section 6.10. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall meet the requirements of Section 6.8 and shall execute, acknowledge and deliver to the Co-Issuers and the retiring Trustee an instrument accepting such appointment. Upon delivery of the required instruments, the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of the retiring Trustee; but, on request of the Co-Issuers or a Majority of any Class of Rated Notes or the successor Trustee, such retiring Trustee shall, upon payment of its charges then unpaid, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to such successor Trustee all property and Money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Co-Issuers shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

Section 6.11. Merger, Conversion, Consolidation or Succession to Business of Trustee. Any organization or entity into which the Trustee may be merged or converted or with which it may be consolidated, or any organization or entity resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any organization or entity succeeding to all or substantially all of the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, *provided* that such organization or entity shall be otherwise qualified and eligible under this Article VI, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any of the Rated Notes has been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Rated Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such Rated Notes.

Section 6.12. Co-Trustees. At any time or times, for the purpose of meeting the legal requirements of any jurisdiction in which any part of the Assets may at the time be located, the Co-Issuers and the Trustee shall have power to appoint one or more Persons satisfying the requirements of Section 6.8 to act as co-trustee, jointly with the Trustee, of all or any part of the Assets, with the power to file such proofs of claim and take such other actions pursuant to Section 5.6 herein and to make such claims and enforce such rights of action on behalf of the Holders, as such Holders themselves may have the right to do, subject to the other provisions of this Section 6.12.

The Co-Issuers shall join with the Trustee in the execution, delivery and performance of all instruments and agreements necessary or proper to appoint a co-trustee. If the Co-Issuers do not join in such appointment within 15 days after the receipt by them of a request to do so, the Trustee shall have the power to make such appointment.

Should any written instrument from the Co-Issuers be required by any co-trustee so appointed, more fully confirming to such co-trustee such property, title, right or power, any and all such instruments shall, on request, be executed, acknowledged and delivered by the Co-Issuers. The Co-Issuers agree to pay as Administrative Expenses, to the extent funds are available therefor under the Priority of Payments, for any reasonable fees and expenses in connection with such appointment.

Every co-trustee shall, to the extent permitted by law, but to such extent only, be appointed subject to the following terms:

(a) the Rated Notes shall be authenticated and delivered, and all rights, powers, duties and obligations hereunder in respect of the custody of securities, Cash and other personal property held by, or required to be deposited or pledged with, the Trustee hereunder, shall be exercised, solely by the Trustee;

(b) the rights, powers, duties and obligations hereby conferred or imposed upon the Trustee in respect of any property covered by the appointment of a co-trustee shall be conferred or imposed upon and exercised or performed by the Trustee or by the Trustee and such co-trustee jointly as shall be provided in the instrument appointing such co-trustee;

(c) the Trustee at any time, by an instrument in writing executed by it, with the concurrence of the Co-Issuers evidenced by an Issuer Order, may accept the resignation of or remove any co-trustee appointed under this Section 6.12, and in case an Event of Default or Enforcement Event has occurred and is continuing, the Trustee shall have the power to accept the resignation of, or remove, any such co-trustee without the concurrence of the Co-Issuers. A successor to any co-trustee so resigned or removed may be appointed in the manner provided in this Section 6.12;

(d) no co-trustee hereunder shall be personally liable by reason of any act or omission of the Trustee hereunder;

(e) the Trustee shall not be liable by reason of any act or omission of a co-trustee; and

(f) any Act of Holders delivered to the Trustee shall be deemed to have been delivered to each co-trustee.

The Issuer shall notify each Rating Agency and the Investment Manager of the appointment of a co-trustee hereunder.

Section 6.13. Certain Duties of Trustee Related to Delayed Payment of Proceeds. In the event that the Trustee shall not have received a payment with respect to any Asset on its Due Date, (a) the Trustee shall promptly notify the Issuer and the Investment Manager in writing and (b) unless within three Business Days (or the end of the applicable grace period for such payment, if any) after such notice (x) such payment shall have been received by the Trustee or (y) the Issuer, in its absolute discretion (but only to the extent permitted by Section 10.2(a)), shall have made provision for such payment satisfactory to the Trustee in accordance with Section 10.2(a), the Trustee shall, not later than the Business Day immediately following the last day of such period and in any case upon request by the Investment Manager, request the issuer of such Asset, the trustee under the related Underlying Instrument or paying agent designated by either of them, as the case may be, to make such payment not later than three Business Days after the date of such request. In the event that such payment is not made within such time period, the Trustee, subject to the provisions of clause (iv) of Section 6.1(c), shall take such action as the Investment Manager shall direct. Any such action shall be without prejudice to any right to claim a Default or Event of Default under this Indenture. In the event that the Issuer or the Investment Manager requests a release of an Asset and/or delivers an additional Collateral Obligation in connection with any such action under the Investment Management Agreement, such release and/or substitution shall be subject to Section 10.8 and Article XII, as the case may be. Notwithstanding any other provision hereof, the Trustee shall deliver to the Issuer or its designee any payment with respect to any Asset or any additional Collateral Obligation received after the Due Date thereof to the extent the Issuer previously made provisions for such payment satisfactory to the Trustee in accordance with this Section 6.13 and such payment shall not be deemed part of the Assets.

Section 6.14. Authenticating Agents. Upon the request of the Co-Issuers, the Trustee shall, and if the Trustee so chooses the Trustee may, appoint one or more Authenticating Agents with power to act on its behalf and subject to its direction in the authentication of Rated Notes in connection with issuance, transfers and exchanges under Sections 2.4, 2.5, 2.6 and 8.5, as fully to all intents and purposes as though each such Authenticating Agent had been expressly authorized by such Sections to authenticate such Rated Notes. For all purposes of this Indenture, the authentication of Rated Notes by an Authenticating Agent pursuant to this Section 6.14 shall be deemed to be the authentication of Rated Notes by the Trustee.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of such Authenticating Agent hereunder, without the execution or filing of any further act on the part of the parties hereto or such Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee and the Issuer (with a copy to the Investment Manager). The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and the Co-Issuers (with a copy to the Investment Manager). Upon receiving such notice of resignation or upon such a termination, the Trustee shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Co-Issuers (with a copy to the Investment Manager).

Unless the Authenticating Agent is also the same entity as the Trustee, the Issuer agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services, and reimbursement for its reasonable expenses relating thereto as an Administrative Expense. The provisions of Sections 2.8, 6.4 and 6.5 shall be applicable to any Authenticating Agent.

Section 6.15. Withholding. If any withholding tax is imposed on the Issuer's payment (or allocations of income) under the Notes by law or pursuant to the Issuer's agreement with a governmental authority, such tax shall reduce the amount otherwise distributable to the relevant Holder. The Trustee or any Paying Agent is hereby authorized and directed to retain from amounts otherwise distributable to any Holder sufficient funds for the payment of any tax that is legally owed or required to be withheld by the Issuer by law or pursuant to the Issuer's agreement with a governmental authority (but such authorization shall not prevent the Trustee or such Paying Agent from contesting any such tax in appropriate proceedings and withholding payment of such tax, if permitted by law, pending the outcome of such proceedings) and to timely remit such amounts to the appropriate taxing authority. The amount of any withholding tax imposed by law or pursuant to the Issuer's agreement with a governmental authority with respect to any Note shall be treated as Cash distributed to the relevant Holder at the time it is withheld by the Trustee or Paying Agent. If there is a possibility that withholding tax is payable with respect to a distribution, the Paying Agent or the Trustee may, in its sole discretion, withhold such amounts in accordance with this Section 6.15. If any Holder or beneficial owner wishes to apply for a refund of any such withholding tax, the Trustee or such Paying Agent shall reasonably cooperate with such Person in providing readily available information so long as such Person agrees to reimburse the Trustee for any out-of-pocket expenses incurred. Nothing herein shall impose an obligation on the part of the Trustee or any Paying Agent to determine the amount of any tax or withholding obligation on the part of the Issuer or in respect of the Notes.

Section 6.16. Representations and Warranties of the Bank. The Bank hereby represents and warrants as follows:

(a) Organization. The Bank has been duly organized and is validly existing as a limited purpose national banking association with trust powers under the laws of the United States and has the power to conduct its business and affairs as a trustee, paying agent, registrar, transfer agent, custodian, calculation agent and securities intermediary.

(b) Authorization; Binding Obligations. The Bank has the corporate power and authority to perform the duties and obligations of Trustee, Paying Agent, Registrar, Transfer Agent, Calculation Agent and Intermediary. The Bank has taken all necessary corporate action to authorize the execution, delivery and performance of this Indenture, and all of the documents required to be executed by the Bank pursuant hereto. This Indenture has been duly authorized, executed and delivered by the Bank and constitutes the legal, valid and binding obligation of the Bank enforceable in accordance with its terms subject, as to enforcement, (i) to the effect of bankruptcy, insolvency or similar laws affecting generally the enforcement of creditors' rights as such laws would apply in the event of any bankruptcy, receivership, insolvency or similar event applicable to the Bank and (ii) to general equitable principles (whether enforcement is considered in a proceeding at law or in equity).

(c) Eligibility. The Bank is eligible under Section 6.8 to serve as Trustee hereunder.

(d) No Conflict. Neither the execution, delivery and performance of this Indenture, nor the consummation of the transactions contemplated by this Indenture, (i) is prohibited by, or requires the Bank to obtain any consent, authorization, approval or registration under, any law, statute, rule, regulation, judgment, order, writ, injunction or decree that is binding upon the Bank or any of its properties or assets, or (ii) will violate any provision of, result in any default or acceleration of any obligations under, result in the creation or imposition of any lien pursuant to, or require any consent under, any material agreement to which the Bank is a party or by which it or any of its property is bound.

ARTICLE VII

COVENANTS

Section 7.1. Payment of Principal and Interest. The Applicable Issuers will duly and punctually pay the principal of and interest on the Rated Notes, in accordance with the terms of such Rated Notes and this Indenture pursuant to the Priority of Payments. The Issuer will, to the extent funds are available pursuant to the Priority of Payments, duly and punctually pay all required distributions on the Subordinated Notes to the Subordinated Note Paying Agent, in accordance with the Subordinated Notes, the Amended and Restated Subordinated Note Paying Agency Agreement and this Indenture.

The Issuer shall, subject to the Priority of Payments, reimburse the Co-Issuer for any amounts paid by the Co-Issuer pursuant to the terms of the Notes or this Indenture. The Co-Issuer shall not reimburse the Issuer for any amounts paid by the Issuer pursuant to the terms of the Notes or this Indenture.

Amounts properly withheld under the Code or other applicable law or pursuant to the Issuer's agreement with a governmental authority by any Person from a payment under any Rated Note shall be considered as having been paid by the Issuer to the relevant Holder for all purposes of this Indenture.

Section 7.2. Maintenance of Office or Agency. The Co-Issuers hereby appoint the Trustee as a Paying Agent for payments on the Rated Notes and the Co-Issuers hereby appoint the Trustee at its applicable Corporate Trust Office, as the Co-Issuers' agent where Rated Notes may be surrendered for registration of transfer or exchange. The Co-Issuers may at any time and from time to time appoint additional Paying Agents; *provided* that no Paying Agent shall be appointed in a jurisdiction which subjects payments on the Rated Notes to withholding tax solely as a result of such Paying Agent's activities or its location. If at any time the Co-Issuers shall fail to maintain the appointment of a Paying Agent, or shall fail to furnish the Trustee with the address thereof, presentations and surrenders may be made (subject to the limitations described in the preceding sentence), and Rated Notes may be presented and surrendered for payment, to the Trustee at its main office.

The Co-Issuers have appointed National Corporate Research, Ltd. as their agent upon whom process or demands may be served in any action arising out of or based on this Indenture or the transactions contemplated hereby (the "Process Agent"). The Co-Issuers may at any time and from time to time vary or terminate the appointment of such Process Agent or appoint an additional Process Agent; *provided* that the Co-Issuers will maintain in the Borough of Manhattan, The City of New York, an office or agency where notices and demands to or upon the Co-Issuers in respect of the Notes and this Indenture may be served. If at any time the Co-Issuers shall fail to maintain any required office or agency in the Borough of Manhattan, The City of New York, or shall fail to furnish the Trustee with the address thereof, notices and demands may be served on the Issuer or the Co-Issuer by mailing a copy thereof by registered or certified mail or by overnight courier, postage prepaid, to the Issuer or the Co-Issuer, respectively, at its address specified in Section 14.3 for notices.

Section 7.3. Amounts for Payments to be Held in Trust. All payments of amounts due and payable with respect to any Notes that are to be made from amounts withdrawn from the Payment Account shall be made on behalf of the Issuer by the Trustee or a Paying Agent with respect to payments on the Notes.

When the Applicable Issuers shall have a Paying Agent that is not also the Registrar, they shall furnish, or cause the Registrar to furnish, no later than the fifth calendar day after each Record Date a list, if necessary, in such form as such Paying Agent may reasonably request, of the names and addresses of the Holders of the certificate numbers of individual Notes held by each such Holder.

Whenever the Applicable Issuers shall have a Paying Agent other than the Trustee, they shall, on or before the Business Day next preceding each Payment Date and any Redemption Date, as the case may be, direct the Trustee to deposit on such Payment Date or such Redemption Date, as the case may be, with such Paying Agent, if necessary, an aggregate sum sufficient to pay the amounts then becoming due (to the extent funds are then available for such purpose in the Payment Account), such sum to be held in trust for the benefit of the Persons entitled thereto and (unless such Paying Agent is the Trustee) the Applicable Issuers shall promptly notify the Trustee, with a copy to the Investment Manager, of its action or failure so to act. Any amounts deposited with a Paying Agent (other than the Trustee) in excess of an amount sufficient to pay the amounts then becoming due on the Rated Notes with respect to which such deposit was made shall be paid over by such Paying Agent to the Trustee for application in accordance with Article X.

The initial Paying Agent shall be as set forth in Section 7.2. Any additional or successor Paying Agents shall be appointed by Issuer Order with written notice thereof to the Trustee, with a copy to the Investment Manager; *provided* that so long as the Rated Notes of any Class are rated by a Rating Agency, with respect to any additional or successor Paying Agent, such Paying Agent has (i) a long-term debt rating of “A” and a short-term debt rating “A-1” (or, if it has no short-term rating, a long-term rating of “A+” or higher) by S&P and (ii) a long-term debt rating of “A1” or higher or a short-term debt rating of “P-1” by Moody’s. If such successor Paying Agent ceases to have such ratings, the Co-Issuers shall remove such Paying Agent and appoint a successor Paying Agent within 30 days. The Co-Issuers shall not appoint any Paying Agent that is not, at the time of such appointment, a depository institution or trust company subject to supervision and examination by federal and/or state and/or national banking authorities. The Co-Issuers shall cause each Paying Agent other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee and if the Trustee acts as Paying Agent, it hereby so agrees), subject to the provisions of this Section 7.3, that such Paying Agent will:

(a) allocate all sums received for payment to the Holders for which it acts as Paying Agent on each Payment Date and any Redemption Date among such Holders in the proportion specified in the applicable Distribution Report to the extent permitted by applicable law;

(b) hold all sums held by it for the payment of amounts due with respect to the Rated Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided and pay such sums to such Persons as herein provided;

(c) if such Paying Agent is not the Trustee, immediately resign as a Paying Agent and forthwith pay to the Trustee all sums held by it in trust for the payment of Rated Notes if at any time it ceases to meet the standards set forth above required to be met by a Paying Agent at the time of its appointment;

(d) if such Paying Agent is not the Trustee, immediately give the Trustee, with a copy to the Investment Manager, notice of any default by the Issuer or the Co-Issuer (or any other obligor upon the Notes) in the making of any payment required to be made; and

(e) if such Paying Agent is not the Trustee, during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Co-Issuers may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Issuer Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Co-Issuers or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Co-Issuers or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such Money.

Except as otherwise required by applicable law, any amounts deposited with the Trustee or any Paying Agent in trust for any payment on any Note and remaining unclaimed for two years after such amount has become due and payable shall be paid to the Issuer on Issuer Order; and the Holder of such Note shall thereafter, as an unsecured general creditor, look only to the Issuer for payment of such amounts (but only to the extent of the amounts so paid to the Issuer) and all liability of the Trustee or such Paying Agent with respect to such trust Money shall thereupon cease. The Trustee or such Paying Agent, before being required to make any such release of payment, may, but shall not be required to, adopt and employ, at the expense of the Issuer any reasonable means of notification of such release of payment.

Section 7.4. Existence of Co-Issuers. (a) The Issuer and the Co-Issuer shall, to the maximum extent permitted by applicable law, maintain in full force and effect their existence and rights as companies incorporated or organized under the laws of the Cayman Islands and the State of Delaware, respectively, and shall obtain and preserve their qualification to do business as foreign corporations in each jurisdiction in which such qualifications are or shall be necessary to protect the validity and enforceability of this Indenture, the Notes, or any of the Assets; *provided* that (x) the Issuer shall be entitled to change its jurisdiction of incorporation from the Cayman Islands to any other jurisdiction reasonably selected by the Issuer so long as (i) the Issuer has received a legal opinion (upon which the Trustee may conclusively rely) to the effect that such change is not disadvantageous in any material respect to the Holders, (ii) written notice of such change shall have been given to the Trustee by the Issuer, which notice shall be forwarded by the Trustee to the Holders, the Investment Manager and each Rating Agency and (iii) on or prior to the 15th Business Day following receipt of such notice the Trustee shall not have received written notice from a Majority of the Controlling Class objecting to such change; and (y) the Issuer shall be entitled to take any action required by this Indenture within the United States notwithstanding any provision of this Indenture requiring the Issuer to take such action outside of the United States so long as prior to taking any such action the Issuer receives a legal opinion from nationally recognized legal counsel to the effect that it is not necessary to take such action outside of the United States or any political subdivision thereof in order to prevent the Issuer from becoming subject to U.S. federal, state or local income taxes on a net income basis or any material other taxes to which the Issuer would not otherwise be subject.

(b) The Issuer and the Co-Issuer shall ensure that all corporate or other formalities regarding their respective existences (including holding regular board of directors' and shareholders', or other similar, meetings to the extent required by applicable law) are followed. Neither the Issuer nor the Co-Issuer shall take any action, or conduct its affairs in a manner, that is likely to result in its separate existence being ignored or in its assets and liabilities being substantively consolidated with any other Person in a bankruptcy, reorganization or other insolvency proceeding. Without limiting the foregoing, (i) the Issuer shall not have any subsidiaries (other than the Co-Issuer and any Issuer Subsidiaries), (ii) the Co-Issuer shall not have any subsidiaries and (iii) except to the extent contemplated in the Administration Agreement or the Issuer's declaration of trust by MaplesFS Limited, (x) the Issuer and the Co-Issuer shall not (A) have any employees (other than their respective directors and officers, to the extent they are employees), (B) except as contemplated by the Investment Management Agreement, the Memorandum and Articles, the Registered Office Agreement or the Administration Agreement, engage in any transaction with any shareholder that would constitute a conflict of interest or (C) pay dividends other than in accordance with the terms of this Indenture and the Memorandum and Articles and (y) the Issuer shall (A) maintain books and records separate from any other Person, (B) maintain its accounts separate from those of any other Person, (C) not commingle its assets with those of any other Person, (D) conduct its own business in its own name, (E) maintain separate financial statements (if any), (F) pay its own liabilities out of its own funds, (G) maintain an arm's length relationship with its Affiliates, (H) use separate stationery, invoices and checks, (I) hold itself out as a separate Person and (J) correct any known misunderstanding regarding its separate identity.

(c) With respect to any Issuer Subsidiary:

(i) the Issuer shall not permit such Issuer Subsidiary to incur any indebtedness;

(ii) the constitutive documents of such Issuer Subsidiary shall provide that (A) recourse with respect to the costs, expenses or other liabilities of such Issuer Subsidiary shall be solely to the assets of such Issuer Subsidiary and no creditor of such Issuer Subsidiary shall have any recourse whatsoever to the Issuer or its assets except to the extent otherwise required under applicable law, (B) the activities and business purposes of such Issuer Subsidiary shall be limited to holding Issuer Subsidiary Assets and activities reasonably incidental thereto (including holding interests in other Issuer Subsidiaries), (C) such Issuer Subsidiary will not create, incur, assume or permit to exist any lien (other than a lien arising by operation of law), charge or other encumbrance on any of its assets, or sell, transfer, exchange or otherwise dispose of any of its assets, or assign or sell any income or revenues or rights in respect thereof, (D) such Issuer Subsidiary will be subject to the limitations on powers set forth in the organizational documents of the Issuer, (E) if such Issuer Subsidiary is a foreign corporation for U.S. federal income tax purposes, such Issuer Subsidiary shall file a U.S. federal income tax return reporting all income effectively connected with the conduct of a trade or business within the United States by the Issuer Subsidiary, if any, arising as a result of owning Issuer Subsidiary Assets, (F) after paying Taxes and expenses payable by such Issuer Subsidiary or setting aside adequate reserves for the payment of such Taxes and expenses, such Issuer Subsidiary will distribute 100% of the Cash proceeds of the assets acquired by it (net of such Taxes, expenses and reserves), (G) such Issuer Subsidiary will not form or own any subsidiary or any interest in any other entity other than interests in another Issuer Subsidiary or Issuer Subsidiary Assets and (H) such Issuer Subsidiary will not acquire or hold title to any real property or a controlling interest in any entity that owns real property;

(iii) the constitutive documents of such Issuer Subsidiary shall provide that such Issuer Subsidiary will (A) maintain books and records separate from any other Person, (B) maintain its accounts separate from those of any other Person, (C) not commingle its assets with those of any other Person, (D) conduct its own business in its own name, (E) maintain separate financial statements (if any), (F) pay its own liabilities out of its own funds; provided that the Issuer may pay expenses of such Issuer Subsidiary to the extent that collections on the assets held by such Issuer Subsidiary are insufficient for such purpose, (G) observe all corporate formalities and other formalities in its by-laws and its certificate of incorporation, (H) maintain an arm's length relationship with its Affiliates, (I) not have any employees, (J) not guarantee or become obligated for the debts of any other person (other than the Issuer) or hold out its credit as being available to satisfy the obligations of others (other than the Issuer), (K) not acquire obligations or securities of the Issuer, (L) allocate fairly and reasonably any overhead for shared office space, (M) use separate stationery, invoices and checks, (N) not pledge its assets for the benefit of any other Person or make any loans or advance to any Person, (O) hold itself out as a separate Person, (P) correct any known misunderstanding regarding its separate identity and (Q) maintain adequate capital in light of its contemplated business operations;

(iv) the constitutive documents of such Issuer Subsidiary shall provide that the business of such Issuer Subsidiary shall be managed by or under the direction of a board of at least one director (or, if such Issuer Subsidiary is a limited liability company that does not have a board of directors, a manager whose vote is required for the initiation of any bankruptcy or other insolvency proceeding) and that at least one such director (or manager) shall be a person who is not at the time of appointment and for the five years prior thereto has not been (A) a direct or indirect legal or beneficial owner of the Investment Manager, such Issuer Subsidiary or any of their respective Affiliates (excluding *de minimis* ownership), (B) a creditor, supplier, officer, manager, or contractor of the Investment Manager, such Issuer Subsidiary or any of their respective Affiliates or (C) a person who controls (whether directly, indirectly or otherwise) the Investment Manager, such Issuer Subsidiary or any of their respective Affiliates or any creditor, supplier, officer, manager or contractor of the Investment Manager, such Issuer Subsidiary or any of their respective Affiliates;

(v) the constitutive documents of such Issuer Subsidiary shall provide that, so long as the Issuer Subsidiary is owned by the Issuer, upon the occurrence of the earliest of the date on which the Aggregate Outstanding Amount of each Class of Rated Notes is to be paid in full or the date of any voluntary or involuntary dissolution, liquidation or winding-up of the Issuer or the Co-Issuer, (x) the Issuer shall sell or otherwise dispose of all of its equity interests in such Issuer Subsidiary within a reasonable time or (y) such Issuer Subsidiary shall (A) sell or otherwise dispose of all of its property or, to the extent such Issuer Subsidiary is unable to sell or otherwise dispose of such property within a reasonable time, distribute such property in kind to its stockholders, (B) make provision for the filing of a tax return and any action required in connection with winding up such Issuer Subsidiary, (C) liquidate and (D) distribute the proceeds of liquidation to its stockholders; and

(vi) to the extent payable by the Issuer, with respect to any Issuer Subsidiary, any expenses related to such Issuer Subsidiary will be considered Administrative Expenses and will be payable as Administrative Expenses.

(d) Notwithstanding any other provision of this Indenture, the Co-Issuers and the Trustee agree, for the benefit of all Holders of each Class of Notes, not to institute against any Issuer Subsidiary any proceeding seeking a judgment of insolvency or bankruptcy or any other relief under any bankruptcy or insolvency law or other similar law, or a petition for its winding-up or liquidation (other than, in the case of the Issuer, a winding-up or liquidation of an Issuer Subsidiary that no longer holds any assets), until the payment in full of all Notes and the expiration of a period equal to one year (or, if longer, the applicable preference period then in effect) *plus* one day, following such payment in full.

Section 7.5. Protection of Assets. (a) The Issuer (or the Investment Manager on its behalf) will cause the taking of such action as is reasonably necessary in order to maintain the perfection and priority of the security interest of the Trustee in the Assets; *provided* that the Issuer (or the Investment Manager on its behalf) shall be entitled to rely on any Opinion of Counsel delivered pursuant to Section 7.6 and any Opinion of Counsel with respect to the same subject matter delivered pursuant to Section 3.1(a)(iii) and (iv) to determine what actions are reasonably necessary, and shall be fully protected in so relying on such an Opinion of Counsel, unless the Issuer (or the Investment Manager on its behalf) has actual knowledge that the procedures described in any such Opinion of Counsel are no longer adequate to maintain such perfection and priority. The Issuer shall from time to time execute and deliver all such supplements and amendments hereto and file or authorize the filing of all such Financing Statements, continuation statements, instruments of further assurance and other instruments, and shall take such other action as may be necessary or advisable or desirable to secure the rights and remedies of the Holders of the Notes hereunder and to:

(i) Grant more effectively all or any portion of the Assets;

(ii) maintain, preserve and perfect any Grant made or to be made by this Indenture including, without limitation, the first priority nature of the lien or carry out more effectively the purposes hereof;

(iii) perfect, publish notice of or protect the validity of any Grant made or to be made by this Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations);

(iv) enforce any of the Assets or other instruments or property included in the Assets;

(v) preserve and defend title to the Assets and the rights therein of the Trustee and the Holders of the Rated Notes in the Assets against the claims of all Persons and parties; or

(vi) pay or cause to be paid any and all taxes levied or assessed upon all or any part of the Assets.

The Issuer will make an entry of the security interest created by this Indenture in its Register of Mortgages and Charges.

The Issuer hereby designates the Trustee as its agent and attorney in fact to prepare and file any Financing Statement, continuation statement and all other instruments, and take all other actions, required pursuant to this Section 7.5. Such designation shall not impose upon the Trustee, or release or diminish, the Issuer's obligations under this Section 7.5. The Issuer further authorizes and shall cause the Issuer's United States counsel to file without the Issuer's signature a Financing Statement that names the Issuer as debtor and the Trustee, on behalf of the Secured Parties, as secured party and that describes "all assets" of the Issuer as the Assets in which the Trustee has a Grant.

(b) The Trustee shall not, except in accordance with this Indenture, permit the removal of any portion of the Assets or transfer any such Assets from the Account to which it is credited, or cause or permit any change in the Delivery made pursuant to Section 3.2 with respect to any Assets, if, after giving effect thereto, the jurisdiction governing the perfection of the Trustee's security interest in such Assets is different from the jurisdiction governing the perfection at the time of delivery of the most recent Opinion of Counsel pursuant to Section 7.6 (or, if no Opinion of Counsel has yet been delivered pursuant to Section 7.6, the Opinion of Counsel delivered at the Closing Date pursuant to Section 3.1(a)(iii)) unless the Trustee shall have received an Opinion of Counsel to the effect that the lien and security interest created by this Indenture with respect to such property and the priority thereof will continue to be maintained after giving effect to such action or actions.

Section 7.6. Opinions as to Assets. So long as the Rated Notes are Outstanding, on or before March 31 in each calendar year, commencing in 2015, the Issuer shall furnish to the Trustee and Moody's an Opinion of Counsel relating to the security interest granted by the Issuer to the Trustee, stating that, as of the date of such opinion, the lien and security interest created by this Indenture with respect to the Assets remain in effect and that no further action (other than as specified in such opinion) needs to be taken to ensure the continued effectiveness of such lien over the next year.

Section 7.7. Performance of Obligations. (a) The Co-Issuers, each as to itself, shall not take any action, and will use their best efforts not to permit any action to be taken by others, that would release any Person from any of such Person's covenants or obligations under any instrument included in the Assets, except in the case of enforcement action taken with respect to any Defaulted Obligation in accordance with the provisions hereof and actions by the Investment Manager under the Investment Management Agreement and in conformity with this Indenture or as otherwise required hereby.

(b) The Applicable Issuers may, with the prior written consent of a Majority of each Class of Rated Notes (except in the case of the Investment Management Agreement and the Collateral Administration Agreement, in which case no consent shall be required), contract with other Persons, including the Investment Manager, the Trustee and the Collateral

Administrator for the performance of actions and obligations to be performed by the Applicable Issuers hereunder and under the Investment Management Agreement by such Persons. Notwithstanding any such arrangement, the Applicable Issuers shall remain primarily liable with respect thereto. In the event of such contract, the performance of such actions and obligations by such Persons shall be deemed to be performance of such actions and obligations by the Applicable Issuers; and the Applicable Issuers will punctually perform, and use their best efforts to cause the Investment Manager, the Trustee, the Collateral Administrator and such other Person to perform, all of their obligations and agreements contained in the Investment Management Agreement, this Indenture, the Collateral Administration Agreement or any such other agreement.

(c) The Issuer shall notify each Rating Agency (with a copy to the Investment Manager) within 10 Business Days after any material breach of any Transaction Document, following any applicable cure period for such breach.

(d) The Issuer shall, on the Closing Date, deposit Cash with the Legacy Custodian in an amount equal to the Closing Date Deposit and shall, on October 21, 2013, cause the Legacy Custodian to apply the Closing Date Deposit to the payment in full of all Legacy Rated Noteholders as required under the terms of the Original Indenture.

Section 7.8. Negative Covenants. (a) The Issuer will not and, with respect to clauses (ii), (iii), (iv) and (vi) through (xi) and (xiii) the Co-Issuer will not, in each case from and after the Closing Date:

(i) sell, transfer, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (or permit such to occur or suffer such to exist), any part of the Assets, except as expressly permitted by this Indenture and the Investment Management Agreement;

(ii) claim any credit on, make any deduction from, or dispute the enforceability of payment of the principal or interest payable (or any other amount) in respect of the Notes (other than amounts withheld or deducted in accordance with the Code or any applicable laws of the Cayman Islands or other applicable jurisdiction);

(iii) incur or assume or guarantee any indebtedness, other than the Notes, this Indenture and the transactions contemplated hereby;

(iv) (A) permit the validity or effectiveness of this Indenture or any Grant hereunder to be impaired, or permit the lien of this Indenture to be amended, hypothecated, subordinated, terminated or discharged, or permit any Person to be released from any covenants or obligations with respect to this Indenture or the Notes except as may be permitted hereby or by the Investment Management Agreement, (B) except as permitted by this Indenture, permit any lien, charge, adverse claim, security interest, mortgage or other encumbrance (other than the lien of this Indenture) to be created on or extend to or otherwise arise upon or burden any part of the Assets, any interest therein or the proceeds thereof, or (C) except as permitted by this Indenture, take any action that would permit the lien of this Indenture not to constitute a valid first priority security interest in the Assets;

- (v) amend the Investment Management Agreement except pursuant to the terms thereof;
- (vi) dissolve or liquidate in whole or in part, except as permitted hereunder or required by applicable law;
- (vii) other than as otherwise expressly provided herein, pay any distributions other than in accordance with the Priority of Payments;
- (viii) permit the formation of any subsidiaries (other than, in the case of the Issuer, the Co-Issuer and Issuer Subsidiaries);
- (ix) conduct business under any name other than its own;
- (x) have any employees (other than directors and officers, to the extent they are employees);
- (xi) fail to maintain an independent director under the Co-Issuer's certificate of incorporation;
- (xii) sell, transfer, exchange or otherwise dispose of Assets, or enter into an agreement or commitment to do so or enter into or engage in any business with respect to any part of the Assets, except as expressly permitted by both this Indenture and the Investment Management Agreement; and
- (xiii) (i) in the case of the Issuer, transfer its equity interest in the Co-Issuer so long as any Rated Notes are Outstanding or (ii) in the case of the Co-Issuer, permit the transfer of any of its equity interests so long as any Rated Notes are Outstanding.

(b) The Co-Issuer will not invest any of its assets in "securities" as such term is defined in the Investment Company Act, and will keep all of its assets in Cash.

(c) Neither the Issuer nor the Co-Issuer will be party to any agreements under which it has a future payment obligation without including customary "non-petition" and "limited recourse" provisions therein (and shall not amend or eliminate such provisions in any agreement to which it is party), except for any agreements related to the purchase and sale of any Collateral Obligations or Eligible Investments which contain customary (as determined by the Investment Manager in its sole discretion) purchase or sale terms or which are documented using customary (as determined by the Investment Manager in its sole discretion) loan trading documentation.

(d) The Issuer shall not enter into any agreement amending, modifying or terminating any Transaction Document without notifying each Rating Agency (with a copy to the Investment Manager).

(e) The Issuer may not acquire any of the Notes (including any Notes surrendered or abandoned). This Section 7.8(f) shall not be deemed to limit an optional, special or mandatory redemption pursuant to the terms of this Indenture.

(f) Notwithstanding anything to the contrary contained herein, the Issuer shall not, and shall use commercially reasonable efforts to ensure that the Investment Manager acting on the Issuer's behalf does not, acquire or own any asset, conduct any activity or take any action unless the acquisition or ownership of such asset, the conduct of such activity or the taking of such action, as the case may be, would not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. The requirements of this Section 7.8(f) shall be deemed to be satisfied if the requirements of Section 7.8(g) below are satisfied, so long as the Issuer does not have actual knowledge that there has been a change in U.S. federal income tax law or the interpretation thereof that could cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes notwithstanding the satisfaction of such requirements.

(g) In furtherance and not in limitation of Section 7.8(f), notwithstanding anything to the contrary contained herein, the Issuer shall comply with all of the provisions of the Tax Guidelines unless, with respect to a particular transaction, the Issuer, the Investment Manager and the Trustee have received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in the United States experienced in such matters, to the effect that the Issuer's contemplated activities will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. The Tax Guidelines may be waived, amended, eliminated, modified or supplemented (without execution of a supplemental indenture) if the Issuer, the Investment Manager and the Trustee have received advice of Cadwalader, Wickersham & Taft LLP Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in the United States experienced in such matters, to the effect that the Issuer's contemplated activities will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. For the avoidance of doubt, in the event advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other tax counsel, as described above has been obtained in accordance with the terms hereof, no consent of any holder of Notes or satisfaction of the Rating Agency Confirmation shall be required in order to comply with this Section 7.8(g) in connection with the waiver, amendment, elimination, modification or supplementation of the Tax Guidelines contemplated by such advice or opinion.

Section 7.9. Statement as to Compliance. On or before March 31 in each calendar year commencing in 2015, or immediately if there has been a Default under this Indenture, the Issuer shall deliver to the Trustee and the Administrator (to be forwarded by the Trustee or the Administrator, as applicable, to the Investment Manager, each Holder making a written request therefor and each Rating Agency) an Officer's certificate of the Issuer that, having made reasonable inquiries of the Investment Manager, and to the best of the knowledge, information and belief of the Issuer, there did not exist, as at a date not more than five days prior to the date of the certificate, nor had there existed at any time prior thereto since the date of the last certificate (if any), any Default hereunder or, if such Default did then exist or had existed, specifying the same and the nature and status thereof, including actions undertaken to remedy the same, and that the Issuer has complied with all of its obligations under this Indenture or, if such is not the case, specifying those obligations with which it has not complied.

Section 7.10. Co-Issuers May Consolidate, etc. Only on Certain Terms. Neither the Issuer nor the Co-Issuer (the “Merging Entity”) shall consolidate or merge with or into any other Person or transfer or convey all or substantially all of its assets to any Person, unless permitted by Cayman Islands law (in the case of the Issuer) or United States and Delaware law (in the case of the Co-Issuer) and unless:

(a) the Merging Entity shall be the surviving corporation, or the Person (if other than the Merging Entity) formed by such consolidation or into which the Merging Entity is merged or to which all or substantially all of the assets of the Merging Entity are transferred (the “Successor Entity”) (A) if the Merging Entity is the Issuer, shall be a company incorporated and existing under the laws of the Cayman Islands or such other jurisdiction approved by a Majority of the Controlling Class (*provided* that no such approval shall be required in connection with any such transaction undertaken solely to effect a change in the jurisdiction of incorporation pursuant to Section 7.4, and (B) in any case shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee and each Holder, the due and punctual payment of the principal of and interest on all Rated Notes and the performance and observance of every covenant of this Indenture on its part to be performed or observed, all as provided herein;

(b) each Rating Agency shall have been notified in writing of such consolidation or Rating Agency Confirmation shall have been obtained from Moody’s;

(c) if the Merging Entity is not the Successor Entity, the Successor Entity shall have agreed with the Trustee (i) to observe the same legal requirements for the recognition of such formed or surviving corporation as a legal entity separate and apart from any of its Affiliates as are applicable to the Merging Entity with respect to its Affiliates and (ii) not to consolidate or merge with or into any other Person or transfer or convey the Assets or all or substantially all of its assets to any other Person except in accordance with the provisions of this Section 7.10;

(d) if the Merging Entity is not the Successor Entity, the Successor Entity shall have delivered to the Trustee and each Rating Agency an Officer’s certificate and an Opinion of Counsel each stating that such Person is duly organized, validly existing and in good standing in the jurisdiction in which such Person is organized; that such Person has sufficient power and authority to assume the obligations set forth in subsection (a) above and to execute and deliver an indenture supplemental hereto for the purpose of assuming such obligations; that such Person has duly authorized the execution, delivery and performance of an indenture supplemental hereto for the purpose of assuming such obligations and that such supplemental indenture is a valid, legal and binding obligation of such Person, enforceable in accordance with its terms, subject only to bankruptcy, reorganization, insolvency, moratorium and other laws affecting the enforcement of creditors’ rights generally and to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); if the Merging Entity is the Issuer, that, immediately following the event which causes such Successor Entity to become the successor to the Issuer, (i) such Successor Entity has title, free and clear of any lien, security interest or charge, other than the lien and security interest of this

Indenture, to the Assets securing all of the Rated Notes, (ii) the Trustee continues to have a valid perfected first priority security interest in the Assets securing all of the Rated Notes and (iii) such Successor Entity will not be subject to U.S. net income tax or be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes; and in each case as to such other matters as the Trustee or any Holder may reasonably require; *provided* that nothing in this clause (d) shall imply or impose a duty on the Trustee to require such other documents;

(e) immediately after giving effect to such transaction, no Default, Event of Default or Enforcement Event has and is continuing;

(f) the Merging Entity shall have notified the Investment Manager of such consolidation, merger, transfer or conveyance and shall have delivered to the Trustee and each Holder an Officer's certificate and an Opinion of Counsel each stating that such consolidation, merger, transfer or conveyance and such supplemental indenture comply with this Article VII and that all conditions precedent in this Article VII relating to such transaction have been complied with and that such consolidation, merger, transfer or conveyance will not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or subject to U.S. net income tax and will not cause any Class of Rated Notes to be deemed retired and reissued;

(g) the Merging Entity shall have delivered to the Trustee an Opinion of Counsel stating that after giving effect to such transaction, neither of the Co-Issuers (or, if applicable, the Successor Entity) will be required to register as an investment company under the Investment Company Act; and

(h) after giving effect to such transaction, the outstanding stock of the Merging Entity (or, if applicable, the Successor Entity) will not be beneficially owned within the meaning of the Investment Company Act by any U.S. Person.

Section 7.11. Successor Substituted. Upon any consolidation or merger, or transfer or conveyance of all or substantially all of the assets of the Issuer or the Co-Issuer, in accordance with Section 7.10 in which the Merging Entity is not the surviving corporation, the Successor Entity shall succeed to, and be substituted for, and may exercise every right and power of, the Merging Entity under this Indenture with the same effect as if such Person had been named as the Issuer or the Co-Issuer, as the case may be, herein. In the event of any such consolidation, merger, transfer or conveyance, the Person named as the "Issuer" or the "Co-Issuer" in the first paragraph of this Indenture or any successor which shall theretofore have become such in the manner prescribed in this Article VII may be dissolved, wound up and liquidated at any time thereafter, and such Person thereafter shall be released from its liabilities as obligor and maker on all the Rated Notes and from its obligations under this Indenture.

Section 7.12. No Other Business. The Issuer shall not have any employees (other than its directors and officers, to the extent they are employees) and shall not engage in any business or activity other than issuing, paying and redeeming the Rated Notes and any additional notes issued pursuant to this Indenture, acquiring, holding, selling, exchanging, redeeming and pledging, solely for its own account, Collateral Obligations and Eligible Investments, acquiring, holding, selling, exchanging, redeeming and pledging shares in Issuer

Subsidiaries and other activities incidental thereto, including entering into the Placement Agency Agreement and the Transaction Documents to which it is a party. The Issuer shall not hold itself out as originating loans, lending funds, making a market in loans or other assets or selling loans or other assets to customers or as willing to enter into, assume, offset, assign or otherwise terminate positions in derivative financial instruments with customers. The Co-Issuer shall not engage in any business or activity other than co-issuing and selling the Co-Issued Notes and any additional rated notes co-issued pursuant to this Indenture and other activities incidental thereto, including entering into the Placement Agency Agreement and the Transaction Documents to which it is a party. The Issuer and the Co-Issuer may amend, or permit the amendment of, the Memorandum and Articles of the Issuer and the certificate of incorporation and the by-laws of the Co-Issuer, respectively only with Rating Agency Confirmation with respect to Moody's and notice to S&P.

Section 7.13. Maintenance of Listing. So long as any Listed Notes remain Outstanding, the Co-Issuers shall use all reasonable efforts to maintain the listing of such Notes on the Irish Stock Exchange.

Section 7.14. Ratings; Review of Credit Estimates. (a) The Applicable Issuers shall promptly notify the Trustee and the Investment Manager in writing (and the Trustee shall promptly provide the Holders with a copy of such notice) if at any time the rating of any such Class of Rated Notes has been, or is known will be, changed or withdrawn.

(b) The Issuer shall obtain and pay for (i) an annual review of any Collateral Obligation which has a Moody's Rating derived (under clause (b) of the definition thereof in Schedule 4) as set forth in clause (c)(ii) of the definition of the term Moody's Derived Rating in Schedule 4 and any DIP Collateral Obligation, (ii) an annual review of any Collateral Obligation with a credit estimate from Moody's, (iii) upon the occurrence of a Specified Amendment, a review of any Collateral Obligation with a credit estimate from Moody's and (iv) an annual review of any Collateral Obligation with an S&P Rating derived as set forth in clause (iii)(b) of the part of the definition of the term S&P Rating.

(c) The Issuer will obtain an annual review of any rating estimate with respect to a Collateral Obligation. In addition, the Issuer will notify S&P of any of the following with respect to a Collateral Obligation with a rating estimate from S&P: (i) nonpayment of interest or principal, (ii) rescheduling of any interest or principal in any part of the capital structure, (iii) any breach of covenant, (iv) any restructuring of debt (including proposed debt), (v) the occurrence of significant transactions (sale or acquisitions of assets), and (vi) changes in payment terms—that is, the addition of payment-in-kind terms, changes in maturity dates, and changes in coupon rates (each, a "Material Event").

Section 7.15. Reporting. At any time when the Co-Issuers are not subject to Section 13 or 15(d) of the Exchange Act and are not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, upon the written request of a Holder or, upon the written request to the Trustee in the form of Exhibit D, a beneficial owner of a Note, the Applicable Issuers shall promptly furnish or cause to be furnished Rule 144A Information to such Holder or beneficial owner, to a prospective purchaser of such Note designated by such Holder or beneficial owner, or to the Trustee for delivery upon an Issuer Order to such Holder or beneficial

owner or a prospective purchaser designated by such Holder or beneficial owner, as the case may be, in order to permit compliance by such Holder or beneficial owner with Rule 144A under the Securities Act in connection with the resale of such Note. "Rule 144A Information" shall be such information as is specified pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

Section 7.16. Calculation Agent. (a) The Issuer hereby agrees that for so long as any Floating Rate Notes remain Outstanding there will at all times be an agent appointed (which does not control or is not controlled or under common control with the Issuer or its Affiliates or the Investment Manager or its Affiliates) to calculate LIBOR in respect of each Interest Accrual Period in accordance with the terms of Exhibit C hereto (the "Calculation Agent"). The Issuer hereby appoints the Collateral Administrator as the Calculation Agent. The Calculation Agent may be removed by the Issuer or the Investment Manager, on behalf of the Issuer, at any time. If the Calculation Agent is unable or unwilling to act as such or is removed by the Issuer or the Investment Manager, on behalf of the Issuer, the Issuer or the Investment Manager, on behalf of the Issuer, will promptly appoint a replacement Calculation Agent which does not control or is not controlled by or under common control with the Issuer or its Affiliates or the Investment Manager or its Affiliates. The Calculation Agent may not resign its duties or be removed without a successor having been duly appointed.

(b) The Calculation Agent shall be required to agree (and the Collateral Administrator as Calculation Agent does hereby agree) that, as soon as possible after 11:00 a.m. London time on each Interest Determination Date, but in no event later than 11:00 a.m. New York time on the London Banking Day immediately following each Interest Determination Date, the Calculation Agent will calculate the Interest Rate applicable to each Class of Floating Rate Notes during the related Interest Accrual Period and the Note Interest Amount (in each case, rounded to the nearest cent, with half a cent being rounded upward) payable on the related Payment Date in respect of such Class and the related Interest Accrual Period. At such time, the Calculation Agent will communicate such rates and amounts to the Co-Issuers, the Trustee, each Paying Agent, the Investment Manager, Euroclear, Clearstream and, if applicable, the Irish Stock Exchange. The Calculation Agent will also specify to the Co-Issuers the quotations upon which the foregoing rates and amounts are based, and in any event the Calculation Agent shall notify the Co-Issuers (with a copy to the Investment Manager) before 5:00 p.m. (New York time) on every Interest Determination Date if it has not determined and is not in the process of determining any such Interest Rate or Note Interest Amount together with its reasons therefor. The Calculation Agent's determination of the foregoing rates and amounts for any Interest Accrual Period will (in the absence of manifest error) be final and binding upon all parties.

Section 7.17. Certain Tax Matters. (a) The Issuer and the Co-Issuer will treat the Issuer, the Co-Issuer and the Notes as described in the "Certain U.S. Federal Income Tax Considerations" section of the Offering Memorandum for all U.S. federal, state and local income tax purposes and will take no action inconsistent with such treatment unless required by law.

(b) The Issuer and Co Issuer shall prepare and file, and the Issuer shall cause each Issuer Subsidiary to prepare and file, or in each case shall hire accountants and the accountants shall cause to be prepared and filed (and, where applicable, delivered to the Issuer or Holders) for each taxable year of the Issuer, the Co Issuer and the Issuer Subsidiary the federal,

state and local income tax returns and reports as required under the Code, or any tax returns or information tax returns required by any governmental authority which the Issuer, the Co Issuer or the Issuer Subsidiary are required to file (and, where applicable, deliver), and shall provide to each Holder any information that such Holder reasonably requests in order for such Holder to comply with its U.S. federal, state or local tax and information return and reporting obligations; *provided* that neither the Issuer nor the Co-Issuer shall file, or cause to be filed, any income or franchise tax return in the United States or any state of the United States unless it shall have obtained advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other nationally recognized U.S. tax counsel experienced in such matters, prior to such filing to the effect that, under the laws of such jurisdiction, the Issuer or Co-Issuer (as applicable) is required to file such income or franchise tax return.

(c) Notwithstanding any provision herein to the contrary, the Issuer shall take, and shall cause any Issuer Subsidiary to take, any and all actions that may be necessary or appropriate to ensure that the Issuer or such Issuer Subsidiary satisfies any and all reporting, withholding and tax payment obligations under Code Sections 1441, 1445, 1446, 1471, 1472, or any other provision of the Code or other applicable law. Without limiting the generality of the foregoing, each of the Issuer and any Issuer Subsidiary may withhold any amount that it or any advisor retained by the Trustee on its behalf determines is required to be withheld from any amounts otherwise distributable to any Person. In addition, the Issuer shall, and shall cause each Issuer Subsidiary to, cause to be delivered any properly completed and executed documentation, agreements, and certifications to each issuer, counterparty, paying agent, and/or any applicable taxing authority, and enter into any agreements with a taxing authority or other governmental authority, as necessary to avoid or reduce the withholding, deduction, or imposition of U.S. income or withholding tax.

(d) Upon the Trustee's receipt of a request of a Holder delivered in accordance with the notice procedures of Section 14.3, for the information described in United States Treasury Regulations Section 1.1275-3(b)(i) that is applicable to such Holder, the Trustee shall forward such request to the Issuer and the Issuer shall cause its Independent accountants to provide promptly to the Trustee and such requesting Holder all of such information. Any issuance of additional notes or replacement notes shall be accomplished in a manner that shall allow the Independent accountants of the Issuer to accurately calculate original issue discount income to holders of Notes (including such additional notes or replacement notes).

(e) Prior to the time that:

(i) the Issuer would acquire or receive (A) a Letter of Credit Letter of Credit Reimbursement Obligation or (B) any asset in connection with a workout or restructuring of a Collateral Obligation that, in either case, could cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes, or

(ii) any Collateral Obligation is modified in a manner that could cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes, the Issuer will either (x) organize an Issuer Subsidiary and contribute to the Issuer Subsidiary the right to receive such Letter of Credit Reimbursement Obligation or asset or the Collateral Obligation that is the subject of the workout, restructuring, or modification, (y) contribute to an existing Issuer Subsidiary the right to receive such Letter of Credit Reimbursement Obligation or asset or the Collateral Obligation that is the subject of the workout, restructuring, or modification, or (z) sell the right to receive such Letter of Credit Reimbursement Obligation or asset or the Collateral Obligation that is the subject of the workout, restructuring, or modification, in each case unless the Issuer receives advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other nationally recognized U.S. tax counsel experienced in such matters, to the effect that the acquisition, ownership, and disposition of such Letter of Credit Reimbursement Obligation or asset, or that the workout, restructuring, or modification of such Collateral Obligation (as the case may be), will not cause the Issuer to be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax on a net income basis.

(f) Notwithstanding Section 7.17(e), the Issuer shall not acquire any Collateral Obligation if a restructuring or workout of such Collateral Obligation is in process and if such restructuring or workout could reasonably result in the Issuer being treated as engaged in a trade or business in the United States or subject to U.S. federal tax on a net income basis.

(g) Notwithstanding anything to the contrary contained herein, the Issuer shall not dispose of any interest in an Issuer Subsidiary, and no Issuer Subsidiary shall make any distributions to the Issuer, if (A) such interest is a "United States real property interest," as defined in Section 897(c) of the Code, and (B) the Issuer would be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes as a result of such disposition or distribution.

(h) No more than 50% of the debt obligations (as determined for U.S. federal income tax purposes) held by the Issuer may at any time consist of real estate mortgages as determined for purposes of Section 7701(i) of the Code unless, based on advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other nationally recognized U.S. tax counsel experienced in such matters, the ownership of such debt obligations will not cause the Issuer to be treated as a taxable mortgage pool for U.S. federal income tax purposes.

(i) The Co-Issuer has not and will not elect to be treated as other than a disregarded entity for U.S. federal, state or local tax purposes.

Section 7.18. Collateral Quality Tests.

(a) Minimum Diversity Score/Maximum Rating/Minimum Spread Matrix. The Investment Manager shall elect the Matrix Combination that shall apply to the Collateral Obligations for purposes of determining compliance with the Moody's Diversity Test, the Maximum Moody's Rating Factor Test and the Minimum Floating Spread Test (collectively, the "Matrix Tests"), and if such Matrix Combination chosen to apply as of the Closing Date, the Investment Manager will so notify the Trustee. Thereafter, at any time on written notice of one

Business Day to the Trustee, the Collateral Administrator and the Rating Agencies, the Investment Manager may elect a different Matrix Combination to apply; *provided* that if: (i) the Collateral Obligations are currently in compliance with the Matrix Combination then applicable, the Collateral Obligations comply with the Matrix Combination to which the Investment Manager desires to change or (ii) the Collateral Obligations are not currently in compliance with the Matrix Combination then applicable and would not be in compliance with any potential Matrix Combination, the Investment Manager has selected a Matrix Combination that will not (A) increase the level of non-compliance of any Matrix Test or (B) cause the non-compliance with any Matrix Test; *provided* that if subsequent to such election the Collateral Obligations comply with any Matrix Combination, the Investment Manager shall elect a Matrix Combination with respect to which the Collateral Obligations are in compliance. If the Investment Manager does not notify the Trustee and the Collateral Administrator that it will alter the Matrix Combination chosen in the manner set forth above, the Matrix Combination chosen shall continue to apply.

(b) Weighted Average S&P Recovery Rate. The Investment Manager shall elect the Weighted Average S&P Recovery Rate that shall apply to the Collateral Obligations for purposes of determining compliance with the Minimum Weighted Average S&P Recovery Rate Test, and if such Weighted Average S&P Recovery Rate differs from the Weighted Average S&P Recovery Rate chosen to apply as of the Closing Date, the Investment Manager will so notify the Trustee and the Collateral Administrator. Thereafter, at any time on written notice to the Trustee, the Collateral Administrator and S&P, the Investment Manager may elect a different Weighted Average S&P Recovery Rate to apply to the Collateral Obligations; *provided* that, if: (i) the Collateral Obligations are currently in compliance with the Weighted Average S&P Recovery Rate case then applicable to the Collateral Obligations, the Collateral Obligations comply with the Weighted Average S&P Recovery Rate case to which the Investment Manager desires to change or (ii) the Collateral Obligations are not currently in compliance with the Weighted Average S&P Recovery Rate case then applicable to the Collateral Obligations and would not be in compliance with any other Weighted Average S&P Recovery Rate case, the Weighted Average S&P Recovery Rate to apply to the Collateral Obligations shall be the lowest Weighted Average S&P Recovery Rate in Section 2 of Schedule 5. If the Investment Manager does not notify the Trustee and the Collateral Administrator that it will alter the Weighted Average S&P Recovery Rate chosen in the manner set forth above, the Weighted Average S&P Recovery Rate chosen shall continue to apply.

(c) The Investment Manager on behalf of the Issuer shall make reasonable commercial efforts in accordance with the standard of care under the Investment Management Agreement to invest, within 60 days after the Closing Date, all Principal Proceeds held by the Issuer as of the Closing Date in additional Collateral Obligations that satisfy the Ratings Criteria such that the Aggregate Principal Balance is no less than the Target Initial Par Amount.

Section 7.19. Representations Relating to Security Interests in the Assets. (a) The Issuer hereby represents and warrants that, as of the Closing Date (which representations and warranties shall survive the execution of this Indenture and be deemed to be repeated on each date on which an Asset is Granted to the Trustee hereunder):

- (i) The Issuer owns such Asset free and clear of any lien, claim or encumbrance of any person, other than such as are created under, or permitted by, this Indenture.
- (ii) Other than the security interest Granted to the Trustee pursuant to this Indenture, except as permitted by this Indenture, the Issuer has not pledged, assigned, sold, granted a security interest in, or otherwise conveyed any of the Assets. The Issuer has not authorized the filing of and is not aware of any Financing Statements against the Issuer that include a description of collateral covering the Assets other than any Financing Statement relating to the security interest granted to the Trustee hereunder or that has been terminated; the Issuer is not aware of any judgment, PBGC liens or tax lien filings against the Issuer.
- (iii) All Assets constitute Cash, accounts (as defined in Article 9 of the UCC), Instruments, general intangibles (as defined in Article 9 of the UCC), Uncertificated Notes (as defined in Article 8 of the UCC), Certificated Notes or security entitlements to financial assets resulting from the crediting of financial assets to a “securities account” (as defined in Article 8 of the UCC).
- (iv) All Accounts constitute “securities accounts” within the meaning of Section 8-501(a) of the UCC.
- (v) This Indenture creates a valid and continuing security interest (as defined in Article 1 of the UCC) in such Assets in favor of the Trustee, for the benefit and security of the Secured Parties, which security interest is prior to all other liens, claims and encumbrances (except as permitted otherwise in this Indenture), and is enforceable as such against creditors of and purchasers from the Issuer.
- (vi) The Issuer has caused or will have caused, within ten days after the Closing Date, the filing of all appropriate Financing Statements in the proper office in the appropriate jurisdictions under applicable law in order to perfect the security interest in the Instruments granted to the Trustee, for the benefit and security of the Secured Parties.
- (vii) None of the Instruments that constitute or evidence the Assets has any marks or notations indicating that they have been pledged, assigned or otherwise conveyed to any Person other than the Trustee, for the benefit of the Secured Parties.
- (viii) The Issuer has received all consents and approvals required by the terms of the Assets to the pledge hereunder to the Trustee of its interest and rights in the Assets.
- (ix) All Assets other than the Accounts have been credited to one or more Accounts (other than any “general intangibles” within the meaning of the applicable Uniform Commercial Code and any instruments evidencing debt underlying a participation held by a collateral agent).
- (x) (A) The Issuer has delivered to the Trustee a fully executed Account Agreement pursuant to which the Intermediary has agreed to comply with all instructions originated by the Trustee relating to the Accounts without further consent by the Issuer or (B) the Issuer has taken all steps necessary to cause the Intermediary to identify in its records the Trustee as the person having a security entitlement against the Intermediary in each of the Accounts.

(xi) The Accounts are not in the name of any Person other than the Trustee. The Issuer has not consented to the Intermediary to comply with the Entitlement Order of any Person other than the Trustee.

(b) The Issuer agrees to notify the Rating Agencies, with a copy to the Investment Manager, promptly if it becomes aware of the breach of any of the representations and warranties contained in this Section 7.19 and shall not waive any of the representations and warranties in this Section 7.19 or any breach thereof.

ARTICLE VIII

SUPPLEMENTAL INDENTURES

Section 8.1. Supplemental Indentures Without Consent of Holders. (a) Without the consent of any Holder, the Co-Issuers, when authorized by Resolutions, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(i) to evidence the succession of another Person to the Issuer or the Co-Issuer and the assumption by any such successor Person of the covenants of the Issuer or the Co-Issuer herein and in the Notes;

(ii) to add to the covenants of the Co-Issuers or the Trustee for the benefit of the Secured Parties;

(iii) to convey, transfer, assign, mortgage or pledge any property to or with the Trustee or add to the conditions, limitations or restrictions on the authorized amount, terms and purposes of the issue, authentication and delivery of the Rated Notes;

(iv) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee and to add to or change any of the provisions of this Indenture as shall be necessary to facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Sections 6.9, 6.10 and 6.12;

(v) to correct or amplify the description of any property at any time subject to the lien of this Indenture, or to better assure, convey and confirm unto the Trustee any property subject or required to be subjected to the lien of this Indenture (including, without limitation, any and all actions necessary or desirable as a result of changes in law or regulations, whether pursuant to Section 7.5 or otherwise) or to subject to the lien of this Indenture any additional property;

(vi) to modify the restrictions on and procedures for resales and other transfers of Rated Notes to reflect any changes in ERISA or other applicable law or regulation (or the interpretation thereof) or to enable the Co-Issuers to rely upon any exemption from registration under the Securities Act or the Investment Company Act or to remove restrictions on resale and transfer to the extent not required thereunder;

(vii) to make such changes as shall be necessary or advisable in order for the Listed Notes to be or remain listed on an exchange, including the Irish Stock Exchange;

(viii) otherwise to correct any inconsistency or cure any ambiguity, omission or manifest errors in this Indenture or to conform the provisions of this Indenture to the Offering Memorandum;

(ix) to take any action advisable, necessary or helpful to (A) prevent the Issuer or any Issuer Subsidiary from becoming subject to (or to otherwise minimize) withholding or other taxes, fees or assessments (including by complying with FATCA), (B) reduce the risk that the Issuer may be treated as a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes, or (C) reduce the risk that the Issuer may be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes or that the Issuer or any Holder of Subordinated Notes may otherwise be subject to U.S. federal, state or local income tax on a net income basis;

(x) at any time during the Reinvestment Period, to facilitate the issuance by the Co-Issuers in accordance with Section 9.1 (for which any required consent has been obtained) of replacement notes in connection with a Refinancing;

(xi) to accommodate the issuance of any Rated Notes in book-entry form through the facilities of DTC or otherwise;

(xii) to change the name of the Issuer or the Co-Issuer in connection with any change in name or identity of the Investment Manager or as otherwise required pursuant to a contractual obligation or to avoid the use of a trade name or trademark in respect of which the Issuer or the Co-Issuer does not have a license;

(xiii) to amend, modify or otherwise accommodate changes to this Indenture to comply with any rule or regulation enacted by any regulatory agency of the U.S. federal government after the Closing Date that is applicable to the Rated Notes;

(xiv) to modify the Rule 17g-5 Procedures;

(xv) (A) to enter into any additional agreements not expressly prohibited by this Indenture, upon consent of a Majority of the Controlling Class, or (B) to modify this Indenture or the Notes in a manner that does not materially and adversely affect any Class of Notes; or

(xvi) to change the Minimum Denomination of any Class of Rated Notes.

(b) In addition, the Co-Issuers and the Trustee may enter into supplemental indentures to (A) evidence any waiver by S&P of Rating Agency Confirmation from S&P required hereunder or (B) conform to ratings criteria and other guidelines relating generally to collateral debt obligations published by any Rating Agency, including any alternative methodology published by any Rating Agency; *provided* that this Section 8.1(b) shall be subject to Sections 8.3(d) and 8.3(h).

(c) Any supplemental indenture entered into for a purpose other than the purposes set forth in this Section 8.1 must be executed pursuant to Section 8.2 with the consent of the percentage of Holders specified therein.

Section 8.2. Supplemental Indentures With Consent of Holders. (a) With the consent of a Majority of each Class materially and adversely affected thereby, if any, and subject to clauses (b) through (d) below, the Trustee and the Co-Issuers may execute one or more indentures supplemental hereto to add any provisions to, or change in any manner or eliminate any of the provisions of, this Indenture or modify in any manner the rights of the Holders of the Notes of any Class under this Indenture; *provided* that notwithstanding anything in this Indenture to the contrary, no such supplemental indenture shall, without the consent of Holders of 100% of each Class materially and adversely affected thereby:

(i) with respect to the Rated Notes change the Stated Maturity of the principal of or the due date of any installment of interest on any Rated Note, reduce the principal amount thereof or the rate of interest thereon or the Redemption Price with respect to any Rated Note, or change the earliest date on which Rated Notes of any Class may be redeemed, change the provisions of this Indenture relating to the application of proceeds of any Assets to the payment of principal of or interest on the Rated Notes or distributions on the Subordinated Notes (other than, following a redemption in full of the Rated Notes, an amendment to permit distributions to Holders of Subordinated Notes on dates other than Payment Dates) or change any place where, or the coin or currency in which, Rated Notes or the principal thereof or interest or any distribution thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the applicable Redemption Date);

(ii) reduce or increase the percentage of the Aggregate Outstanding Amount of Holders of each Class whose consent is required for the authorization of any such supplemental indenture or for any waiver of compliance with certain provisions of this Indenture or certain defaults hereunder or their consequences provided for in this Indenture;

(iii) impair or adversely affect the Assets except as otherwise permitted in this Indenture;

(iv) except as otherwise permitted by this Indenture, permit the creation of any lien ranking prior to or on a parity with the lien of this Indenture with respect to any part of the Assets or terminate such lien on any property at any time subject hereto or deprive the Holder of any Note of the security afforded by the lien of this Indenture;

(v) reduce or increase the percentage of the Aggregate Outstanding Amount of Holders of any Class of Rated Notes whose consent is required to request the Trustee to preserve the Assets or rescind the Trustee's election to preserve the Assets pursuant to Section 5.5 or to sell or liquidate the Assets pursuant to Section 5.4 or 5.5;

(vi) modify any of the provisions of this Indenture with respect to entering into supplemental indentures, except to increase the percentage of Outstanding Notes the consent of the Holders of which is required for any such action or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Note Outstanding and affected thereby;

(vii) modify the definition of the term Controlling Class, the definition of the term Outstanding or the Priority of Payments set forth in Section 11.1(a); or

(viii) modify any of the provisions of this Indenture in such a manner as to affect the rights of the Noteholders to the benefit of any provisions for the redemption of such Rated Notes contained herein.

(b) With the consent of the Investment Manager and a Majority of the Controlling Class, the Trustee and the Co-Issuers may execute one or more indentures supplemental hereto to modify the definition of the term Concentration Limitations, Credit Improved Obligation, Credit Risk Obligation, Defaulted Obligation or Equity Security, the restrictions on the sales of Collateral Obligations set forth in Section 12.1 or the Investment Criteria.

(c) With the consent of the Investment Manager and a Majority of the Controlling Class, the Trustee and the Co-Issuers may execute one or more indentures supplemental hereto to modify the Collateral Quality Test or the definitions related thereto (including, for the avoidance of doubt, the Minimum Diversity Score/Maximum Rating/Minimum Spread Matrix), except that such consent will not be required if (i) the Trustee has received a certificate from the Investment Manager that the proposed supplemental indenture conforms the provisions of this Indenture to changes in a Rating Agency's published criteria or (ii) the modifications are to correct ambiguities, errors (including typographical errors), mistakes or inconsistencies with respect to the Collateral Quality Test or the definitions related thereto, unless, in each case, a Majority of the Controlling Class or a Majority of the Subordinated Notes has provided written notice to the Trustee (who will forward such notice to the Investment Manager) at least one Business Day prior to the proposed execution date of such supplemental indenture that such Class objects to such determination.

(d) With the consent of the Investment Manager, a Majority of the Controlling Class and a Majority of the Subordinated Notes, the Trustee and the Co-Issuers may execute one or more indentures supplemental hereto to modify the Management Fee; *provided* that the Base Management Fee may not be increased without the consent of Holders of 100% of each Class.

Section 8.3. Execution of Supplemental Indentures. (a) The Trustee shall join in the execution of any such supplemental indenture and to make any further appropriate agreements and stipulations which may be therein contained, but the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties, liabilities or immunities under this Indenture or otherwise, except to the extent required by law.

(b) In executing or accepting the additional trusts created by any supplemental indenture permitted by this Article VIII or the modifications thereby of the trusts created by this Indenture, the Trustee will be entitled to receive, and (subject to Sections 6.1 and 6.3) will be fully protected in relying in good faith upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture and that all conditions precedent thereto have been complied with.

(c) At the cost of the Co-Issuers, for so long as any Rated Notes shall remain Outstanding, not later than 15 Business Days prior to the execution of any proposed supplemental indenture pursuant to Section 8.1(a)(xv) or Section 8.2, the Trustee will provide to the Investment Manager, the Collateral Administrator, the Rating Agencies and the Holders a notice attaching a copy of such supplemental indenture and request (A) with respect to any supplemental indenture pursuant to Section 8.1(a)(xv)(A), consent of a Majority of the Controlling Class and (B) with respect to any supplemental indenture pursuant to Section 8.1(a)(xv)(B), consent of a Majority of each Class of Notes materially and adversely affected thereby, which consent is required not less than one Business Day prior to the proposed execution date of such supplemental indenture. Any consent given to a proposed supplemental indenture by the Holder of any Rated Notes will be irrevocable and binding on all future Holders or beneficial owners of that Rated Note, irrespective of the execution date of the supplemental indenture.

(d) Notwithstanding any provision of Section 8.1 or Section 8.2 to the contrary, if any supplemental indenture permits the Issuer to enter into a Synthetic Security or other hedge, swap or derivative transaction, the Co-Issuers and the Trustee shall not enter into such supplemental indenture without the consent of a Majority of the Controlling Class and a Majority of the Subordinated Notes and obtaining Rating Agency Confirmation and the amendment must include the following conditions to entry into any such agreement: the supplemental indenture requires that the Issuer will not enter into a hedge agreement that would cause it to be considered a "commodity pool" as defined in Section 1a(10) of the Commodity Exchange Act, as amended unless (A) the Investment Manager would be the "commodity pool operator" and "commodity trading advisor" and (B) with respect to the Issuer as the commodity pool, the Investment Manager would be eligible for an exemption from registration as a commodity pool operator and commodity trading advisor and all conditions for obtaining the exemption have been satisfied.

(e) At the cost of the Co-Issuers, the Trustee shall provide to the Investment Manager, the Collateral Administrator, the Rating Agencies and the Holders a copy of any executed supplemental indenture after its execution. Any failure of the Trustee to supply such copy will not, however, in any way impair or affect the validity of any such supplemental indenture.

(f) It shall not be necessary for any Act of Holders to approve the particular form of any proposed supplemental indenture, but it shall be sufficient, if the consent of any Holders to such proposed supplemental indenture is required, that such Act shall approve the substance thereof.

(g) The Investment Manager shall not be bound to follow any amendment or supplement to this Indenture unless it has received written notice of such supplement and a copy of such supplement from the Issuer or the Trustee. The Issuer agrees that it shall not permit to become effective any supplement or modification to this Indenture which would, as reasonably determined by the Investment Manager, (i) increase the duties or liabilities of, reduce or eliminate any right or privilege of (including as a result of an effect on the amount or priority of any fees or other amounts payable to the Investment Manager), or adversely change the economic consequences to, the Investment Manager, (ii) modify the restrictions on the Sales of Collateral Obligations or (iii) materially expand or restrict the Investment Manager's discretion, and the Investment Manager shall not be bound thereby unless the Investment Manager shall have consented in advance thereto in writing. The Trustee will not be obligated to enter into any amendment or supplement that, as determined by the Trustee, adversely affects its duties, obligations, liabilities or protections under this Indenture. No amendment to this Indenture will be effective against the Collateral Administrator if such amendment would adversely affect the Collateral Administrator, including, without limitation, any amendment or supplement that would increase the duties or liabilities of, or adversely change the economic consequences to, the Collateral Administrator, unless the Collateral Administrator otherwise consents in writing.

(h) If a Majority of any Class has provided notice to the Trustee (with a copy to the Investment Manager) at least one Business Day prior to the proposed execution date of any supplemental indenture pursuant to Section 8.1(a)(xv)(B) or Section 8.2(a) that such Class would be materially and adversely affected thereby, the Trustee and the Co-Issuers shall not enter into such supplemental indenture unless consent is obtained from the percentage of Holders of such Class specified in Section 8.1(a)(xv)(B) or 8.2(a), as applicable. The Trustee shall not enter into any supplemental indenture pursuant to Section 8.1(a)(xv)(A) without the consent of a Majority of the Controlling Class.

(i) Notwithstanding anything to the contrary herein, no supplemental indenture or other modification or amendment of this Indenture may become effective without the consent of the Holders of all Notes of each Class Outstanding unless such supplemental indenture or other modification or amendment will not, in the reasonable judgment of the Issuer in consultation with legal counsel experienced in such matters, as certified by the Issuer to the Trustee (upon which certification the Trustee may conclusively rely), (A) result in the Issuer being treated as engaged in a trade or business within the United States, or (B) have a material adverse effect on the tax treatment of the Issuer or the tax consequences to the holders of any Class of Rated Notes Outstanding at the time of such supplemental indenture or other modification or amendment, as described in the Offering Memorandum under the heading "*Certain U.S. Federal Income Tax Considerations.*"

Section 8.4. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article VIII, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Rated Notes theretofore and thereafter authenticated and delivered hereunder shall be bound thereby.

Section 8.5. Reference in Rated Notes to Supplemental Indentures. Rated Notes authenticated and delivered, including as part of a transfer, exchange or replacement pursuant to Article II of Rated Notes originally issued hereunder, after the execution of any supplemental indenture pursuant to this Article VIII may, and if required by the Issuer shall, bear a notice in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Applicable Issuers shall so determine, new Rated Notes, so modified as to conform in the opinion of the Co-Issuers to any such supplemental indenture, may be prepared and executed by the Applicable Issuers and authenticated and delivered by the Trustee in exchange for Outstanding Rated Notes.

ARTICLE IX

REDEMPTION OF RATED NOTES

Section 9.1. Mandatory Redemption. If a Coverage Test is not satisfied on any Determination Date on which such Coverage Test is applicable or the Interest Diversion Test is not satisfied on any Determination Date during the Reinvestment Period, the Issuer shall apply available amounts in the Payment Account pursuant to the Priority of Payments on the related Payment Date to make payments in accordance with the Note Payment Sequence to the extent necessary to achieve compliance with such Coverage Tests or Interest Diversion Test, as the case may be.

Section 9.2. Optional Redemption. (a) The Applicable Issuers shall, on any Business Day occurring after the Non-Call Period, (i) if directed by a Majority of the Subordinated Notes, redeem all of the Rated Notes (in whole but not in part) from Sale Proceeds and/or Refinancing Proceeds or (ii) if directed by the Investment Manager, redeem one or more Classes (in whole but not in part) of Rated Notes from Refinancing Proceeds so long as a Majority of the Subordinated Notes has not objected within 10 Business Days' notice of such proposed Refinancing. In connection with any such redemption, the Rated Notes shall be redeemed at the applicable Redemption Prices. Direction of an Optional Redemption must be provided in accordance with Section 9.4.

(b) Upon receipt of a direction of redemption of each Class of Rated Notes (in whole but not in part) pursuant to Section 9.2(a)(i), the Investment Manager shall direct the sale (and the manner thereof), acting in a commercially reasonable manner to maximize the proceeds of such sale, of all or part of the Collateral Obligations and other Assets in an amount sufficient that the proceeds from such sale and all other funds available for such purpose (including Refinancing Proceeds) will be at least sufficient to pay the Redemption Prices of the Rated Notes, all amounts senior in right of payment to the Rated Notes, all accrued and unpaid Management Fees (unless waived by the Investment Manager) and all accrued and unpaid Administrative Expenses (regardless of the Administrative Expense Cap) (collectively, the "Required Redemption Amount"). If such proceeds of such sale and all other funds available for such purpose would not be at least equal to the Required Redemption Amount, the Rated Notes may not be redeemed. The Investment Manager, in its sole discretion, may affect the sale of all or any part of the Collateral Obligations or other Assets through the direct sale of such Collateral Obligations or other Assets or by participation or other arrangement.

(c) [RESERVED.]

(d) In addition to (or in lieu of) a sale of Collateral Obligations and/or Eligible Investments in the manner provided in Section 9.2(b), all Classes of Rated Notes may, after the Non-Call Period, be redeemed in whole from Refinancing Proceeds and Sale Proceeds or one or more Classes of Rated Notes may be redeemed in whole from Refinancing Proceeds as provided in Section 9.2(a)(ii) by a Refinancing; *provided* that the terms of such Refinancing must be acceptable to the Investment Manager and a Majority of the Subordinated Notes and such Refinancing otherwise satisfies the conditions described below.

(e) In the case of a Refinancing upon a redemption of all of the Rated Notes pursuant to Section 9.2(a)(i), such Refinancing will be effective only if (i) the Refinancing Proceeds, all Sale Proceeds from the sale of Collateral Obligations and Eligible Investments in accordance with the procedures set forth herein, and all other available funds will be at least equal to the Required Redemption Amount, including the reasonable fees, costs, charges and expenses incurred by the Co-Issuers, the Trustee and the Collateral Administrator (including reasonable attorneys' fees and expenses) in connection with such Refinancing, (ii) the Sale Proceeds, Refinancing Proceeds and other available funds are used (to the extent necessary) to make such redemption, (iii) the agreements relating to the Refinancing contain limited recourse and non-petition provisions equivalent to those contained in Section 5.4(d) and Section 2.7(j), and (iv) advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in the United States experienced in such matters, shall be delivered to the Trustee to the effect that the Refinancing will not cause the Issuer to be treated as a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes.

(f) In the case of a Refinancing of one or more (but not all) Classes of Rated Notes pursuant to Section 9.2(a)(ii), such Refinancing will be effective only if: (i) the Issuer provides notice to each Rating Agency, (ii) the Refinancing Proceeds together with the Partial Redemption Interest Proceeds will be at least sufficient to pay in full the aggregate Redemption Prices of the entire Class or Classes of Rated Notes subject to Refinancing, (iii) the Refinancing Proceeds are used (to the extent necessary) to make such redemption, (iv) the agreements relating to the Refinancing contain limited recourse and non-petition provisions equivalent to those contained in Section 5.4(d) and Section 2.7(j), (v) the aggregate principal amount of any obligations providing the Refinancing is equal to the Aggregate Outstanding Amount of the Rated Notes being redeemed with the proceeds of such obligations, (vi) the stated maturity of each class of obligations providing the Refinancing is the same as the corresponding Stated Maturity of each Class of Rated Notes being refinanced, (vii) the reasonable fees, costs, charges and expenses incurred in connection with such Refinancing have been paid or will be adequately provided for, (viii) the interest rate of any obligations providing the Refinancing will not be greater than the interest rate of the Rated Notes subject to such Refinancing, (ix) the obligations providing the Refinancing are subject to the Priority of Payments and do not rank higher in priority pursuant to the Priority of Payments than the Class of Rated Notes being refinanced, (x) the voting rights, consent rights, redemption rights and all other rights of the obligations providing the Refinancing are the same as the rights of the corresponding Class of Rated Notes being refinanced and (xi) advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in

the United States experienced in such matters, shall be delivered to the Trustee to the effect that the Refinancing will not cause the Issuer to be treated as a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes. Fees, costs, charges and expenses incurred in connection with such Refinancing will be Administrative Expenses and may be paid under the Priority of Payments, from proceeds in the Ongoing Expense Smoothing Account.

(g) To implement a Refinancing, the Issuer and, at the direction of the Investment Manager, the Trustee shall amend this Indenture to the extent necessary to reflect the terms of the Refinancing and no further consent for such amendments shall be required from the Holders other than Holders of the Subordinated Notes directing the redemption. The Trustee shall not be obligated to enter into any amendment that, as determined by the Trustee, adversely affects its duties, obligations, liabilities or protections hereunder, and the Trustee shall be entitled to conclusively rely upon an Officer's certificate and, as to matters of law, an Opinion of Counsel (which may be supported as to factual (including financial and capital markets) matters by any relevant certificates and other documents necessary or advisable in the judgment of counsel delivering such Opinion of Counsel) provided by the Issuer to the effect that such amendment meets the requirements specified above and is permitted under this Indenture (except that such Officer or counsel shall have no obligation to certify or opine as to the sufficiency of the Refinancing Proceeds).

Section 9.3. Tax Redemption. (a) The Rated Notes shall be redeemed in whole but not in part (any such redemption, a "Tax Redemption") at the written direction (delivered to the Trustee, with a copy to the Investment Manager) of (x) a Majority of any Affected Class or (y) a Majority of the Subordinated Notes, following (I) the occurrence and continuation of a Tax Event that results or will result in the nonpayment of 5.0% or more of scheduled distributions for any Collection Period, or (II) the occurrence and continuation of a Tax Event resulting in a tax or "gross-up" burden on the Issuer in an aggregate amount in any Collection Period in excess of U.S.\$ 1,000,000.

(b) Upon its receipt of such written direction directing a Tax Redemption, the Trustee shall promptly notify the Holders and each Rating Agency thereof.

(c) If an Officer of the Investment Manager obtains actual knowledge of the occurrence of a Tax Event, the Investment Manager shall promptly notify the Issuer, the Collateral Administrator and the Trustee thereof, and upon receipt of such notice the Trustee shall promptly notify the Holders and each Rating Agency thereof.

Section 9.4. Redemption Procedures. (a) In the event of any redemption pursuant to Section 9.2, the written direction of the Holders of the Subordinated Notes required thereby or the Investment Manager, as applicable, shall be provided to the Issuer and the Trustee (with a copy to the Investment Manager, if applicable) not later than 30 Business Days prior to the Business Day on which such redemption is to be made, or such shorter period as the Investment Manager may agree (which date shall be designated in such notice). The Issuer (or, upon an Issuer Order, the Trustee in the name and at the expense of the Co-Issuers) shall notify the Holders and each Rating Agency, with a copy to the Investment Manager, at least 10 Business Days prior to the Redemption Date of such Redemption Date, the applicable Record Date, the principal amount of Rated Notes to be redeemed on such Redemption Date and the applicable Redemption Prices. In the event of any redemption pursuant to Section 9.3, a notice of redemption shall be provided not later than five Business Days prior to the applicable Redemption Date, to each Holder of Rated Notes and each Rating Agency.

(b) All notices of redemption delivered pursuant to Section 9.4(a) shall state:

(i) the applicable Redemption Date;

(ii) the Redemption Prices of the Rated Notes to be redeemed;

(iii) that all of the Rated Notes to be redeemed are to be redeemed in full and that interest on such Rated Notes shall cease to accrue on the Redemption Date specified in the notice; and

(iv) the place or places where Certificated Notes are to be surrendered for payment of the Redemption Prices.

The Issuer may withdraw any such notice of redemption delivered pursuant to Section 9.2, following good faith efforts by the Issuer and the Investment Manager to facilitate such redemption, on any day up to and including the day that is one Business Day prior to the proposed Redemption Date by written notice to the Trustee. A Majority of the Subordinated Notes will have the option to direct the withdrawal of any such notice of redemption delivered pursuant to Section 9.2 on or prior to the sixth Business Day prior to the proposed Redemption Date by written notice to the Issuer, the Trustee and the Investment Manager, *provided* that neither the Issuer nor the Investment Manager has entered into a binding agreement in connection with the sale of any portion of the Assets or taken any other actions in connection with the liquidation of any portion of the Assets pursuant to such notice of redemption. The Trustee will provide notice, in the name and at the expense of the Co-Issuers, to the Holders, the Investment Manager and each Rating Agency of the withdrawal of any notice of redemption.

Notice of redemption pursuant to Section 9.2 or 9.3 shall be given by the Issuer or, upon an Issuer Order, by the Trustee in the name and at the expense of the Co-Issuers. Failure to give notice of redemption, or any defect therein, to any Holder of any Rated Note selected for redemption shall not impair or affect the validity of the redemption of any other Rated Notes.

(c) Unless Refinancing Proceeds are being used to redeem the Rated Notes, in the event of any redemption pursuant to Section 9.2 or 9.3, no Rated Notes may be optionally redeemed unless (i) at least five Business Days before the scheduled Redemption Date the Investment Manager shall have furnished to the Trustee an Officer's Certificate from the Investment Manager on behalf of the Issuer stating that it has entered into a binding agreement or agreements with a financial or other institution or institutions whose short-term unsecured debt obligations (other than such obligations whose rating is based on the credit of a person other than such institution) are rated, or guaranteed by a Person whose short-term unsecured obligations are rated, at least "P-1" by Moody's to purchase (directly or by participation or other arrangement) from the Issuer, not later than the Business Day immediately preceding the scheduled Redemption Date in immediately available funds, all or part of the Assets at a purchase price at least equal to the Required Redemption Amount and redeem all of the Rated Notes on the

scheduled Redemption Date at the applicable Redemption Prices (or in the case of any Class of Rated Notes, such lesser amount that the Holders of such Class have elected to receive, where Holders of such Class have elected to receive less than 100% of the Redemption Price that would otherwise be payable to the Holders of such Class), (ii) at least five Business Days before the scheduled Redemption Date, the Issuer shall have received proceeds of disposition of all or part of the Assets at least equal to the Required Redemption Amount, or (iii) prior to selling any Collateral Obligations and/or Eligible Investments, the Investment Manager shall certify to the Trustee that, in its judgment, the aggregate sum of (A) expected proceeds from the sale or payment of Eligible Investments, and (B) for each Collateral Obligation, the product of its Principal Balance and its Market Value and its Applicable Advance Rate, shall be at least equal to the Required Redemption Amount. Any certification delivered by the Investment Manager pursuant to this Section 9.4(c) shall include (1) the prices of, and expected proceeds from, the sale (directly or by participation or other arrangement) or payment of any Collateral Obligations and/or Eligible Investments and (2) all calculations required by this Section 9.4(c). Any Holder, the Investment Manager or any of the Investment Manager's Affiliates shall have the right, subject to the same terms and conditions afforded to other bidders, to bid on Assets to be sold as part of an Optional Redemption or a Tax Redemption.

Section 9.5. Rated Notes Payable on Redemption Date. (a) Notice of redemption pursuant to Section 9.4 having been given as aforesaid, the Rated Notes to be redeemed shall, on the Redemption Date, subject to Section 9.4(c) and the Issuer's right to withdraw any notice of redemption pursuant to Section 9.4(b), become due and payable at the Redemption Prices therein specified, and from and after the Redemption Date (unless the Issuer shall default in the payment of the Redemption Prices and accrued interest) all such Rated Notes that are Rated Notes shall cease to bear interest on the Redemption Date. Holders of Certificated Notes, upon final payment on such Note to be so redeemed, shall present and surrender such Note at the place specified in the notice of redemption on or prior to such Redemption Date; *provided* that in the absence of notice to the Applicable Issuers or the Trustee that the applicable Note has been acquired by a Protected Purchaser, such final payment shall be made without presentation or surrender, if the Trustee and the Applicable Issuers shall have been furnished such security or indemnity as may be required by them to save each of them harmless and an undertaking thereafter to surrender such certificate. Payments of interest on Rated Notes and payments in respect of the Subordinated Notes so to be redeemed which are payable on or prior to the Redemption Date shall be payable to the Holders, or one or more predecessor Notes, registered as such at the close of business on the relevant Record Date according to the terms and provisions of Section 2.7(f).

(b) If any Rated Note called for redemption shall not be paid upon surrender thereof for redemption, the principal thereof shall, until paid, bear interest from the Redemption Date at the applicable Interest Rate for each successive Interest Accrual Period such Rated Note remains Outstanding; *provided* that the reason for such non-payment is not the fault of such Holder.

Section 9.6. Special Redemption. Principal payments on the Rated Notes shall be made in accordance with the Priority of Payments on any Payment Date during the Reinvestment Period, if the Investment Manager notifies the Trustee at least five Business Days prior to the applicable Special Redemption Date that it has been unable, for a period of at least

20 consecutive Business Days, to identify additional Collateral Obligations that are deemed appropriate by the Investment Manager and which would satisfy the Investment Criteria in sufficient amounts to permit the investment or reinvestment of all or a portion of the funds then in the Collection Account that are to be invested in additional Collateral Obligations (a “Special Redemption”). Any such notice shall be based upon the Investment Manager having attempted, in accordance with the standard of care set forth in the Investment Management Agreement, to identify additional Collateral Obligations as described above. On the first Payment Date (and all subsequent Payment Dates) following the Collection Period in which such notice is given (a “Special Redemption Date”), the amount in the Collection Account representing Principal Proceeds which the Investment Manager has determined cannot be reinvested in additional Collateral Obligations will be applied in accordance with the Priority of Payments. Notice of payments pursuant to this Section 9.6 shall be given not less than three Business Days prior to the applicable Special Redemption Date to each Holder of Rated Notes and to each Rating Agency (with a copy to the Investment Manager). In addition, with respect to Listed Notes so long as the guidelines of such exchange so require, notice of Special Redemption to the Irish Stock Exchange.

ARTICLE X

ACCOUNTS, ACCOUNTING AND RELEASES

Section 10.1. Collection of Money. Except as otherwise expressly provided herein, the Trustee may demand payment or delivery of, and shall receive and collect, directly and without intervention or assistance of any fiscal agent or other intermediary, all Money and other property payable to or receivable by the Trustee pursuant to this Indenture, including all payments due on the Assets, in accordance with the terms and conditions of such Assets. The Trustee shall segregate and hold all such Money and property received by it in trust for the Holders of the Rated Notes and shall apply it as provided in this Indenture. Each Account shall be an Eligible Account. All Cash deposited in the Accounts shall be invested only in Eligible Investments or Collateral Obligations in accordance with the terms of this Indenture. To avoid the consolidation of the Assets of the Issuer with the general assets of the Bank under any circumstances, the Trustee shall comply, and shall cause the Intermediary to comply, with all law applicable to it as a national bank with trust powers holding segregated trust assets in a fiduciary capacity; *provided* that the foregoing shall not be construed to prevent the Trustee or Intermediary from investing the Assets of the Issuer in Eligible Investments described in clause (ii) of the definition thereof that are obligations of the Bank.

Section 10.2. Collection Account. (a) In accordance with this Indenture and the Account Agreement, the Trustee shall, prior to the Closing Date, establish at the Intermediary two non-interest bearing segregated trust accounts, one of which will be designated the “Interest Collection Account” and one of which will be designated the “Principal Collection Account” (and which together will comprise the Collection Account), each held in the name of the Trustee, for the benefit of the Secured Parties and each of which shall be maintained with the Intermediary in accordance with the Account Agreement. The Trustee shall from time to time deposit into the Interest Collection Account, in addition to the deposits required pursuant to Section 10.6(a), immediately upon receipt thereof or upon transfer from the Expense Reserve

Account or the LC Reserve Account, all Interest Proceeds (unless simultaneously reinvested in additional Collateral Obligations in accordance with Article XII). The Trustee shall deposit immediately upon receipt thereof or upon transfer from the Expense Reserve Account, Revolver Funding Account or LC Reserve Account all other amounts remitted to the Collection Account into the Principal Collection Account, including in addition to the deposits required pursuant to Section 10.6(a), (i) any funds designated as Principal Proceeds by the Investment Manager in accordance with this Indenture and (ii) all other Principal Proceeds (unless simultaneously reinvested in additional Collateral Obligations in accordance with Article XII or in Eligible Investments). The Issuer may, but under no circumstances shall be required to, deposit from time to time into the Collection Account, in addition to any amount required hereunder to be deposited therein, such amounts received from external sources for the benefit of the Secured Parties (other than payments on or in respect of the Collateral Obligations, Eligible Investments or other existing Assets) as the Issuer deems, in its sole discretion, to be advisable and to designate them as Interest Proceeds or Principal Proceeds. All amounts deposited from time to time in the Collection Account pursuant to this Indenture shall be held by the Trustee as part of the Assets and shall be applied to the purposes herein provided. Subject to Section 10.2(d), amounts in the Collection Account shall be reinvested pursuant to Section 10.6(a).

(b) The Trustee, within one Business Day after receipt of any distribution or other proceeds in respect of the Assets which are not Cash, shall so notify the Issuer (with a copy to the Investment Manager), and the Issuer (or the Investment Manager on its behalf) shall use its commercially reasonable efforts to, within five Business Days after receipt of such notice from the Trustee (or as soon as practicable thereafter), sell such distribution or other proceeds for Cash in an arm's length transaction and deposit the proceeds thereof in the Collection Account; *provided* that, subject to the requirements of Section 12.1, the Issuer (i) need not sell such distributions or other proceeds if it delivers an Issuer Order or an Officer's certificate to the Trustee certifying that such distributions or other proceeds constitute Collateral Obligations or Eligible Investments or (ii) may otherwise retain such distribution or other proceeds for up to two years from the date of receipt thereof if it delivers an Officer's certificate to the Trustee certifying that (x) it will sell such distribution within such two-year period and (y) retaining such distribution is not otherwise prohibited by this Indenture.

(c) At any time when reinvestment is permitted pursuant to Article XII, the Investment Manager on behalf of the Issuer may by Issuer Order direct the Trustee to, and upon receipt of such Issuer Order the Trustee shall, withdraw funds on deposit in the Principal Collection Account representing Principal Proceeds (together with Interest Proceeds but only to the extent used to pay for accrued interest on an additional Collateral Obligation) and reinvest such funds in additional Collateral Obligations or exercise a warrant held in the Assets, in each case in accordance with the requirements of Article XII and such Issuer Order. At any time, the Investment Manager on behalf of the Issuer may by Issuer Order direct the Trustee to, and upon receipt of such Issuer Order the Trustee shall, withdraw funds on deposit (i) in the Principal Collection Account representing Principal Proceeds and deposit such funds in the Revolver Funding Account to meet funding requirements on Delayed Drawdown Collateral Obligations or Revolving Collateral Obligations and (ii) in the Interest Collection Account representing Interest Proceeds and deposit such funds in the LC Funding Account to satisfy the requirements of Section 10.5.

(d) The Investment Manager on behalf of the Issuer may by Issuer Order direct the Trustee to, and upon receipt of such Issuer Order the Trustee shall, pay from amounts on deposit in the Collection Account on any Business Day during any Interest Accrual Period (i) any amount required to exercise a warrant or right to acquire notes held in the Assets in accordance with the requirements of Article XII and such Issuer Order, and (ii) from Interest Proceeds only, any Administrative Expenses (such payments to be counted against the Administrative Expense Cap for the applicable period and to be subject to the order of priority as stated in the definition of Administrative Expenses); *provided* that the aggregate Administrative Expenses paid pursuant to this Section 10.2(d) during any Collection Period shall not exceed the Administrative Expense Cap for the related Payment Date. The Trustee shall not be obligated to make such payment if, in the reasonable determination of the Trustee, such payment would leave insufficient funds, taking into account the Administrative Expense Cap, for payments anticipated to be or become due or payable on the next Payment Date that are given a higher priority in the definition of Administrative Expenses.

Section 10.3. Transaction Accounts

(a) Payment Account. In accordance with this Indenture and the Account Agreement, the Trustee shall, prior to the Closing Date, establish at the Intermediary a single, segregated non-interest bearing trust account held in the name of the Trustee, for the benefit of the Secured Parties, which shall be designated as the "Payment Account," which shall be maintained with the Intermediary in accordance with the Account Agreement. Except as provided in Section 11.1(a), the only permitted withdrawal from or application of funds on deposit in, or otherwise to the credit of, the Payment Account shall be to pay amounts due and payable under the Priority of Payments. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Payment Account other than in accordance with the Priority of Payments. Amounts in the Payment Account shall remain uninvested.

(b) Custodial Account. In accordance with this Indenture and the Account Agreement, the Trustee shall, on or prior to the Closing Date, establish at the Intermediary a single, segregated non-interest bearing trust account held in the name of the Trustee, for the benefit of the Secured Parties, which shall be designated as the "Custodial Account," which shall be maintained with the Intermediary in accordance with the Account Agreement. All Collateral Obligations, Equity Securities and equity interests in Issuer Subsidiaries shall be credited to the Custodial Account as provided herein. The only permitted withdrawals from the Custodial Account shall be in accordance with the provisions of this Indenture. The Trustee agrees to give the Co-Issuers, with a copy to the Investment Manager, immediate notice if (to the actual knowledge of a Trust Officer of the Trustee) the Custodial Account or any assets or securities on deposit therein, or otherwise to the credit of the Custodial Account, shall become subject to any writ, order, judgment, warrant of attachment, execution or similar process. The Co-Issuers shall not have any legal, equitable or beneficial interest in the Custodial Account other than in accordance with this Indenture and the Priority of Payments.

(c) Expense Reserve Account. In accordance with this Indenture and the Account Agreement, the Trustee shall, prior to the Closing Date, establish at the Intermediary a single, segregated non-interest bearing trust account held in the name of the Trustee, for the benefit of the Secured Parties, which shall be designated as the "Expense Reserve Account,"

which shall be maintained with the Intermediary in accordance with the Account Agreement. The Issuer hereby directs the Trustee to deposit to the Expense Reserve Account the amount specified in Section 3.1(a)(xii). On any Business Day from the Closing Date to and including the Determination Date relating to the first Payment Date following the Closing Date, the Trustee shall apply funds from the Expense Reserve Account, as directed by the Investment Manager, to pay expenses of the Co-Issuers incurred in connection with the establishment of the Co-Issuers, the structuring and consummation of the Offering and the issuance of the Rated Notes. By the Determination Date relating to the first Payment Date following the Closing Date, all funds in the Expense Reserve Account (after deducting any expenses paid on such Determination Date) will be deposited in the Collection Account as Interest Proceeds and/or Principal Proceeds (in the respective amounts directed by the Investment Manager in its sole discretion). On any Business Day after the Determination Date relating to the first Payment Date following the Closing Date, the Trustee shall apply funds from the Expense Reserve Account (except as provided in the next sentence), as a deposit to the Collection Account as Principal Proceeds. Any income earned on amounts deposited in the Expense Reserve Account will be deposited in the Interest Collection Account as Interest Proceeds as it is paid.

(d) Ongoing Expense Smoothing Account. The Trustee will, prior to the Closing Date, establish at the Intermediary a single, segregated non-interest bearing trust account held in the name of the Trustee for the benefit of the Secured Parties which will be designated as the “Ongoing Expense Smoothing Account.” The Trustee shall transfer funds to the Ongoing Expense Smoothing Account, in the amounts and as directed by the Investment Manager, on each Payment Date as described under Section 11.1(a)(i). The Trustee shall apply funds from the Ongoing Expense Smoothing Account, in the amounts and as directed by the Investment Manager, to pay Administrative Expenses in the order of priority contained in the definition thereof on or between Payment Dates (without regard to the Administrative Expense Cap) including without limitation, Administrative Expenses incurred in connection with a Refinancing. Any income earned on amounts on deposit in the Ongoing Expense Smoothing Account shall be deposited in the Interest Collection Account as Interest Proceeds as it is paid.

(e) The Trustee shall transfer to the Payment Account, from the Collection Account for application pursuant to Section 11.(a), on the Business Day immediately preceding each Payment Date, the amount set forth to be so transferred in the Distribution Report for such Payment Date.

Section 10.4. The Revolver Funding Account. The Issuer hereby directs the Trustee to deposit to the Revolver Funding Account the amount specified in Section 3.1(a)(xii). Upon the purchase of any Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation, funds in an amount equal to the undrawn portion of such obligation shall be withdrawn first from the Ramp-Up Account and, if necessary, from the Principal Collection Account, as directed by the Investment Manager, and deposited by the Trustee pursuant to such direction in a single, segregated non-interest bearing trust account established at the Intermediary and held in the name of the Trustee for the benefit of the Secured Parties (the “Revolver Funding Account”); *provided that*, if such Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation is a Participation Interest with respect to which the Selling Institution requires funds to be deposited with the Selling Institution or its custodian in an amount equal to any portion of the undrawn amount of such obligation as collateral for the funding obligations

under such obligation (such funds, the “Selling Institution Collateral”), the Investment Manager on behalf of the Issuer shall direct the Trustee to (and pursuant to such direction the Trustee shall) deposit such funds in the amount of the Selling Institution Collateral with such Selling Institution or custodian rather than in the Revolver Funding Account, subject to the following sentence. Any such deposit of Selling Institution Collateral shall satisfy the following requirement (as determined and directed by the Investment Manager): either (a)(i) the aggregate amount of Selling Institution Collateral deposited with such Selling Institution or its custodian (unless such Selling Institution Collateral is deposited in an Eligible Account) under all Participation Interests shall not have an Aggregate Principal Balance in excess of 5.0% of the Collateral Principal Amount and (ii) shall not remain on deposit with such Selling Institution or custodian for more than 30 calendar days after such Selling Institution first fails to satisfy the rating requirements set out in the Third Party Credit Exposure Limits (and the terms of each such deposit shall permit the Issuer to withdraw the Selling Institution Collateral if such Selling Institution fails at any time to satisfy the rating requirements set out in the Third Party Credit Exposure Limits); or (b) such Selling Institution Collateral shall be deposited in an Eligible Account.

The Trustee will deposit the amount specified in Section 3.1(a)(xii) to the Revolver Funding Account to be reserved for unfunded funding obligations under the Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations purchased on or before the Closing Date. Upon initial purchase of any Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation, funds deposited in the Revolver Funding Account in respect of such Collateral Obligation and Selling Institution Collateral deposited with the Selling Institution in respect of such Collateral Obligation will be treated as part of the purchase price therefor. Amounts on deposit in the Revolver Funding Account will be invested in overnight funds that are Eligible Investments selected by the Investment Manager pursuant to Section 10.6 and earnings from all such investments will be deposited in the Interest Collection Account as Interest Proceeds.

Funds shall be deposited in the Revolver Funding Account upon the purchase of any Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation and upon the receipt by the Issuer of any Principal Proceeds with respect to a Revolving Collateral Obligation as directed by the Investment Manager such that the amount of funds on deposit in the Revolver Funding Account shall be equal to or greater than the aggregate amount of unfunded funding obligations (disregarding the portion, if any, of any such unfunded funding obligations that is collateralized by Selling Institution Collateral) under all such Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations then included in the Assets, as determined by the Investment Manager.

Any funds in the Revolver Funding Account (other than earnings from Eligible Investments therein) will be available solely to cover any drawdowns on the Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations; *provided* that any excess of (i) the amounts on deposit in the Revolver Funding Account over (ii) the sum of the unfunded funding obligations (disregarding the portion, if any, of any such unfunded funding obligations that is collateralized by Selling Institution Collateral) under all Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations (which excess may occur for any reason, including upon (A) the sale or maturity of a Delayed Drawdown Collateral Obligation or

Revolving Collateral Obligation, (B) the occurrence of an event of default with respect to any such Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation or (C) any other event or circumstance which results in the irrevocable reduction of the undrawn commitments under such Delayed Drawdown Collateral Obligation or Revolving Collateral Obligation) may be transferred by the Trustee (at the written direction of the Investment Manager on behalf of the Issuer) from time to time as Principal Proceeds to the Principal Collection Account.

Section 10.5. LC Reserve Account. The Issuer shall cause each Issuer Subsidiary that holds a Letter of Credit Reimbursement Obligation to, if the Issuer has not received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, to the effect that the Issuer Subsidiary should not or will not be subject to U.S. federal income tax on a net income basis with respect to any fees it receives in respect of such Letter of Credit Reimbursement Obligation and any gain it recognizes on the disposition of such Letter of Credit Reimbursement Obligation, deposit an amount equal to the highest marginal tax rate specified in Section 11(b) of the Code (or any successor provisions) multiplied by all of such fees and gain, less any amounts withheld in respect of taxes on such fees or from the purchase price (as the case may be), into a single, segregated non-interest bearing trust account established at the Intermediary and held in the name of the Trustee, for the benefit of the Secured Parties (the "LC Reserve Account"). If an Issuer Subsidiary receives the advice or opinion described in the foregoing sentence, the Issuer Subsidiary shall instead deposit an amount equal to 30% of all such fees (and shall not deposit any amount in respect of such gain) into the LC Reserve Account, less any amounts withheld in respect of taxes on such fees, unless the Issuer Subsidiary receives advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, to the effect that such fees should not or will not be subject to U.S. federal withholding tax, in which case the Issuer Subsidiary shall not be required to deposit any amounts into the LC Reserve Account. Amounts deposited into the LC Reserve Account will be invested by the Trustee in Eligible Investments as directed by the Investment Manager. The Issuer shall (or shall cause the Issuer Subsidiary to) withdraw funds from the LC Reserve Account to pay (or to provide for the payments of) the related taxes when due. The Issuer, at its discretion, may also (or may cause the Issuer Subsidiary to) withdraw funds from the LC Reserve Account at any time or times and apply them as Interest Proceeds or Principal Proceeds (as applicable) (i) if and to the extent that the Issuer receives advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, to the effect that the Issuer Subsidiary should not or will not be subject to U.S. withholding or income tax with respect to the fees or gain from which such funds were reserved, (ii) at Stated Maturity, or (iii) on a Redemption Date in connection with an Optional Redemption (other than pursuant to a Refinancing) or a Tax Redemption. The Issuer shall provide to each Rating Agency a copy of any opinion obtained pursuant to clause (i) of the immediately preceding sentence.

Section 10.6. Reinvestment of Funds in Accounts; Reports by Trustee. (a) By Issuer Order (which may be in the form of standing instructions), the Issuer (or the Investment Manager on behalf of the Issuer) shall at all times direct the Trustee to, and, upon receipt of such Issuer Order, the Trustee shall, invest all funds on deposit in the Collection Account, the

Revolver Funding Account, the LC Reserve Account, the Expense Reserve Account and the Ongoing Expense Smoothing Account as so directed in Eligible Investments having stated maturities no later than the earlier of the date that is 60 days after its Delivery and the Business Day preceding the next Payment Date (or such shorter maturities expressly provided herein). If at a time when no Event of Default has occurred and is continuing (regardless of any acceleration of the maturity of the Rated Notes), the Issuer shall not have given any such investment directions, the Trustee shall seek instructions from the Investment Manager within three Business Days after transfer of any funds to such accounts. If the Trustee does not thereafter receive written instructions from the Investment Manager within five Business Days after transfer of such funds to such accounts, it shall invest and reinvest the funds held in such accounts, as fully as practicable, but only in one or more Eligible Investments of the type described in clause (g) of the definition of Eligible Investments maturing no later than the Business Day immediately preceding the next Payment Date (or such shorter maturities expressly provided herein). If at a time when an Event of Default has occurred and is continuing, the Issuer shall not have given such investment directions to the Trustee for three consecutive days, the Trustee shall invest and reinvest such amounts as fully as practicable in Eligible Investments of the type described in clause (g) of the definition of Eligible Investments maturing not later than the earlier of (i) 30 days after the date of such investment (unless puttable at par to the issuer thereof) or (ii) the Business Day immediately preceding the next Payment Date (or such shorter maturities expressly provided herein). Except to the extent expressly provided otherwise herein, all interest and other income from such investments shall be deposited in the Interest Collection Account, any gain realized from such investments shall be credited to the Principal Collection Account upon receipt, and any loss resulting from such investments shall be charged to the Principal Collection Account. The Trustee shall not in any way be held liable by reason of any insufficiency of such accounts which results from any loss relating to any such investment, *provided* that nothing herein shall relieve the Bank of (i) its obligations or liabilities under any security or obligation issued by the Bank or any Affiliate thereof or (ii) liability for any loss resulting from gross negligence, willful misconduct or fraud on the part of the Bank or any Affiliate thereof. Except as expressly provided herein, the Trustee shall not otherwise be under any duty to invest (or pay interest on) amounts held hereunder from time to time. Notwithstanding the foregoing, any Eligible Investments that are issued by the Trustee in its capacity as a banking institution may mature on such Payment Date.

(b) The Trustee agrees to give the Issuer, with a copy to the Investment Manager, immediate notice if any Trust Officer has actual knowledge that any Account or any funds on deposit in any Account, or otherwise to the credit of an Account, shall become subject to any writ, order, judgment, warrant of attachment, execution or similar process.

(c) The Trustee shall supply, in a timely fashion, to the Co-Issuers, each Rating Agency and the Investment Manager any information regularly maintained by the Trustee that the Co-Issuers, the Rating Agencies or the Investment Manager may from time to time reasonably request with respect to the Assets, the Accounts and the other Assets and provide any other requested information reasonably available to the Trustee by reason of its acting as Trustee hereunder and required to be provided by Section 10.7 or to permit the Investment Manager to perform its obligations under the Investment Management Agreement or the Issuer's obligations hereunder that have been delegated to the Investment Manager. The Trustee shall promptly forward to the Investment Manager copies of notices and other writings received by it from the

issuer of any Collateral Obligation or from any Clearing Agency with respect to any Collateral Obligation which notices or writings advise the holders of such Collateral Obligation of any rights that the holders might have with respect thereto (including, without limitation, requests to vote with respect to amendments or waivers and notices of prepayments and redemptions) as well as all periodic financial reports received from such issuer and Clearing Agencies with respect to such issuer.

(d) In addition to any credit, withdrawal, transfer or other application of funds with respect to any Account set forth in Article X, any credit, withdrawal, transfer or other application of funds with respect to any Account authorized elsewhere in this Indenture is hereby authorized.

(e) Any account established under this Indenture may include any number of subaccounts deemed necessary or advisable by the Trustee in the administration of the accounts.

Section 10.7. Accountings.

(a) Monthly. Not later than the 15th calendar day (or, if such day is not a Business Day, the next succeeding Business Day) of each calendar month (other than a month in which a Payment Date occurs) and commencing in January 2014, the Issuer shall compile and make available (or cause to be compiled and made available) to each Rating Agency, the Trustee, the Investment Manager, the Placement Agent and, upon written request therefor, to any Holder and, upon written notice to the Trustee in the form of Exhibit D, any beneficial owner of a Note, a monthly report on a trade date basis (each such report a "Monthly Report"). As used herein, the "Monthly Report Determination Date" with respect to any calendar month will be the eighth Business Day prior to the 15th calendar day of such calendar month. The Monthly Report will contain the following information with respect to the Collateral Obligations and Eligible Investments included in the Assets, and shall be determined as of the Monthly Report Determination Date for such calendar month:

- (i) Aggregate Principal Balance of Collateral Obligations and Eligible Investments representing Principal Proceeds.
- (ii) Adjusted Collateral Principal Amount of Collateral Obligations.
- (iii) Collateral Principal Amount of Collateral Obligations.
- (iv) A list of Collateral Obligations, including, with respect to each such Collateral Obligation, the following information:
 - (A) The obligor thereon (including the issuer ticker, if any);
 - (B) The CUSIP or security identifier thereof;
 - (C) The Principal Balance thereof (other than any accrued interest that was purchased with Principal Proceeds (but excluding any capitalized interest));

- (D) The percentage of the aggregate Collateral Principal Amount represented by such Collateral Obligation;
- (E) The related interest rate or spread;
- (F) The LIBOR floor, if any (as provided by or confirmed with the Investment Manager);
- (G) Any Collateral Obligations subject to a LIBOR floor;
- (H) The stated maturity thereof;
- (I) The related Moody's Industry Classification;
- (J) The related S&P Industry Classification;
- (K) The Moody's Rating (and, in the event of a downgrade or withdrawal of the applicable Moody's Rating, the prior rating and the date such Moody's Rating was changed) and an indication as to whether such Moody's Rating is a Moody's Derived Rating; *provided* that if such rating is based on a credit estimate by Moody's, only the date on which the most recent estimate was obtained shall be reported;
- (L) The Moody's Default Probability Rating;
- (M) The S&P Rating, unless such rating is based on a credit estimate or is a private or confidential rating from S&P;
- (N) The country of Domicile;
- (O) An indication as to whether each such Collateral Obligation is (1) a Senior Secured Loan, (2) a Second Lien Loan, (3) a Senior Secured Bond, (4) a Senior Secured Floating Rate Note, (5) a Senior Unsecured Bond, (6) an Unsecured Loan, (7) a Participation Interest (indicating the related Selling Institution and its ratings by each Rating Agency), (8) a Letter of Credit Reimbursement Obligation (indicating the LC Commitment Amount thereunder, the related LOC Agent Bank and its ratings by each Rating Agency), (9) a Delayed Drawdown Collateral Obligation, (10) a Revolving Collateral Obligation, (11) a Fixed Rate Obligation, (12) a Current Pay Obligation, (13) a DIP Collateral Obligation, (14) a Discount Obligation, (15) a Discount Obligation purchased in the manner described in clause (y) of the proviso to the definition of Discount Obligation, (16) a Deferrable Security, (17) a Cov-Lite Loan or (18) a First Lien Last Out Loan;
- (P) With respect to each Collateral Obligation that is a Discount Obligation purchased in the manner described in clause (y) of the proviso to the definition Discount Obligation,

(I) the identity of the Collateral Obligation (including whether such Collateral Obligation was classified as a Discount Obligation at the time of its original purchase) the proceeds of whose sale are used to purchase the purchased Collateral Obligation;

(II) the purchase price (as a percentage of par) of the purchased Collateral Obligation and the sale price (as a percentage of par) of the Collateral Obligation the proceeds of whose sale are used to purchase the purchased Collateral Obligation;

(III) the Moody's Default Probability Rating assigned to the purchased Collateral Obligation and the Moody's Default Probability Rating assigned to the Collateral Obligation the proceeds of whose sale are used to purchase the purchased Collateral Obligation; and

(IV) the Aggregate Principal Balance of Collateral Obligations that have been excluded from the definition of Discount Obligation and relevant calculations indicating whether such amount is in compliance with the limitations described in the proviso to the definition of Discount Obligation;

(Q) The Moody's Recovery Rate;

(R) The S&P Recovery Rate;

(S) The Market Value of such Collateral Obligation, if such Market Value was calculated based on a bid price determined by a loan or bond pricing service, and the name of such loan or bond pricing service (including such disclaimer language as a loan or bond pricing service may from time to time require, as provided by the Investment Manager to the Trustee and the Collateral Administrator);

(T) The purchase price (as a percentage of par) of such Collateral Obligation; and

(U) (x) Whether the settlement date with respect to such Collateral Obligation has occurred and (y) such settlement date, if it has occurred.

(v) If the Monthly Report Determination Date occurs on or prior to the last day of the Reinvestment Period, for each of the limitations and tests specified in the definitions of Concentration Limitations and Collateral Quality Test, (1) the result, (2) the related minimum or maximum test level (including any Moody's Weighted Average Recovery Adjustment and Excess Weighted Average Floating Spread, if applicable, indicating to which test such Moody's Weighted Average Recovery Adjustment was allocated) and (3) a determination as to whether such result satisfies the related test.

(vi) The calculation of each of the following:

(A) Each Interest Coverage Ratio (and setting forth the percentage required to satisfy each Interest Coverage Test); and

(B) Each Overcollateralization Ratio (and setting forth the percentage required to satisfy each Overcollateralization Ratio Test and the Interest Diversion Test).

(vii) The calculation specified in Section 5.1(f).

(viii) For each Account, a schedule showing the beginning balance, each credit or debit specifying the nature, source and amount, and the ending balance.

(ix) A schedule showing for each of the following the beginning balance, the amount of Interest Proceeds received from the date of determination of the immediately preceding Monthly Report, and the ending balance for the current Measurement Date:

(A) Interest Proceeds from Collateral Obligations; and

(B) Interest Proceeds from Eligible Investments.

(x) Purchases, prepayments, and sales:

(A) The identity, Principal Balance (other than any accrued interest that was purchased with Principal Proceeds (but excluding any capitalized interest)), Principal Proceeds and Interest Proceeds received, and date for (X) each Collateral Obligation that was released for sale or other disposition pursuant to Section 12.1 since the last Monthly Report Determination Date and (Y) each prepayment or redemption of a Collateral Obligation, and in the case of (X), whether such Collateral Obligation was a Credit Risk Obligation or a Credit Improved Obligation, and whether the sale of such Collateral Obligation was a Discretionary Sale;

(B) The identity, Principal Balance (other than any accrued interest that was purchased with Principal Proceeds (but excluding any capitalized interest)), and Principal Proceeds and Interest Proceeds expended to acquire each Collateral Obligation acquired pursuant to Section 12.2 since the last Monthly Report Determination Date; and

(C) The identity and Principal Balance (other than any accrued interest that is expected to be purchased with Principal Proceeds (but excluding any capitalized interest)) of each Collateral Obligation that the Issuer has committed to purchase for which the settlement date has not yet occurred.

(xi) The identity of each Defaulted Obligation, the Moody's and S&P Collateral Value and Market Value of each such Defaulted Obligation and date of default thereof.

(xii) The identity of each Collateral Obligation with an S&P Rating of “CCC+” or below and/or a Moody’s Default Probability Rating of “Caa1” or below and the Market Value of each such Collateral Obligation.

(xiii) The identity of each Deferring Security, the Moody’s and S&P Collateral Value and Market Value of each Deferring Security, and the date on which interest was last paid in full in Cash thereon.

(xiv) The identity of each Current Pay Obligation, the Market Value of each such Current Pay Obligation, and the percentage of the Collateral Principal Amount comprised of Current Pay Obligations.

(xv) The percentage of the Collateral Principal Amount comprised of Collateral Obligations that pay interest less frequently than quarterly.

(xvi) The Aggregate Principal Balance, measured cumulatively from the Closing Date onward, of all Collateral Obligations that would have been acquired through a Distressed Exchange but for the operation of the proviso in the definition of Distressed Exchange.

(xvii) The Weighted Average Moody’s Rating Factor and the Adjusted Weighted Average Moody’s Rating Factor.

(xviii) Whether any Trading Plans were entered into since the last Monthly Report Determination Date and the identity of any Assets acquired and/or disposed of in connection with each such Trading Plan.

(xix) If the Investment Manager has engaged in any Trading Plans during the prior month, the Collateral Obligations purchased and/or sold and the purchase prices or Sale Proceeds generated in connection therewith, as applicable, and any other material details with respect to any such Trading Plans.

(xx) The identity, maturity and ratings of each Eligible Investment.

(xxi) The Weighted Average Floating Spread.

(xxii) The Weighted Average Life.

(xxiii) The identity of each Issuer Subsidiary and the property held therein.

(xxiv) Such other information as any Rating Agency or the Investment Manager may reasonably request.

Upon receipt of each Monthly Report, (a) the Trustee shall if the relevant Monthly Report Determination Date occurred on or prior to the last day of the Reinvestment Period, notify S&P, with a copy to the Investment Manager, if such Monthly Report indicates that the S&P CDO Monitor Test has not been satisfied as of the relevant Measurement Date and (b) the Investment Manager shall compare the information contained in such Monthly Report to the information

contained in its records with respect to the Assets and shall, within three Business Days after receipt of such Monthly Report, notify the Issuer, the Collateral Administrator, the Rating Agencies and the Trustee if the information contained in the Monthly Report does not conform to the information maintained by the Investment Manager with respect to the Assets. In the event that any discrepancy exists, the Trustee and the Issuer, or the Investment Manager on behalf of the Issuer, shall attempt to resolve the discrepancy. If such discrepancy cannot be promptly resolved, the Trustee shall within five Business Days notify the Investment Manager who shall, on behalf of the Issuer, request that the Independent accountants appointed by the Issuer pursuant to Section 10.9 perform agreed upon procedures with respect to such Monthly Report and the Trustee's records to determine the cause of such discrepancy. If such agreed upon procedures reveal an error in the Monthly Report or the Investment Manager's records, the Monthly Report or the Investment Manager's records shall be revised accordingly and, as so revised, shall be utilized in making all calculations pursuant to this Indenture and notice of any error in the Monthly Report shall be sent as soon as practicable by the Issuer to all recipients of such report which may be accomplished by making a notation of such error in the subsequent Monthly Report.

The Trustee is hereby authorized and directed to make each Monthly Report and Distribution Report available to Intex Solutions, Inc., as well as to any third party vendors selected by the Investment Manager to receive copies of the Monthly Reports and Distributions Reports by granting access to the Trustee's website.

(b) Payment Date Accounting. The Issuer shall compile and make available (or cause to be compiled and made available) an accounting (each, a "Distribution Report"), determined as of the close of business on each Determination Date preceding a Payment Date, to the Trustee, the Investment Manager, the Placement Agent, each Rating Agency, any Holder and, upon written notice to the Trustee in the form of Exhibit D, any beneficial owner of a Note, not later than the Business Day preceding the related Payment Date. The Distribution Report shall contain the following information:

(i) the information required to be in the Monthly Report pursuant to Section 10.7(a);

(ii) (a) the Aggregate Outstanding Amount of the Rated Notes of each Class at the beginning of the Interest Accrual Period and such amount as a percentage of the original Aggregate Outstanding Amount of the Rated Notes of such Class, (b) the amount of principal payments to be made on the Rated Notes of each Class on the next Payment Date, the amount of any Deferred Interest on each Class of Deferred Interest Notes and the Aggregate Outstanding Amount of the Rated Notes of each Class after giving effect to the principal payments, if any, on the next Payment Date and such amount as a percentage of the original Aggregate Outstanding Amount of the Rated Notes of such Class, and (c) the amount of distributions to be paid on the Subordinated Notes on the next Payment Date;

(iii) the Interest Rate and accrued interest for each Class of Rated Notes for such Payment Date;

(iv) the amounts payable pursuant to each clause of Section 11.1(a)(i), each clause of Section 11.1(a)(ii) and each clause of Section 11.1(a)(iii), as applicable, on the related Payment Date;

(v) for the Collection Account:

(A) the Balance on deposit in the Collection Account at the end of the related Collection Period (or, with respect to the Interest Collection Account, the next Business Day);

(B) the amounts payable from the Collection Account to the Payment Account, in order to make payments pursuant to Section 11.1(a)(i) and Section 11.1(a)(ii) on the next Payment Date (net of amounts which the Investment Manager intends to reinvest in additional Collateral Obligations pursuant to Article XII); and

(C) the Balance remaining in the Collection Account immediately after all payments and deposits to be made on such Payment Date; and

(vi) the estimated amount of Dissolution Expenses and the Principal Balances of the remaining Collateral Obligations as of the Determination Date (excluding Defaulted Securities, Equity Securities and Illiquid Assets);

(vii) such other information as the Investment Manager may reasonably request.

Each Distribution Report shall constitute instructions to the Trustee to withdraw funds from the Payment Account and pay or transfer such amounts set forth in such Distribution Report in the manner specified and in accordance with the priorities established in Section 11.1 and Article XIII.

(c) Interest Rate Notice. The Trustee shall include in the Monthly Report a notice setting forth the Interest Rate for each Class of Floating Rate Notes for the Interest Accrual Period preceding the next Payment Date.

(d) Failure to Provide Accounting. If the Trustee shall not have received any accounting provided for in this Section 10.7 on the first Business Day after the date on which such accounting is due to the Trustee, the Trustee shall notify the Investment Manager who shall use all reasonable efforts to obtain such accounting by the applicable Payment Date. To the extent the Investment Manager is required to provide any information or reports pursuant to this Section 10.7 as a result of the failure of the Issuer to provide such information or reports, the Investment Manager shall be entitled to retain an Independent certified public accountant in connection therewith and the reasonable costs incurred by the Investment Manager for such Independent certified public accountant shall be paid by the Issuer.

(e) Required Content of Certain Reports. Each Monthly Report and each Distribution Report sent to any Holder or beneficial owner of an interest in a Note shall contain, or be accompanied by, the following notices:

The Notes may be beneficially owned only by Persons that (a) (i) are not U.S. persons (within the meaning of Regulation S under the United States Securities Act of 1933, as amended) and are purchasing their beneficial interest in an offshore transaction or (ii) are (A) Qualified Institutional Buyers and (B) Qualified Purchasers (or corporations, partnerships, limited liability companies or other entities (other than trusts) each shareholder, partner, member or other equity owner of which is either a Qualified Purchaser) and (b) can make the representations set forth in Section 2.5 of this Indenture or the appropriate Exhibit thereto. Beneficial ownership interests in the Rule 144A Global Notes may be transferred only to a Person that is both a Qualified Institutional Buyer and a Qualified Purchaser and that can make the representations referred to in clause (b) of the preceding sentence. The Issuer has the right to compel any beneficial owner of an interest in Rule 144A Global Notes that does not meet the qualifications set forth in the preceding sentence to sell its interest in such Notes, or may sell such interest on behalf of such owner, pursuant to Section 2.11.

Each holder receiving this report agrees to keep all non-public information herein confidential and not to use such information for any purpose other than its evaluation of its investment in the Notes, *provided* that any holder may provide such information on a confidential basis to any prospective purchaser of such holder's Notes that is permitted by the terms of this Indenture to acquire such holder's Notes and that agrees to keep such information confidential in accordance with the terms of this Indenture.

(f) Distribution of Reports and Documents. The Trustee will make the Monthly Report, the Distribution Report, this Indenture and the Investment Management Agreement available through the Trustee's Website. Parties that are unable to use the above distribution option are entitled to have a paper copy mailed to them by first class mail. The Trustee shall have the right to change the way such statements and documents are distributed in order to make such distribution more convenient and/or more accessible to the above parties and the Trustee shall provide timely and adequate notification to all above parties regarding any such changes. As a condition to access to the Trustee's Website, the Trustee may require registration and the acceptance of a disclaimer. The Trustee shall be entitled to rely on but shall not be responsible for the content or accuracy of any information provided in the Monthly Report and the Distribution Report which the Trustee disseminates in accordance with this Indenture and may affix thereto any disclaimer it deems appropriate in its reasonable discretion.

Section 10.8. Release of Assets. (a) The Investment Manager may, by Issuer Order delivered to the Trustee no later than the settlement date of any sale of an obligation (or, in the case of physical settlement, no later than the Business Day preceding such date), certifying with respect to settlements that the applicable conditions set forth in Article XII have been met, direct the Trustee to deliver such obligation against receipt of payment therefor.

(b) The Investment Manager may, by Issuer Order delivered to the Trustee no later than the settlement date of any redemption or payment in full of a Collateral Obligation or Eligible Investment (or, in the case of physical settlement, no later than the Business Day preceding such date) certifying that such obligation is being redeemed or paid in full, direct the Trustee or, at the Trustee's instruction, the Intermediary, to deliver such obligation, if in physical form, duly endorsed, or, if such obligation is a Clearing Corporation Security, to cause it to be presented (or in the case of a general intangible or a participation, cause such actions as are

necessary to transfer such obligation to the designated transferee free of liens, claims or encumbrances created by this Indenture), to the appropriate paying agent therefor on or before the date set for redemption or payment, in each case against receipt of the redemption price or payment in full thereof.

(c) Subject to Article XII, the Investment Manager may, by Issuer Order delivered to the Trustee no later than the settlement date of an exchange, tender or sale (or, in the case of physical settlement, no later than the Business Day preceding such date), certifying that a Collateral Obligation is subject to a tender offer, voluntary redemption, exchange offer, conversion or other similar action (an “Offer”) and setting forth in reasonable detail the procedure for response to such Offer, direct the Trustee or, at the Trustee’s instructions, the Intermediary, to deliver such obligation, if in physical form, duly endorsed, or, if such obligation is a Clearing Corporation Security, to cause it to be delivered, in accordance with such Issuer Order, in each case against receipt of payment therefor.

(d) The Trustee shall deposit any proceeds received by it from the disposition of a Collateral Obligation or Eligible Investment in the Collection Account, unless such proceeds are simultaneously applied to the purchase of Collateral Obligations or Eligible Investments.

(e) The Trustee shall, (i) upon receipt of an Issuer Order, release any Illiquid Assets sold, distributed or disposed of pursuant to Article IV, and (ii) upon receipt of an Issuer Order at such time as there are no Notes Outstanding and all obligations of the Co-Issuers hereunder have been satisfied, release the Assets.

(f) The Trustee shall, upon receipt of an Issuer Order, release from the lien of this Indenture any Equity Security or Collateral Obligation being transferred to an Issuer Subsidiary and deliver it to such Issuer Subsidiary.

(g) Following delivery of any obligation pursuant to clauses (a) through (c) and (e) through (f), such obligation shall be released from the lien of this Indenture without further action by the Trustee or the Issuer.

Section 10.9. Appointment of Independent Accountants. (a) Prior to the delivery of any reports of accountants required to be prepared pursuant to the terms hereof, the Issuer shall appoint one or more firms of Independent certified public accountants of recognized international reputation for purposes of reviewing and delivering the reports or certificates of such accountants required by this Indenture, which may be the firm of Independent certified public accountants that performs accounting services for the Issuer or the Investment Manager. The Issuer may remove any firm of Independent certified public accountants at any time without the consent of any Holder. Upon any resignation by such firm or removal of such firm by the Issuer, the Issuer (or the Investment Manager on behalf of the Issuer) shall promptly appoint by Issuer Order delivered to the Trustee a successor thereto that shall also be a firm of Independent certified public accountants of recognized international reputation, which may be a firm of Independent certified public accountants that performs accounting services for the Issuer or the Investment Manager. If the Issuer shall fail to appoint a successor to a firm of Independent certified public accountants which has resigned within 30 days after such resignation, the Issuer shall promptly notify the Trustee, with a copy to the Investment Manager, of such failure in

writing. If the Issuer shall not have appointed a successor within ten days thereafter, the Trustee shall promptly notify the Investment Manager, who shall appoint a successor firm of Independent certified public accountants of recognized international reputation. The fees of such Independent certified public accountants and its successor shall be payable by the Issuer. Neither the Trustee nor the Collateral Administrator shall have any responsibility to the Issuer or the Secured Parties hereunder to make any inquiry or investigation as to, and shall have no obligation in respect of, the terms of any engagement of Independent accountants by the Issuer (or the Investment Manager on behalf of the Issuer); *provided* that the Issuer hereby directs the Trustee to execute any acknowledgment or other agreement with the Independent accountants required for the Trustee to receive any of the reports or instructions provided for herein, which acknowledgment or agreement may include, among other things, (i) acknowledgements with respect to the sufficiency of the agreed upon procedures to be performed by the Independent accountants by the Issuer, (ii) releases of claims (on behalf of itself and the Holders) and other acknowledgments of limitations of liability in favor of the Independent accountants, or (iii) restrictions or prohibitions on the disclosure of information or documents provided to it by such firm of Independent accountants (including to the Holders). It is understood and agreed that the Trustee will deliver such acknowledgement or other agreement in conclusive reliance on the foregoing direction of the Issuer, and the Trustee shall make no inquiry or investigation as to, and shall have no obligation in respect of, the sufficiency, validity or correctness of such procedures. Notwithstanding the foregoing, in no event shall the Trustee be required to execute any agreement in respect of the Independent accountants that the Trustee determines adversely affects it in its individual capacity.

(b) To the extent a beneficial owner or Holder of a Rated Note requests the yield to maturity in respect of the relevant Rated Note in order to determine any "original issue discount" in respect thereof (which in the case of any beneficial owner will be substantially in the form of Exhibit D), the Trustee shall request that the firm of Independent certified public accountants appointed by the Issuer calculate such yield to maturity and, subject to the foregoing, will provide such information to the Holder or beneficial owner. The Trustee shall have no responsibility to calculate the yield to maturity or to verify the accuracy of such Independent certified public accountants' calculation. In the event that the firm of Independent certified public accountants fails to calculate such yield to maturity, the Trustee shall have no responsibility to provide such information to the beneficial owner or Holder of a Rated Note.

(c) Upon the written request of the Trustee, or any Holder of a Subordinated Note, the Issuer will cause the firm of Independent certified public accountants appointed pursuant to Section 10.9(a) to provide any Holder of Subordinated Notes with all of the information required to be provided by the Issuer pursuant to Section 7.17 or assist the Issuer in the preparation thereof.

Section 10.10. Reports to Rating Agencies and Additional Recipients. In addition to the information and reports specifically required to be provided to each Rating Agency pursuant to the terms of this Indenture, the Issuer shall provide each Rating Agency with all information or reports delivered to the Trustee hereunder, and such additional information as either Rating Agency may from time to time reasonably request (including (w) notification to Moody's and S&P of any modification of any loan document relating to a DIP Collateral Obligation or any release of collateral thereunder not permitted by such loan documentation,

(x) notification to Moody's or S&P, as applicable, of any Specified Amendment, which notices to the applicable Rating Agency shall include a copy of such Specified Amendment and a brief summary of its purpose, (y) notification to S&P of any Material Event with respect to any Collateral Obligation with an S&P Rating determined under clause (iii)(b) or (iii)(c) of the definition thereof, whether or not a credit estimate has been requested from S&P, and (z) any additional information reasonably requested by S&P regarding a Collateral Obligation with an S&P Rating determined under clause (iii)(c) of the definition thereof). Notwithstanding the foregoing, certificates, letters or reports prepared by the accountants pursuant to this Indenture will not be provided to the Rating Agencies.

Section 10.11. Procedures Relating to the Establishment of Accounts Controlled by the Trustee. Notwithstanding anything else contained herein, the Trustee agrees that with respect to each of the Accounts, it will cause the Intermediary establishing such accounts to enter into an Account Agreement prepared by, or on behalf of, the Issuer and, if the Intermediary is the Bank, shall cause the Bank to comply with the provisions of such Account Agreement. The Trustee may open such subaccounts of any such Account as it deems necessary or appropriate for convenience of administration.

Section 10.12. Section 3(c)(7) Procedures

(a) DTC Actions. The Issuer will direct DTC to take the following steps in connection with the Global Notes (or such other appropriate steps regarding legends of restrictions on the Global Notes under Section 3(c)(7) of the Investment Company Act and Rule 144A as may be customary under DTC procedures at any given time):

(i) The Issuer will direct DTC to include the marker "3c7" in the DTC 20-character security descriptor and the 48-character additional descriptor for the Global Notes.

(ii) The Issuer will direct DTC to cause each physical deliver order ticket that is delivered by DTC to purchasers to contain the 20-character security descriptor. The Issuer will direct DTC to cause each deliver order ticket that is delivered by DTC to purchasers in electronic form to contain a "3c7" indicator and a related user manual for participants. Such user manual will contain a description of the relevant restrictions imposed by Section 3(c)(7).

(iii) On or prior to the Closing Date, the Issuer will instruct DTC to send a Section 3(c)(7) notice to all DTC participants in connection with the offering of the Global Notes.

(iv) In addition to the obligations of the Registrar set forth in Section 2.5, the Issuer will from time to time (upon the request of the Trustee) make a request to DTC to deliver to the Issuer a list of all DTC participants holding an interest in the Global Notes.

(b) Bloomberg Screens, etc. The Issuer will from time to time request all third-party vendors to include on screens maintained by such vendors with respect to Global Notes appropriate legends regarding Rule 144A and all available Section 3(c)(7) legends.

ARTICLE XI

APPLICATION OF MONIES

Section 11.1. Disbursements of Amounts from Payment Account. (a) Notwithstanding any other provision in this Indenture, but subject to the other subsections of this Section 11.1 and to Section 13.1, on each Payment Date, the Trustee shall disburse amounts transferred from the Collection Account to the Payment Account pursuant to Section 10.2 in accordance with the following priorities (subject to the preceding clauses of this sentence).

(i) On each Payment Date, unless an Enforcement Event has occurred and is continuing, Interest Proceeds on deposit in the Collection Account, to the extent received on or before the related Determination Date (or if such Determination Date is not a Business Day, the next succeeding Business Day) and that are transferred into the Payment Account, shall be applied in the following order of priority (the "Priority of Interest Proceeds"):

(A) (1) first, to the payment of taxes, governmental fees and registered office fees owing by the Issuer or the Co-Issuer, if any, and (2) second, to the payment of the accrued and unpaid Administrative Expenses, in the priority stated in the definition thereof, up to the Administrative Expense Cap; *provided* that on any Payment Date, the Investment Manager may, in its discretion, direct the Trustee to deposit to the Ongoing Expense Smoothing Account an amount equal to the lesser of (x) the Ongoing Expense Smoothing Shortfall and (y) the Ongoing Expense Excess Amount;

(B) to the payment of the Base Management Fee due and payable (including any accrued and unpaid interest thereon) to the Investment Manager; *provided* that such accrued and unpaid interest shall be paid solely to the extent that, after giving effect on a *pro forma* basis to such payment, sufficient Interest Proceeds remain to pay in full all amounts due under clauses (C), (D) and (E) below;

(C) first, to the payment *pro rata* of (1) the sum of (x) accrued and unpaid interest on the Class X Notes, (y) the Class X Scheduled Amortization Amount for such Payment Date and (z) any accrued and unpaid Class X Scheduled Amortization Amounts from prior Payment Dates; and (2) accrued and unpaid interest on the Class A-1 Notes; and then, second, to the payment of accrued and unpaid interest on the Class A-2 Notes;

(D) to the payment of accrued and unpaid interest on the Class B Notes;

(E) if either of the Class A/B Coverage Tests is not satisfied on the related Determination Date, to make payments in accordance with the Note Payment Sequence to the extent necessary to cause each Class A/B Coverage Test to be satisfied on a *pro forma* basis after giving effect to all payments pursuant to this clause (E);

- (F) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class C Notes;
- (G) if either of the Class C Coverage Tests is not satisfied on the related Determination Date, to make payments in accordance with the Note Payment Sequence to the extent necessary to cause each Class C Coverage Test to be satisfied on a pro forma basis after giving effect to all payments pursuant to this clause (G);
- (H) to the payment of any Deferred Interest on the Class C Notes;
- (I) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class D Notes;
- (J) if either of the Class D Coverage Tests is not satisfied on the related Determination Date, to make payments in accordance with the Note Payment Sequence to the extent necessary to cause each Class D Coverage Test to be satisfied on a pro forma basis after giving effect to all payments pursuant to this clause (J);
- (K) to the payment of any Deferred Interest on the Class D Notes;
- (L) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class E Notes;
- (M) if either of the Class E Coverage Tests is not satisfied on the related Determination Date, to make payments in accordance with the Note Payment Sequence to the extent necessary to cause each Class E Coverage Tests to be satisfied on a pro forma basis after giving effect to all payments pursuant to this clause (M);
- (N) to the payment of any Deferred Interest on the Class E Notes;
- (O) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class F Notes;
- (P) to the payment of any Deferred Interest on the Class F Notes;
- (Q) to the payment (in the same manner and order of priority stated in the definition thereof) of any Administrative Expenses not paid pursuant to clause (A)(2) above due to the Administrative Expense Cap;
- (R) to the payment of the Subordinated Management Fee due and payable (including any accrued and unpaid interest thereon) to the Investment Manager;

(S) if no Class A Notes or Class B Notes are then outstanding, to the payment of principal of the Class X Notes until such amount has been paid in full;

(T) if the Interest Diversion Test is not satisfied on the related Determination Date, the lesser of (x) 50% of the Interest Proceeds then available and (y) the amount required to cause such test to be satisfied shall be applied to (i) if the related Payment Date is during the Reinvestment Period, the purchase of additional Collateral Obligations or for deposit into the Collection Account as Principal Proceeds for investment in Eligible Investments pending the purchase of additional Collateral Obligations at a later date (but only during the Reinvestment period) or (ii) if the related Payment Date is after the last day of the Reinvestment Period, to make payments in accordance with the Note Payment Sequence;

(U) to pay the Holders of the Subordinated Notes until the Subordinated Notes have realized the Incentive Management Fee Target Return; and

(V) any remaining Interest Proceeds to be paid (x) 20% to the Investment Manager as part of the Incentive Management Fee payable on such Payment Date; and (y) 80% to the Holders of the Subordinated Notes.

For purposes of calculating the amount of any Interest Proceeds to be applied to satisfy any Coverage Test on any Distribution Date occurring after the Reinvestment Period in accordance with the Priority of Interest Proceeds, the principal of each Class of Rated Notes shall be reduced by (i) the amount of Principal Proceeds transferred to the Payment Account in accordance with this Indenture to be applied on such Payment Date to repay principal of such Class of Rated Notes pursuant to the Priority of Principal Proceeds and (ii) the amount of Interest Proceeds to be applied on such Payment Date to repay principal of such Class of Rated Notes as set forth in the Priority of Interest Proceeds.

(ii) On each Payment Date, unless an Enforcement Event has occurred and is continuing, Principal Proceeds on deposit in the Collection Account that are received on or before the related Determination Date and that are transferred to the Payment Account (which will not include (i) amounts required to meet funding requirements with respect to Delayed Drawdown Collateral Obligations and Revolving Collateral Obligations that are deposited in the Revolver Funding Account, (ii) during the Reinvestment Period, Principal Proceeds that will be used to reinvest in Collateral Obligations that the Issuer has already committed to purchase, and (iii) amounts that the Issuer is entitled to reinvest in accordance with the Investment Criteria described herein, during the Reinvestment Period which amounts may be retained in the Collection Account for subsequent reinvestment) shall be applied in the following order of priority (the "Priority of Principal Proceeds"):

(A) to pay the amounts referred to in clauses (A) through (D) of the Priority of Interest Proceeds (and in the same manner and order of priority stated therein), but only to the extent not paid in full thereunder;

(B) to pay the amounts referred to in clause (E) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent necessary to cause the Class A/B Coverage Tests to be met as of the related Determination Date on a *pro forma* basis after giving effect to any payments made through this clause (B);

(C) to pay the amounts referred to in clause (F) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class C Notes are the Controlling Class;

(D) to pay the amounts referred to in clause (G) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent necessary to cause the Class C Coverage Tests to be met as of the related Determination Date on a *pro forma* basis after giving effect to any payments made through this clause (D);

(E) to pay the amounts referred to in clause (H) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class C Notes are the Controlling Class;

(F) to pay the amounts referred to in clause (I) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class D Notes are the Controlling Class;

(G) to pay the amounts referred to in clause (J) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent necessary to cause the Class D Coverage Tests to be met as of the related Determination Date on a *pro forma* basis after giving effect to any payments made through this clause (G);

(H) to pay the amounts referred to in clause (K) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class D Notes are the Controlling Class;

(I) to pay the amounts referred to in clause (L) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class E Notes are the Controlling Class;

(J) to pay the amounts referred to in clause (M) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent necessary to cause the Class E Coverage Tests to be met as of the related Determination Date on a *pro forma* basis after giving effect to any payments made through this clause (J);

(K) to pay the amounts referred to in clause (N) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class E Notes are the Controlling Class;

(L) to pay the amounts referred to in clause (O) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class F Notes are the Controlling Class;

(M) to pay the amounts referred to in clause (P) of the Priority of Interest Proceeds, but only to the extent not paid in full thereunder and to the extent that the Class F Notes are the Controlling Class;

(N) (1) if such Payment Date is a Redemption Date (other than in respect of (x) a Special Redemption or (y) a Partial Redemption Date), to make payments in accordance with the Note Payment Sequence, and (2) if such Payment Date is a Redemption Date in respect of a Special Redemption, to make payments in the amount, if any, of the Principal Proceeds that the Investment Manager has determined cannot be practicably reinvested in additional Collateral Obligations, in accordance with the Note Payment Sequence;

(O) during the Reinvestment Period, to the Collection Account as Principal Proceeds to invest in Eligible Investments (pending the purchase of additional Collateral Obligations) and/or to the purchase of additional Collateral Obligations;

(P) to make payments in accordance with the Note Payment Sequence;

(Q) to pay the amounts referred to in clause (Q) of the Priority of Interest Proceeds only to the extent not already paid;

(R) to pay the amounts referred to in clause (R) of the Priority of Interest Proceeds only to the extent not already paid (in the same manner and order of priority stated therein);

(S) after giving effect to clause (U) of the Priority of Interest Proceeds, to pay the Holders of the Subordinated Notes until the Subordinated Notes have realized the Incentive Management Fee Target Return; and

(T) any remaining proceeds to be paid (x) 20% to the Investment Manager as part of the Incentive Management Fee payable on such Payment Date; and (y) 80% to the Holders of the Subordinated Notes.

(iii) Notwithstanding the provisions of the foregoing Sections 11.1(a)(i) and 11.1(a)(ii), in the case of any Enforcement Event that has occurred and is continuing, on each date or dates fixed by the Trustee pursuant to Section 5.7, proceeds in respect of the Assets will be applied in the following order of priority (the "Special Priority of Payments"):

(A) (1) first, to the payment of taxes, governmental fees and registered office fees owing by the Issuer or the Co-Issuer, if any, and (2) second, to the payment of the accrued and unpaid Administrative Expenses, in the priority stated in the definition thereof, up to the Administrative Expense Cap (*provided* that following the commencement of liquidation of the Assets pursuant to Section 5.5(a), the Administrative Expense Cap shall be disregarded);

(B) to the payment of the Base Management Fee due and payable (including any accrued and unpaid interest thereon) to the Investment Manager;

(C) to the payment *pro rata* of (1) the sum of (x) accrued and unpaid interest on the Class X Notes, (y) the Class X Scheduled Amortization Amount for such Payment Date and (z) any accrued and unpaid Class X Scheduled Amortization Amounts from prior Payment Dates; and (2) accrued and unpaid interest on the Class A-1 Notes;

(D) first, to the payment of principal, *pro rata*, of the Class X Notes and the Class A-1 Notes; and then, to the payment of accrued and unpaid interest on, and then, to the payment of principal of the Class A-2 Notes;

(E) to the payment of accrued and unpaid interest on the Class B Notes;

(F) to the payment of principal of the Class B Notes;

(G) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class C Notes;

(H) to the payment of principal of the Class C Notes (including the payment of Deferred Interest on the Class C Notes) until such amount has been paid in full;

(I) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class D Notes;

(J) to the payment of principal of the Class D Notes (including the payment of Deferred Interest on the Class D Notes) until such amount has been paid in full;

(K) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class E Notes;

(L) to the payment of principal of the Class E Notes (including the payment of Deferred Interest on the Class E Notes) until such amount has been paid in full;

(M) to the payment of accrued and unpaid interest (excluding Deferred Interest, but including interest on Deferred Interest) on the Class F Notes;

(N) to the payment of principal of the Class F Notes (including the payment of Deferred Interest on the Class F Notes) until such amount has been paid in full;

(O) to the payment of (in the same manner and order of priority stated in the definition thereof) any Administrative Expenses not paid pursuant to clause (A)(2) above due to the Administrative Expense Cap;

(P) to the payment of the Subordinated Management Fee due and payable (including any accrued and unpaid interest thereon) to the Investment Manager;

(Q) to pay the Holders of the Subordinated Notes until the Subordinated Notes have realized the Incentive Management Fee Target Return; and

(R) to pay the balance to the Investment Manager and the Holders of the Subordinated Notes, such balance to be allocated as follows:

(x) 20% to the Investment Manager as the Incentive Management Fee payable on such Payment Date; and (y) 80% to the Holders of the Subordinated Notes.

(iv) On any Partial Redemption Date, Refinancing Proceeds and Partial Redemption Interest Proceeds will be distributed in the following order of priority (the "Priority of Partial Redemption Proceeds"):

(A) to pay the Redemption Price (without duplication of any payments received by the Class of Rated Notes being redeemed pursuant to the Priority of Interest Proceeds or the Special Priority of Payments) of each Class of Rated Notes being refinanced in accordance with the Note Payment Sequence; and

(B) any remaining proceeds from the Refinancing will be deposited in the Interest Collection Account as Interest Proceeds.

(b) If on any Payment Date the amount available in the Payment Account is insufficient to make the full amount of the disbursements required by the Distribution Report, the Trustee shall make the disbursements called for in the order and according to the priority set forth under Section 11.1(a) above, subject to Section 13.1, to the extent funds are available therefor.

(c) In connection with the application of funds to pay Administrative Expenses of the Issuer or the Co-Issuer, as the case may be, in accordance with Section 11.1(a)(i), Section 11.1(a)(ii) and Section 11.1(a)(iii), the Trustee shall remit such funds, to the extent available, as directed and designated in an Issuer Order (which may be in the form of standing instructions, including standing instructions to pay Administrative Expenses in such amounts and to such entities as indicated in the Distribution Report in respect of such Payment Date) delivered to the Trustee no later than the Business Day prior to each Payment Date; *provided* that such direction and designation by Issuer Order shall not be necessary for, and shall be subject to, the payment of amounts pursuant to, and in the priority stated in, the definition of Administrative Expenses. Notwithstanding the foregoing and absent direction to the contrary, the Distribution Report shall automatically constitute an Issuer Order to pay Administrative Expenses as indicated therein.

(d) To the extent they are not paid when due on any Payment Date due to the operation of the Priority of Payments (and not as the result of an elective deferral by the Investment Manager), the Base Management Fee and the Subordinated Management Fee will be deferred and will be payable on subsequent Payment Dates in accordance with the Priority of Payments. Any such unpaid Base Management Fee or Subordinated Management Fee will accrue interest as provided in the Investment Management Agreement.

ARTICLE XII

SALE OF COLLATERAL OBLIGATIONS; PURCHASE OF ADDITIONAL COLLATERAL OBLIGATIONS

Section 12.1. Sales of Collateral Obligations. Subject to the satisfaction of the conditions specified in Section 12.3, including that the maturity of the Rated Notes has not been accelerated after an Event of Default, the Investment Manager on behalf of the Issuer may, but will not be required to (except as otherwise specified in this Section 12.1), sell or otherwise dispose of any Collateral Obligation or Equity Security (which shall include the direct sale or liquidation of the equity interests of any Issuer Subsidiary or assets held by an Issuer Subsidiary) if, as certified by the Investment Manager, such sale or other disposition meets the requirements of any one of Sections 12.1(a) through (i) (subject in each case to any applicable requirement of disposition under Section 12.1(h)). If the maturity of the Rated Notes has been accelerated or the Stated Maturity has occurred, so long as the Trustee has not commenced exercising remedies pursuant to Section 5.4, the Investment Manager, on behalf of the Issuer, may continue to sell or dispose of Collateral Obligations and Equity Securities pursuant to Sections 12.1(a) through (d) and (g). For purposes of this Section 12.1, the Sale Proceeds of a Collateral Obligation sold by the Issuer shall include any Principal Financed Accrued Interest received in respect of such sale or other disposition.

(a) Credit Risk Obligations. The Investment Manager may direct the Trustee to sell or otherwise dispose of any Credit Risk Obligation at any time without restriction.

(b) Credit Improved Obligations. The Investment Manager may direct the Trustee to sell or otherwise dispose of any Credit Improved Obligation at any time without restriction.

(c) Defaulted Obligations. The Investment Manager may direct the Trustee to sell or otherwise dispose of any Defaulted Obligation at any time without restriction.

(d) Equity Securities. The Investment Manager may direct the Trustee to sell or otherwise dispose of any Equity Security at any time without restriction, and shall (unless such Equity Security is required to be sold or otherwise disposed of or has been transferred to an Issuer Subsidiary) use its commercially reasonable efforts to effect the sale or other disposition of any Equity Security (other than an interest in an Issuer Subsidiary), regardless of price (i) if such Equity Security constitutes Margin Stock and (ii) to the extent that the amount of all Equity Securities (excluding any interests in Issuer Subsidiaries) exceeds the par value of the Subordinated Notes, within 45 days after receipt unless such sale or other disposition is prohibited by applicable law or an applicable contractual restriction, in which case such Equity Security shall be sold or otherwise disposed of as soon as such sale or other disposition is permitted by applicable law and not prohibited by such contractual restriction.

(e) Optional Redemption. After the Issuer has notified the Trustee of an Optional Redemption or Tax Redemption, the Investment Manager shall direct the Trustee to sell or otherwise dispose of (which disposition may be through participation or other arrangement) all or a portion of the Collateral Obligations if the requirements of Article IX are satisfied. If any such disposition is made through participations, the Issuer shall use reasonable efforts to cause such participations to be converted to assignments within six months after the disposition.

(f) Discretionary Sales. During the Reinvestment Period, so long as no Restricted Trading Period has occurred and is continuing, the Investment Manager may direct the Trustee to sell or otherwise dispose of any Collateral Obligation (such sales, "Discretionary Sales") at any time if (i) after giving effect to such disposition, the Aggregate Principal Balance of all Collateral Obligations disposed of as described in this Section 12.1(f) during the preceding period of 12 calendar months is not greater than 25.0% of the Collateral Principal Amount as of the first day of such 12 calendar month period and (ii) either:

(A) during the Reinvestment Period, the Investment Manager reasonably believes prior to such disposition that it will be able to enter into one or more binding commitments to reinvest all or a portion of the proceeds of such disposition, in compliance with the Investment Criteria; or

(B) after the Reinvestment Period, after giving effect to such disposition, either (1) the sales proceeds from such sale are at least sufficient to maintain or increase the Adjusted Collateral Principal Amount (as measured before such sale) or (2) the Aggregate Principal Balance of all Collateral Obligations (excluding the Collateral Obligation being disposed of but including, without duplication, the anticipated net proceeds of such disposition) *plus*, without duplication, the amounts on deposit in the Collection Account (including Eligible Investments therein) representing Principal Proceeds, will be greater than the Reinvestment Target Par Balance.

For purposes of determining the percentage of Collateral Obligations sold during any such period, the amount of any Collateral Obligations sold will be reduced to the extent of any purchases of Collateral Obligations of the same obligor (which are *pari passu* or senior to such sold Collateral Obligations) occurring within 45 Business Days of such sale (determined based upon the date of any relevant trade confirmation or commitment letter) so long as any such Collateral Obligation was sold with the intention of purchasing a Collateral Obligation of the same obligor (which would be *pari passu* or senior to such sold Collateral Obligation).

(g) Issuer Subsidiaries. In connection with the incorporation of, or transfer of any security or obligation to, any Issuer Subsidiary, the Issuer shall not be required to obtain Rating Agency Confirmation; *provided* that prior to the incorporation of any Issuer Subsidiary and the transfer of any Asset thereto, the Investment Manager will, on behalf of the Issuer, provide written notice thereof to each Rating Agency. The Issuer shall not be required to continue to hold in an Issuer Subsidiary (and may instead hold directly) an Issuer Subsidiary

Asset that satisfies the definition of “Collateral Obligation” and with respect to which the Investment Manager has received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other nationally recognized U.S. tax counsel experienced in such matters, to the effect that the Issuer will not be treated as engaged in a trade or business in the United States for U.S. federal income tax purposes as a result of the acquisition, ownership, and disposition of such Issuer Subsidiary Asset. For financial accounting reporting purposes (including each Monthly Report and Distribution Report) and the Coverage Tests and the Collateral Quality Test (and, for the avoidance of doubt, not for tax purposes), the Issuer will be deemed to own an Equity Security or Collateral Obligation held by an Issuer Subsidiary rather than its interest in that Issuer Subsidiary.

(h) Unrestricted Sales. If the Aggregate Principal Balance of the Collateral Obligations is less than U.S.\$10,000,000, the Investment Manager may direct the Trustee to sell the Collateral Obligations without regard to the foregoing limitations.

Section 12.2. Purchase of Additional Collateral Obligations; Investment Criteria.

(a) Reinvestment Period Criteria. On any date during the Reinvestment Period, so long as no Restricted Trading Period has occurred and is continuing, the Investment Manager on behalf of the Issuer may, subject to the other requirements in this Indenture, but will not be required to, direct the Trustee to invest Principal Proceeds and accrued interest received with respect to any Collateral Obligation to the extent used to pay for accrued interest on additional Collateral Obligations, and the Trustee shall invest such Principal Proceeds and other amounts in accordance with such direction. No obligation may be purchased by the Issuer during the Reinvestment Period unless each of the following conditions (the “Reinvestment Period Criteria”) is satisfied as of the date the Investment Manager commits on behalf of the Issuer to make such purchase, in each case as determined by the Investment Manager after giving effect to such purchase and all other sales (or other dispositions) or purchases previously or simultaneously committed to; *provided that*; with respect to any Defaulted Obligation acquired in a Bankruptcy Exchange, neither the requirements with respect to the Coverage Tests (as set forth in clause (ii) below), nor the requirements with respect to the Collateral Quality Tests (as set forth in clause (v) below), need to be satisfied in connection with any such exchange:

(i) such obligation is a Collateral Obligation;

(ii) each Coverage Test will be satisfied, or if not satisfied, such Coverage Test will be maintained or improved;

(iii) in the case of additional Collateral Obligations purchased with the proceeds from the sale of a Credit Improved Obligation or a Discretionary Sale, or with Principal Proceeds received from scheduled distributions of principal with respect to any Collateral Obligation or from any Unscheduled Principal Payments, the Reinvestment Balance Criteria will be satisfied;

(iv) in the case of additional Collateral Obligations purchased with the proceeds from the sale of a Credit Risk Obligation or Defaulted Obligation sold at the discretion of the Investment Manager, after giving effect to such purchases, either (1) the Aggregate Principal Balance of all additional Collateral Obligations purchased with the proceeds from such sale will at least equal the related Sale Proceeds, or (2) the Reinvestment Balance Criteria will be satisfied; and

(v) either (A) each requirement or test, as the case may be, of the Concentration Limitations and the Collateral Quality Test will be satisfied or (B) if any such requirement or test was not satisfied immediately prior to such investment, such requirement or test will be maintained or improved after giving effect to the investment except that, in the case of an additional Collateral Obligation purchased with the proceeds from the sale or other disposition of a Credit Risk Obligation, a Defaulted Obligation or an Equity Security, the S&P CDO Monitor Test will not apply.

During the Reinvestment Period, following the sale or other disposition of any Credit Improved Obligation or any Discretionary Sale or other discretionary disposition of a Collateral Obligation, the Investment Manager shall use its reasonable efforts to purchase additional Collateral Obligations within 45 Business Days after such disposition; *provided* that any such purchase must comply with the requirements of this Section 12.2.

(b) Investment in Eligible Investments. Cash on deposit in any Account (other than the Payment Account) may be invested at any time in Eligible Investments in accordance with Article X.

(c) End of Reinvestment Period. On the Business Day before the end of the Reinvestment Period, the Investment Manager will send to the Trustee a schedule of purchases of Collateral Obligations for which the settlement date has not yet occurred and will certify to the Trustee that sufficient Principal Proceeds are available to effect the settlement of such Collateral Obligations and that any such settlement will occur on or prior to the 5th Business Day after the last day of the Reinvestment Period.

(d) Bankruptcy Exchanges. At any time during or after the Reinvestment Period, the Investment Manager may direct the Trustee to enter into a Bankruptcy Exchange.

(e) Maturity Amendment. The Issuer (or the Investment Manager on the Issuer's behalf) may not vote in favor of a Maturity Amendment unless, as determined by the Investment Manager, after giving effect to such Maturity Amendment, (i) the stated maturity of the Collateral Obligation that is the subject of such Maturity Amendment is not later than the Stated Maturity of the Rated Notes and (ii) (A) the Weighted Average Life Test will be satisfied after giving effect to such Maturity Amendment or (B) if the Weighted Average Life Test was not satisfied immediately prior to giving effect to such Maturity Amendment, the level of compliance with the Weighted Average Life Test will be improved or maintained after giving effect to such Maturity Amendment, after giving effect to any Trading Plan in effect during any applicable Trading Plan Period.

Section 12.3. Conditions Applicable to All Sale and Purchase Transactions. (a) Any transaction effected under this Article XII or Section 10.6 will be conducted on an arm's length basis and, if effected with a Person Affiliated with the Investment Manager (or with an account or portfolio for which the Investment Manager or any of its Affiliates serves as investment adviser), shall be effected in accordance with the requirements of the Investment Management Agreement on terms no less favorable to the Issuer than would be the case if such Person were not so Affiliated, *provided* that the Trustee shall have no responsibility to oversee compliance with this clause (a) by the other parties.

(b) Upon any acquisition of a Collateral Obligation pursuant to this Article XII, all of the Issuer's right, title and interest to the Asset or Assets shall be Assets Granted to the Trustee pursuant to this Indenture and will be Delivered. The Trustee shall also receive, not later than the settlement date, an Officer's certificate of the Issuer certifying compliance with the provisions of this Article XII; *provided* that such requirement shall be satisfied and such statements deemed to have been made by the Issuer by the delivery to the Trustee of a trade ticket in respect thereof. Such a trade ticket, signed by an Authorized Officer, shall also constitute direction pursuant to this Article XII to purchase, exchange or sell such security and an Issuer Order required pursuant to Section 10.8.

(c) Notwithstanding anything contained in this Article XII to the contrary and without limiting the right to make any other permitted purchases, sales or other dispositions, the Issuer shall have the right to effect any sale or other disposition of any Asset or purchase of any Collateral Obligation (x) that has been consented to by Holders evidencing (i) with respect to purchases during the Reinvestment Period and sales or other dispositions during or after the Reinvestment Period, at least 75% of the Aggregate Outstanding Amount of each Class of Notes and (ii) with respect to purchases after the Reinvestment Period, 100% of the Aggregate Outstanding Amount of each Class of Notes and (y) of which each Rating Agency and the Trustee (with a copy to the Investment Manager) has been notified.

ARTICLE XIII

HOLDERS' RELATIONS

Section 13.1. Subordination. (a) Anything in this Indenture or the Notes to the contrary notwithstanding, the Holders of each Junior Class agree for the benefit of the Holders of each Priority Class with respect to such Junior Class that such Junior Class shall be subordinate and junior to such Priority Class to the extent and in the manner set forth in this Indenture. If an Enforcement Event has occurred and is continuing in accordance with Article V, including as a result of an Event of Default specified in Section 5.1(d) or (e), each Priority Class shall be paid in full in Cash or, to the extent a Majority of such Class consents, other than in Cash, before any further payment or distribution of any kind is made on account of any Junior Class with respect thereto, in accordance with Section 11.1(a)(iii).

(b) In the event that, notwithstanding the provisions of this Indenture, any Holder of any Junior Class shall have received any payment or distribution in respect of such Class contrary to the provisions of this Indenture, then, unless and until each Priority Class with respect thereto shall have been paid in full in Cash or, to the extent a Majority of such Priority Class consents, other than in Cash in accordance with this Indenture, such payment or distribution shall be received and held in trust for the benefit of, and shall forthwith be paid over and delivered to, the Trustee, which shall pay and deliver the same to the Holders of the applicable Priority Classes in accordance with this Indenture; *provided* that if any such payment or distribution is made other than in Cash, it shall be held by the Trustee as part of the Assets and subject in all respects to the provisions of this Indenture, including this Section 13.1.

(c) Each Holder of any Junior Class agrees with all Holders of the applicable Priority Classes that such Holders of the Junior Classes shall not demand, accept, or receive any payment or distribution in respect of such Class in violation of the provisions of this Indenture including, without limitation, this Section 13.1; *provided* that after a Priority Class has been paid in full, the Holders of the related Junior Class or Classes shall be fully subrogated to the rights of the Holders of such Priority Class to receive payments or distributions until all amounts due and payable on the Class shall be paid in full. Nothing in this Section 13.1 shall affect the obligation of the Issuer to pay Holders of any Junior Class.

Section 13.2. Standard of Conduct. In exercising any of its or their voting rights, rights to direct and consent or any other rights as a Holder under this Indenture, a Holder or Holders shall not have any obligation or duty to any Person or to consider or take into account the interests of any Person and shall not be liable to any Person for any action taken by it or them or at its or their direction or any failure by it or them to act or to direct that an action be taken, without regard to whether such action or inaction benefits or adversely affects any Holder, the Issuer, or any other Person, except for any liability to which such Holder may be subject to the extent the same results from such Holder's taking or directing an action, or failing to take or direct an action, in bad faith or in violation of the express terms of this Indenture.

ARTICLE XIV

MISCELLANEOUS

Section 14.1. Form of Documents Delivered to Trustee. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an Officer of the Issuer, the Co-Issuer or the Investment Manager may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel (*provided* that such counsel is a nationally or internationally recognized and reputable law firm one or more of the partners of which are admitted to practice before the highest court of any State of the United States or the District of Columbia (or the Cayman Islands, in the case of an opinion relating to the laws of the Cayman Islands), which law firm may, except as otherwise expressly provided in this Indenture, be counsel for the Issuer or the Co-Issuer), unless such Officer knows, or should know that the certificate or opinion or representations with respect to the matters upon which such certificate or opinion is based are erroneous. Any such certificate of an Officer of the Issuer, Co-Issuer or the Investment Manager or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, the Issuer, the Co-Issuer, the Investment Manager or any other Person (on which the Trustee shall also be entitled to rely), unless such

Officer of the Issuer, Co-Issuer or the Investment Manager or such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous. Any Opinion of Counsel may also be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an Officer of the Investment Manager, the Issuer or the Co-Issuer, unless such counsel knows that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Whenever in this Indenture it is provided that the absence of the occurrence and continuation of a Default, Event of Default or Enforcement Event is a condition precedent to the taking of any action by the Trustee at the request or direction of either Co-Issuer, then notwithstanding that the satisfaction of such condition is a condition precedent to such Co-Issuer's right to make such request or direction, the Trustee shall be protected in acting in accordance with such request or direction if it does not have knowledge of the occurrence and continuation of such Default, Event of Default or Enforcement Event as provided in Section 6.1(d).

Section 14.2. Acts of Holders. (a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in writing or by an agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action or actions embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and conclusive in favor of the Trustee and the Co-Issuers, if made in the manner provided in this Section 14.2.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved in any manner which the Trustee deems sufficient.

(c) The principal amount or face amount, as the case may be, and registered numbers of Notes held by any Person, and the date of such Person's holding the same, shall be proved by the Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by the Holder of any Notes shall bind the Holder (and any transferee thereof) of such and of every Note issued upon the registration thereof or in exchange therefor or in lieu thereof, in respect of anything done, omitted or suffered to be done by the Trustee, the Issuer or the Co-Issuer in reliance thereon, whether or not notation of such action is made upon such Note.

(e) With respect to any vote, each Holder or proxy will be entitled to one vote for each U.S.\$1.00 principal amount of the interest in a Note as to which it is the Holder or proxy; *provided* that no vote will be counted in respect of any Note challenged as not Outstanding and ruled by the Registrar to be not Outstanding.

Section 14.3. Notices, etc., to Certain Parties. (a) Except as otherwise expressly provided herein, any request, demand, authorization, direction, notice, consent or waiver or other documents provided or permitted by this Indenture to be made upon, given or furnished to, or filed with any of the parties indicated below shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to and mailed, by certified mail, return receipt requested, hand delivered, sent by overnight courier service guaranteeing next day delivery or by facsimile or email in legible form at the following address (or at any other address provided in writing by the relevant party):

(i) the Trustee and the Collateral Administrator at the Corporate Trust Office;

(ii) the Issuer at c/o MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands, Attention: Directors — Saratoga Investment Corp. CLO 2013-1, Ltd., facsimile no. +1 (345) 945-7100 (with a copy to +1 (345) 949-8080), email: cayman@maplesfs.com;

(iii) the Co-Issuer at c/o Puglisi & Associates, 850 Library Avenue, Suite 204, Newark, Delaware 19711, Attention: Independent Director, facsimile no. +1 (302) 738-7210, email: dpuglisi@puglisiassoc.com;

(iv) the Investment Manager at 535 Madison Avenue, 4th Floor, New York, New York 10022, Attention: Richard Petrocelli, facsimile no. +1 (212) 750-3343, with a copy to email: saratoga@saratogapartners.com;

(v) the Placement Agent at 1633 Broadway, 28th Floor, New York, New York 10019, Attention: ABS Desk, facsimile no. +1 (646) 792-5600, Attention: Legal Department, facsimile no. +1 (646) 792-5600;

(vi) the Irish Stock Exchange, (x) for reporting Note Interest Amounts if applicable, at rates@ise.ie and (y) for all other purposes, c/o Maples and Calder as listing agent, at 75 St. Stephen's Green, Dublin 2, Ireland, telephone no. +353-1-619-2000, facsimile no. +353-1-619-2001, email: dublindebtlisting@maplesandcalder.com; and

(vii) the Administrator at MaplesFS Limited, P.O. Box 1093, Boundary Hall, Cricket Square, Grand Cayman, KY1-1102, Cayman Islands, facsimile no. +1 (345) 945-7100 (with a copy to +1 (345) 949-8080), email: cayman@maplesfs.com.

(b) The Bank (in each of its capacities) agrees to accept and act upon instructions or directions pursuant to this Indenture or any other Transaction Document sent by unsecured email, facsimile transmission or other similar unsecured electronic methods; *provided, however*, that any Person providing such instructions or directions shall provide to the Bank an incumbency certificate listing Authorized Persons designated to provide such instructions or directions, which incumbency certificate shall be amended whenever a person is added or deleted from the listing. If such person elects to give the Bank email or facsimile instructions (or instructions by a similar electronic method) and the Bank in its discretion elects to act upon such

instructions, the Bank's reasonable understanding of such instructions shall be deemed controlling. The Bank shall not be liable for any losses, costs or expenses arising directly or indirectly from the Bank's reliance upon and compliance with such instructions notwithstanding such instructions conflicting with or being inconsistent with a subsequent written instruction. Any person providing such instructions or directions agrees to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Bank, including without limitation the risk of the Bank acting on unauthorized instructions, and the risk of interception and misuse by third parties and acknowledges and agrees that there may be more secure methods of transmitting such instructions than the method(s) selected by it and agrees that the security procedures (if any) to be followed in connection with its transmission of such instructions provide to it a commercially reasonable degree of protection in light of its particular needs and circumstances.

(c) In the event that any provision in this Indenture calls for any notice or document to be delivered simultaneously to the Trustee and any other person or entity, the Trustee's receipt of such notice or document shall entitle the Trustee to assume that such notice or document was delivered to such other person or entity unless otherwise expressly specified herein.

(d) Notwithstanding any provision to the contrary contained herein or in any agreement or document related thereto, any report, statement or other information required to be provided by the Issuer or the Trustee (except information required to be provided to the Irish Stock Exchange) may be provided by providing access to the Trustee's Website containing such information.

Section 14.4. Notices to Rating Agencies; Rule 17g-5 Procedures. (a) Any notice or other document required or permitted by this Indenture to be made upon, given or furnished to, or filed with, a Rating Agency, and any other communication with a Rating Agency will be sufficient for every purpose hereunder if such notice or other document relating to this Indenture, the Rated Notes or the transactions contemplated hereby:

(i) is in writing;

(ii) has been sent (by 12:00 p.m. (New York time) on or before the date such notice or other document is due) to <https://www.structuredfn.com>, or such other email address as is provided by the Information Agent for Posting to the Issuer's Website in accordance with the Collateral Administration Agreement; and

(iii) upon confirmation from the Information Agent of the Posting of such notice or other document, has been furnished by email to the applicable Rating Agency at the applicable address below (or such other email address as is provided by the applicable Rating Agency):

(A) to Moody's, at Monitor.CDO@moody.com; and

(B) to S&P at cdo_surveillance@standardandpoors.com and, with respect to (1) S&P CDO Monitor requests, CDOMonitor@standardandpoors.com; (2) any reports delivered under Section 10.7, CDO_Surveillance@standardandpoors.com; and (3) any requests for credit estimates, CreditEstimates@standardandpoors.com.

(b) The Co-Issuers will comply with their obligations under Rule 17g-5 by their or their agent's posting on the Issuer's Website, no later than the time such information is provided to the Rating Agencies, all information that the Co-Issuers or other parties on their behalf, including the Trustee and the Investment Manager, provide to the Rating Agencies for the purposes of determining the initial credit rating of the Rated Notes or undertaking credit rating surveillance of the Rated Notes (the "Rule 17g-5 Information"). At all times while any Rated Notes are rated by any Rating Agency or any other NRSRO, the Co-Issuers will engage a third-party to post Rule 17g-5 Information to the Issuer's Website. On the Closing Date, the Issuer will engage the Collateral Administrator (in such capacity, the "Information Agent") for Posting Rule 17g-5 Information it receives from the Issuer, the Trustee or the Investment Manager in accordance with the Collateral Administration Agreement. To the extent any of the Co-Issuers, the Trustee or the Investment Manager are engaged in oral communications with any Rating Agency, for the purposes of determining the initial credit rating of the Rated Notes or undertaking credit rating surveillance of the Rated Notes, the party communicating with such Rating Agency will cause such oral communication to either be (x) recorded and an audio file containing the recording to be promptly delivered to the Information Agent for Posting or (y) summarized in writing and the summary to be promptly delivered to the Information Agent for Posting. The procedures set forth in clause (a) and this clause (b) constitute the "Rule 17g-5 Procedures."

(c) Notwithstanding the requirements herein, the Trustee will have no obligation to engage in or respond to any oral communications, for the purposes of determining the initial credit rating of the Rated Notes or undertaking credit rating surveillance of the Rated Notes, with any Rating Agency or any of their respective officers, directors or employees.

(d) The Trustee and the Information Agent will not be responsible for creating or maintaining the Issuer's Website or assuring that the Issuer's Website complies with the requirements of this Indenture, Rule 17g-5 or any other law or regulation. In no event will the Trustee or the Information Agent be deemed to make any representation in respect of the content of the Issuer's Website or compliance of the Issuer's Website with this Indenture, Rule 17g-5 or any other law or regulation. The Trustee will not be responsible under any circumstances for posting any Rule 17g-5 Information to the Issuer's Website.

(e) The Trustee and the Information Agent will not be responsible or liable for the dissemination of any identification numbers or passwords for the Issuer's Website, including by the Co-Issuers, the Rating Agencies, the NRSROs, any of their agents or any other party. The Trustee and the Information Agent will not be liable for the use of any information posted on the Issuer's Website, whether by the Co-Issuers, the Rating Agencies, the NRSROs or any other third party that may gain access to the Issuer's Website or the information posted thereon.

(f) The maintenance by the Trustee of the Trustee's Website will not be deemed as compliance by or on behalf of the Issuer with Rule 17g-5 or any other law or regulation related thereto.

(g) Notwithstanding anything to the contrary in this Indenture, a breach of this Section 14.4 will not constitute a Default or an Event of Default.

Section 14.5. Notices to Holders; Waiver. (a) Except as otherwise expressly provided herein, where this Indenture provides for notice to Holders of any event,

(i) such notice shall be sufficiently given to Holders if in writing and mailed, first class postage prepaid, to each Holder affected by such event, at the address of such Holder as it appears in the Register (or, in the case of Holders of Global Notes, emailed to DTC for distribution to each Holder affected by such event and posted to the Trustee's Website), not earlier than the earliest date and not later than the latest date, prescribed for the giving of such notice; and

(ii) such notice shall be in the English language.

(b) Such notices will be deemed to have been given on the date of such mailing.

(c) In addition, for so long any Listed Notes are Outstanding and the guidelines of the Irish Stock Exchange so require, documents delivered to Holders of such Listed Notes will be provided to the Irish Listing Agent, on behalf of the Irish Stock Exchange.

(d) Notwithstanding clause (a) above, a Holder may give the Trustee a written notice that it is requesting that notices to it be given by email or by facsimile transmissions and stating the email address or facsimile number for such transmission. Thereafter, the Trustee shall give notices to such Holder by email or facsimile transmission, as so requested; *provided* that if such notice also requests that notices be given by mail, then such notice shall also be given by mail in accordance with clause (a) above.

(e) Subject to the Trustee's rights under Section 6.3(e), the Trustee will deliver to the Holders any information or notice relating to this Indenture requested to be so delivered by at least 25% of the Holders of any Class of Notes (by Aggregate Outstanding Amount), at the expense of the Issuer; *provided* that nothing herein shall be construed to obligate the Trustee to distribute any notice that the Trustee reasonably determines to be contrary to the terms of this Indenture or its duties and obligations hereunder or applicable law. The Trustee may require the requesting Holders to comply with its standard verification policies in order to confirm Holder status.

(f) Neither the failure to provide any notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. In case by reason of the suspension of regular mail service as a result of a strike, work stoppage or similar activity or by reason of any other cause it shall be impracticable to give such notice by mail of any event to Holders when such notice is required to be given pursuant to any provision of this Indenture, then such notification to Holders as shall be made with the approval of the Trustee shall constitute a sufficient notification to such Holders for every purpose hereunder.

(g) Where this Indenture provides for notice in any manner, such notice may be waived in writing by any Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

(h) The Trustee shall provide to the Issuer and the Investment Manager upon request any information with respect to the identity of and contact information for any Holder that it has within its possession or may obtain without unreasonable effort or expense and, subject to Section 6.1(c), the Trustee shall have no liability for any such disclosure or the accuracy thereof.

(i) Notwithstanding any provision to the contrary in this Indenture or in any agreement or document related hereto, any information or documents (including, without limitation reports, notices or supplemental indentures) required to be provided by the Trustee to Persons identified in this Section 14.5 may be provided by providing notice of and access to the Trustee's Website containing such information or document.

Section 14.6. Effect of Headings and Table of Contents. The Article and Section headings herein (including those used in cross-references herein) and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 14.7. Successors and Assigns. All covenants and agreements in this Indenture by the Co-Issuers shall bind their respective successors and assigns, whether so expressed or not.

Section 14.8. Severability. If any term, provision, covenant or condition of this Indenture or the Notes, or the application thereof to any party hereto or any circumstance, is held to be unenforceable, invalid or illegal (in whole or in part) for any reason (in any relevant jurisdiction), the remaining terms, provisions, covenants and conditions of this Indenture or the Notes, modified by the deletion of the unenforceable, invalid or illegal portion (in any relevant jurisdiction), will continue in full force and effect, and such unenforceability, invalidity, or illegality will not otherwise affect the enforceability, validity or legality of the remaining terms, provisions, covenants and conditions of this Indenture or the Notes, as the case may be, so long as this Indenture or the Notes, as the case may be, as so modified continues to express, without material change, the original intentions of the parties as to the subject matter hereof and the deletion of such portion of this Indenture or the Notes, as the case may be, will not substantially impair the respective expectations or reciprocal obligations of the parties or the practical realization of the benefits that would otherwise be conferred upon the parties.

Section 14.9. Benefits of Indenture. Nothing in this Indenture or in the Rated Notes, expressed or implied, shall give to any Person, other than the parties hereto and their successors hereunder, the Investment Manager, the Collateral Administrator, the Holders and (to the extent provided herein) the Administrator (solely in its capacity as such) any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 14.10. Legal Holidays. In the event that the date of any Payment Date, Redemption Date or Stated Maturity shall not be a Business Day, then notwithstanding any other provision of the Notes or this Indenture, payment need not be made on such date, but may be made on the next succeeding Business Day with the same force and effect as if made on the nominal date of any such Payment Date, Redemption Date or Stated Maturity date, as the case may be, and except as provided in the definition of Interest Accrual Period, no interest shall accrue on such payment for the period from and after any such nominal date.

Section 14.11. Governing Law. This Indenture and the Notes shall be construed in accordance with, and this Indenture and the Notes shall be governed by, the law of the State of New York.

Section 14.12. Submission to Jurisdiction. With respect to any suit, action or proceedings relating to this Indenture or any matter between the parties arising under or in connection with this Indenture (“Proceedings”), to the fullest extent permitted by applicable law, each party irrevocably: (i) submits to the non-exclusive jurisdiction of the Supreme Court of the State of New York sitting in the Borough of Manhattan and the United States District Court for the Southern District of New York, and any appellate court from any thereof; and (ii) waives any objection which it may have at any time to the laying of venue of any Proceedings brought in any such court, waives any claim that such Proceedings have been brought in an inconvenient forum and further waives the right to object, with respect to such Proceedings, that such court does not have any jurisdiction over such party. Nothing in this Indenture precludes any of the parties from bringing Proceedings in any other jurisdiction, nor will the bringing of Proceedings in any one or more jurisdictions preclude the bringing of Proceedings in any other jurisdiction.

Section 14.13. WAIVER OF JURY TRIAL. EACH OF THE ISSUER, THE CO-ISSUER, THE HOLDERS AND THE TRUSTEE HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS INDENTURE, THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY. Each party hereby (i) certifies that no representative, agent or attorney of the other has represented, expressly or otherwise, that the other would not, in the event of a Proceeding, seek to enforce the foregoing waiver and (ii) acknowledges that it has been induced to enter into this Indenture by, among other things, the mutual waivers and certifications in this paragraph.

Section 14.14. Counterparts. This Indenture and the Rated Notes (and each amendment, modification and waiver in respect of this Indenture or the Rated Notes) may be executed and delivered in counterparts (including by facsimile transmission), each of which will be deemed an original, and all of which together constitute one and the same instrument. Delivery of an executed counterpart of this Indenture by email or telecopy shall be effective as delivery of a manually executed counterpart of this Indenture.

Section 14.15. Acts of Issuer. Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or performed by the Issuer shall be effective if given or performed by the Issuer or by the Investment Manager on the Issuer’s behalf.

Section 14.16. Confidential Information. (a) The Trustee, the Collateral Administrator and each Holder will maintain the confidentiality of all Confidential Information in accordance with procedures adopted by the Issuer (after consultation with the Co-Issuer, the Trustee and the Collateral Administrator) or such Holder (as the case may be) in good faith to protect Confidential Information of third parties delivered to such Person; *provided* that such Person may deliver or disclose Confidential Information: (i) with the prior written consent of the Investment Manager, (ii) as required by law, regulation, court order or the rules, regulations or request or order of any governmental, judiciary, regulatory or self-regulating organization, body or official having jurisdiction over such Person, (iii) to its Affiliates, members, partners, officers, directors and employees and to its attorneys, accountants and other professional advisers in conjunction with the transactions described herein, (iv) such information as may be necessary or desirable in order for such Person to prepare, publish and distribute to any Person any information relating to the investment performance of the Assets in the aggregate, or (v) in connection with the exercise or enforcement of such Person's rights hereunder or in any dispute or proceeding related hereto, including defense by the Trustee or Collateral Administrator of any claim of liability that may be brought or charged against it. Notwithstanding the foregoing, delivery to any Person (including Holders) by the Trustee or the Collateral Administrator of any report, notice, document or other information required or expressly permitted by the terms of this Indenture or any of the other Transaction Documents to be provided to such Person or Persons, and delivery to Holders of copies of this Indenture or any of the other Transaction Documents, shall not be a violation of this Section 14.16. Each Holder agrees, except as set forth in clause (ii) above, that it shall use the Confidential Information for the sole purpose of making an investment in the Notes or administering its investment in the Notes; and that the Trustee and the Collateral Administrator shall neither be required nor authorized to disclose to Holders any Confidential Information in violation of this Section 14.16. In the event of any required disclosure of the Confidential Information by such Holder, such Holder agrees to use reasonable efforts to protect the confidentiality of the Confidential Information. Each Holder, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 14.16 (subject to Section 7.17(f)).

(b) For the purposes of this Section 14.16, "Confidential Information" means information delivered to the Trustee, the Collateral Administrator or any Holder by or on behalf of the Co-Issuers in connection with and relating to the transactions contemplated by or otherwise pursuant to this Indenture; *provided* that such term does not include information that: (i) was publicly known or otherwise known to the Trustee, the Collateral Administrator or such Holder prior to the time of such disclosure; (ii) subsequently becomes publicly known through no act or omission by the Trustee, the Collateral Administrator, any Holder or any person acting on behalf of the Trustee, the Collateral Administrator or any Holder; (iii) otherwise is known or becomes known to the Trustee, the Collateral Administrator or any Holder other than (x) through disclosure by the Co-Issuers or (y) to the knowledge of the Trustee, the Collateral Administrator or a Holder, as the case may be, in each case after reasonable inquiry, as a result of the breach of a fiduciary duty to the Co-Issuers or a contractual duty to the Co-Issuers; or (iv) is allowed to be treated as non-confidential by consent of the Co-Issuers.

(c) Notwithstanding the foregoing, (i) each of the Trustee and the Collateral Administrator may disclose Confidential Information (x) to Moody's and S&P and (y) as and to the extent it may reasonably deem necessary for the performance of its duties hereunder (including the exercise of remedies pursuant to Article V), including on a confidential basis to its agents, attorneys and auditors in connection with the performance of its duties hereunder and the Trustee will provide, upon request, copies of this Indenture, the Investment Management Agreement, the Collateral Administration Agreement, Monthly Reports and Distribution Reports to a prospective purchaser of an interest in Notes, and (ii) the Trustee and any Holder may provide copies of this Indenture, the Investment Management Agreement, the Collateral Administration Agreement, any Monthly Report and any Distribution Report to any prospective purchaser of Notes.

Section 14.17. Liability of Co-Issuers. Notwithstanding any other terms of this Indenture, the Notes or any other agreement entered into between, *inter alia*, the Co-Issuers or otherwise, neither of the Co-Issuers shall have any liability whatsoever to the other of the Co-Issuers under this Indenture, the Notes, any such agreement or otherwise and, without prejudice to the generality of the foregoing, neither of the Co-Issuers shall be entitled to take any action to enforce, or bring any action or proceeding, in respect of this Indenture, the Notes, any such agreement or otherwise against the other of the Co-Issuers or any Issuer Subsidiary. In particular, neither of the Co-Issuers shall be entitled to petition or take any other steps for the winding up or bankruptcy of the other of the Co-Issuers or shall have any claim in respect of any assets of the other of the Co-Issuers.

ARTICLE XV

ASSIGNMENT OF INVESTMENT MANAGEMENT AGREEMENT

Section 15.1. Assignment of Investment Management Agreement. (a) The Issuer, in furtherance of the covenants of this Indenture and as security for the Secured Obligations and the performance and observance of the provisions hereof, hereby assigns, transfers, conveys and sets over to the Trustee, for the benefit of the Secured Parties, all of the Issuer's right, title and interest in, to and under the Investment Management Agreement, including, without limitation, (i) the right to give all notices, consents and releases thereunder, (ii) the right to give all notices of termination and to take any legal action upon the breach of an obligation of the Investment Manager thereunder, including the commencement, conduct and consummation of proceedings at law or in equity, (iii) the right to receive all notices, accountings, consents, releases and statements thereunder and (iv) the right to do any and all other things whatsoever that the Issuer is or may be entitled to do thereunder; *provided, however*, that the Issuer may exercise any of its rights under the Investment Management Agreement without notice to or the consent of the Trustee (except as otherwise expressly required by this Indenture), so long as an Event of Default has not occurred and is not continuing. From and after the occurrence and continuance of an Event of Default, the Investment Manager will continue to perform and be bound by the provisions of the Investment Management Agreement and this Indenture. The Trustee will be entitled to rely and be protected in relying upon all actions and omissions to act of the Investment Manager thereafter as fully as if no Event of Default had occurred.

(b) The assignment made hereby is executed as collateral security, and the execution and delivery hereof shall not in any way impair or diminish the obligations of the Issuer under the provisions of the Investment Management Agreement, nor shall any of the obligations contained in the Investment Management Agreement be imposed on the Trustee. Upon the retirement of the Notes and the release of the Assets from the lien of this Indenture, this assignment and all rights herein assigned to the Trustee shall cease and terminate and all of the estate, right, title and interest of the Trustee in, to and under the Investment Management Agreement shall revert to the Issuer and no further instrument or act shall be necessary to evidence such termination and reversion.

Section 15.2. Standard of Care Applicable to the Investment Manager. For the avoidance of doubt, the standard of care set forth in the Investment Management Agreement shall apply to the Investment Manager with respect to those provisions of this Indenture applicable to the Investment Manager.

- signature page follows -

IN WITNESS WHEREOF, we have set our hands as of the day and year first written above.

Executed as a Deed by:

**SARATOGA INVESTMENT CORP. CLO
2013-1, Ltd.,**
as Issuer

BY: /s/ Carrie Bunton
Name: Carrie Bunton
Title: Director

In the presence of:

/s/ Brianna Seymour
Witness:
Name: Brianna Seymour
Occupation: Corporate Assistant
Title:

Indenture

SARATOGA INVESTMENT CORP. CLO
2013-1, INC.,
as Co-Issuer

By: /s/ Donald J. Puglisi
Name: Donald J. Puglisi
Title: President

Indenture

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Crystal L. Crudup

Name: Crystal L. Crudup

Title: Assistant Vice President

Indenture

Schedule 1

Moody's Industry Classification Group List

CORP - Aerospace & Defense	1
CORP - Automotive	2
CORP - Banking, Finance, Insurance & Real Estate	3
CORP - Beverage, Food & Tobacco	4
CORP - Capital Equipment	5
CORP - Chemicals, Plastics, & Rubber	6
CORP - Construction & Building	7
CORP - Consumer goods: Durable	8
CORP - Consumer goods: Non-durable	9
CORP - Containers, Packaging & Glass	10
CORP - Energy: Electricity	11
CORP - Energy: Oil & Gas	12
CORP - Environmental Industries	13
CORP - Forest Products & Paper	14
CORP - Healthcare & Pharmaceuticals	15
CORP - High Tech Industries	16
CORP - Hotel, Gaming & Leisure	17
CORP - Media: Advertising, Printing & Publishing	18
CORP - Media: Broadcasting & Subscription	19
CORP - Media: Diversified & Production	20
CORP - Metals & Mining	21
CORP - Retail	22
CORP - Services: Business	23
CORP - Services: Consumer	24
CORP - Sovereign & Public Finance	25
CORP - Telecommunications	26
CORP - Transportation: Cargo	27
CORP - Transportation: Consumer	28
CORP - Utilities: Electric	29
CORP - Utilities: Oil & Gas	30
CORP - Utilities: Water	31
CORP - Wholesale	32

Schedule 2

S&P Industry Classifications

Asset Code	Asset Description
1	Aerospace & Defense
2	Air transport
3	Automotive
4	Beverage & Tobacco
5	Radio & Television
6	
7	Building & Development
8	Business equipment & services
9	Cable & satellite television
10	Chemicals & plastics
11	Clothing/textiles
12	Conglomerates
13	Containers & glass products
14	Cosmetics/toiletries
15	Drugs
16	Ecological services & equipment
17	Electronics/electrical
18	Equipment leasing
19	Farming/agriculture
20	Financial intermediaries
21	Food/drug retailers
22	Food products
23	Food service
24	Forest products
25	Health care
26	Home furnishings
27	Lodging & casinos
28	Industrial equipment
29	
30	Leisure goods/activities/movies
31	Nonferrous metals/minerals
32	Oil & gas
33	Publishing
34	Rail industries
35	Retailers (except food & drug)
36	Steel
37	Surface transport

Asset Code	Asset Description
38	Telecommunications
39	Utilities
43	Life Insurance
44	Health Insurance
45	Property & Casualty Insurance
46	Diversified Insurance

Schedule 2-2

Schedule 3

Diversity Score Calculation

The Diversity Score is calculated as follows:

- (a) An “**Issuer Par Amount**” is calculated for each issuer of a Collateral Obligation, and is equal to the Aggregate Principal Balance of all the Collateral Obligations issued by that issuer and all affiliates.
- (b) An “**Average Par Amount**” is calculated by summing the Issuer Par Amounts for all issuers, and dividing by the number of issuers.
- (c) An “**Equivalent Unit Score**” is calculated for each issuer, and is equal to the lesser of (x) one and (y) the Issuer Par Amount for such issuer divided by the Average Par Amount.
- (d) An “**Aggregate Industry Equivalent Unit Score**” is then calculated for each of Moody’s industry classification groups, shown on Schedule 1, and is equal to the sum of the Equivalent Unit Scores for each issuer in such industry classification group.
- (e) An “**Industry Diversity Score**” is then established for each Moody’s industry classification group, shown on Schedule 1, by reference to the following table for the related Aggregate Industry Equivalent Unit Score; *provided* that if any Aggregate Industry Equivalent Unit Score falls between any two such scores, the applicable Industry Diversity Score will be the lower of the two Industry Diversity Scores:

<u>Aggregate Industry Equivalent Unit Score</u>	<u>Industry Diversity Score</u>	<u>Aggregate Industry Equivalent Unit Score</u>	<u>Industry Diversity Score</u>	<u>Aggregate Industry Equivalent Unit Score</u>	<u>Industry Diversity Score</u>	<u>Aggregate Industry Equivalent Unit Score</u>	<u>Industry Diversity Score</u>
0.0000	0.0000	5.0500	2.7000	10.1500	4.0200	15.2500	4.5300
0.0500	0.1000	5.1500	2.7333	10.2500	4.0300	15.3500	4.5400
0.1500	0.2000	5.2500	2.7667	10.3500	4.0400	15.4500	4.5500
0.2500	0.3000	5.3500	2.8000	10.4500	4.0500	15.5500	4.5600
0.3500	0.4000	5.4500	2.8333	10.5500	4.0600	15.6500	4.5700
0.4500	0.5000	5.5500	2.8667	10.6500	4.0700	15.7500	4.5800
0.5500	0.6000	5.6500	2.9000	10.7500	4.0800	15.8500	4.5900
0.6500	0.7000	5.7500	2.9333	10.8500	4.0900	15.9500	4.6000
0.7500	0.8000	5.8500	2.9667	10.9500	4.1000	16.0500	4.6100
0.8500	0.9000	5.9500	3.0000	11.0500	4.1100	16.1500	4.6200
0.9500	1.0000	6.0500	3.0250	11.1500	4.1200	16.2500	4.6300
1.0500	1.0500	6.1500	3.0500	11.2500	4.1300	16.3500	4.6400
1.1500	1.1000	6.2500	3.0750	11.3500	4.1400	16.4500	4.6500
1.2500	1.1500	6.3500	3.1000	11.4500	4.1500	16.5500	4.6600
1.3500	1.2000	6.4500	3.1250	11.5500	4.1600	16.6500	4.6700
1.4500	1.2500	6.5500	3.1500	11.6500	4.1700	16.7500	4.6800
1.5500	1.3000	6.6500	3.1750	11.7500	4.1800	16.8500	4.6900
1.6500	1.3500	6.7500	3.2000	11.8500	4.1900	16.9500	4.7000
1.7500	1.4000	6.8500	3.2250	11.9500	4.2000	17.0500	4.7100
1.8500	1.4500	6.9500	3.2500	12.0500	4.2100	17.1500	4.7200

Schedule 3-1

Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score	Aggregate Industry Equivalent Unit Score	Industry Diversity Score
1.9500	1.5000	7.0500	3.2750	12.1500	4.2200	17.2500	4.7300
2.0500	1.5500	7.1500	3.3000	12.2500	4.2300	17.3500	4.7400
2.1500	1.6000	7.2500	3.3250	12.3500	4.2400	17.4500	4.7500
2.2500	1.6500	7.3500	3.3500	12.4500	4.2500	17.5500	4.7600
2.3500	1.7000	7.4500	3.3750	12.5500	4.2600	17.6500	4.7700
2.4500	1.7500	7.5500	3.4000	12.6500	4.2700	17.7500	4.7800
2.5500	1.8000	7.6500	3.4250	12.7500	4.2800	17.8500	4.7900
2.6500	1.8500	7.7500	3.4500	12.8500	4.2900	17.9500	4.8000
2.7500	1.9000	7.8500	3.4750	12.9500	4.3000	18.0500	4.8100
2.8500	1.9500	7.9500	3.5000	13.0500	4.3100	18.1500	4.8200
2.9500	2.0000	8.0500	3.5250	13.1500	4.3200	18.2500	4.8300
3.0500	2.0333	8.1500	3.5500	13.2500	4.3300	18.3500	4.8400
3.1500	2.0667	8.2500	3.5750	13.3500	4.3400	18.4500	4.8500
3.2500	2.1000	8.3500	3.6000	13.4500	4.3500	18.5500	4.8600
3.3500	2.1333	8.4500	3.6250	13.5500	4.3600	18.6500	4.8700
3.4500	2.1667	8.5500	3.6500	13.6500	4.3700	18.7500	4.8800
3.5500	2.2000	8.6500	3.6750	13.7500	4.3800	18.8500	4.8900
3.6500	2.2333	8.7500	3.7000	13.8500	4.3900	18.9500	4.9000
3.7500	2.2667	8.8500	3.7250	13.9500	4.4000	19.0500	4.9100
3.8500	2.3000	8.9500	3.7500	14.0500	4.4100	19.1500	4.9200
3.9500	2.3333	9.0500	3.7750	14.1500	4.4200	19.2500	4.9300
4.0500	2.3667	9.1500	3.8000	14.2500	4.4300	19.3500	4.9400
4.1500	2.4000	9.2500	3.8250	14.3500	4.4400	19.4500	4.9500
4.2500	2.4333	9.3500	3.8500	14.4500	4.4500	19.5500	4.9600
4.3500	2.4667	9.4500	3.8750	14.5500	4.4600	19.6500	4.9700
4.4500	2.5000	9.5500	3.9000	14.6500	4.4700	19.7500	4.9800
4.5500	2.5333	9.6500	3.9250	14.7500	4.4800	19.8500	4.9900
4.6500	2.5667	9.7500	3.9500	14.8500	4.4900	19.9500	5.0000
4.7500	2.6000	9.8500	3.9750	14.9500	4.5000		
4.8500	2.6333	9.9500	4.0000	15.0500	4.5100		
4.9500	2.6667	10.0500	4.0100	15.1500	4.5200		

- (f) The Diversity Score is then calculated by summing each of the Industry Diversity Scores for each Moody's industry classification group shown on Schedule 1.
- (g) For purposes of calculating the Diversity Score, affiliated issuers in the same Industry are deemed to be a single issuer except as otherwise agreed to by Moody's.

Schedule 4

Moody's Rating Definitions

"CFR": With respect to the obligor of any Collateral Obligation, the corporate family rating assigned to such obligor by Moody's; *provided* that if any obligor of any Collateral Obligation does not have a corporate family rating by Moody's but another entity in such obligor's corporate family does have a corporate family rating by Moody's, then the corporate family rating of such other entity will be the CFR for the obligor of such Collateral Obligation.

"Moody's Default Probability Rating":

With respect to any Collateral Obligation, as of any date of determination, the rating determined in accordance with the following methodology:

(i) if the obligor of such Collateral Obligation has a CFR by Moody's, then such CFR;

(ii) if not determined pursuant to clause (i) above, if the obligor of such Collateral Obligation has one or more senior unsecured obligations with an Assigned Moody's Rating, then the Assigned Moody's Rating on any such obligation as selected by the Investment Manager in its sole discretion;

(iii) if not determined pursuant to clause (i) or (ii) above, if the obligor of such Collateral Obligation has one or more senior secured obligations with an Assigned Moody's Rating, then the Moody's rating that is one subcategory lower than the Assigned Moody's Rating on any such obligation as selected by the Investment Manager in its sole discretion;

(iv) if not determined pursuant to clause (i), (ii) or (iii) above, if a rating or rating estimate has been assigned to such Collateral Obligation by Moody's upon the request of the Issuer, the Investment Manager or an Affiliate of the Investment Manager, such rating or, in the case of a rating estimate, the applicable rating estimate for such obligation so long as such rating estimate or a renewal for such rating estimate has been issued or provided by Moody's in each case within the 15 month period preceding the date on which a Moody's Default Probability Rating is determined;

(v) if not determined pursuant to clause (i), (ii) or (iii) above, and at the election of the Investment Manager, the Moody's Derived Rating, if any;
or

(vi) if the preceding clauses do not apply, "Caa3";

provided that notwithstanding the methodology above, if a Collateral Obligation is a DIP Collateral Obligation, the Moody's Default Probability Rating will be the rating that is one subcategory below the Assigned Moody's Rating of such DIP Collateral Obligation; *provided* further, that, each applicable rating, at the time of calculation, (i) on credit watch by Moody's with positive implications will be treated as having been upgraded by one rating subcategory, and (ii) on credit watch by Moody's with negative implications will be treated as having been downgraded by one rating subcategory.

“Moody’s Derived Rating”: With respect to a Collateral Obligation whose Moody’s Rating or Moody’s Default Probability Rating cannot otherwise be determined pursuant to the definitions thereof, such Moody’s Rating or Moody’s Default Probability Rating as determined in the manner set forth below:

(a) by using one of the methods provided below:

(i) if such Collateral Obligation has a public and monitored rating by S&P, pursuant to the table below:

<u>Type of Collateral Obligation</u>	<u>S&P Rating (Public and Monitored)</u>	<u>Collateral Obligation Rated by S&P</u>	<u>Number of Subcategories Relative to Moody’s Equivalent of S&P Rating</u>
Not Structured Finance Obligation	≥ “BBB-”	Not a Loan or Participation Interest in Loan	-1
Not Structured Finance Obligation	≤ “BB+”	Not a Loan or Participation Interest in Loan	-2
Not Structured Finance Obligation		Loan or Participation Interest in Loan	-2

(ii) if such Collateral Obligation is not rated by S&P but another security or obligation of the obligor has a public and monitored rating by S&P (a “parallel security”), then the rating of such parallel security will at the election of the Investment Manager be determined in accordance with the table set forth in subclause (a)(i) above, and the Moody’s Derived Rating for purposes of the definitions of Moody’s Rating and Moody’s Default Probability Rating (as applicable) of such Collateral Obligation will be determined in accordance with the methodology set forth in the following table (for such purposes treating the parallel security as if it were rated by Moody’s at the rating determined pursuant to this subclause (a)(ii)):

<u>Obligation Category of Rated Obligation</u>	<u>Rating of Rated Obligation</u>	<u>Number of Subcategories Relative to Rated Obligation Rating</u>
Senior secured obligation	greater than or equal to B2	-1
Senior secured obligation	less than B2	-2
Subordinated obligation	greater than or equal to B3	+1
Subordinated obligation	less than B3	0
or		

(iii) if such Collateral Obligation is a DIP Collateral Obligation, no Moody's Derived Rating may be determined based on a rating by S&P or any other rating agency;

provided, that the Aggregate Principal Balance of the Collateral Obligations that may have a Moody's Rating derived from an S&P Rating as set forth in subclauses (i) or (ii) of this clause (a) may not exceed 10% of the Collateral Principal Amount.

(b) If not determined pursuant to clause (a) above and such Collateral Obligation is not rated by Moody's and no other security or obligation of the issuer of such Collateral Obligation is rated by Moody's, and if Moody's has been requested by the Issuer, the Investment Manager or the issuer of such Collateral Obligation to assign a rating or rating estimate with respect to such Collateral Obligation but such rating or rating estimate has not been received, pending receipt of such estimate, the Moody's Derived Rating of such Collateral Obligation for purposes of the definitions of Moody's Rating or Moody's Default Probability Rating of such Collateral Obligation shall be (i) "B3" if the Investment Manager certifies to the Trustee and the Collateral Administrator that the Investment Manager believes that such estimate shall be at least "B3" and if the Aggregate Principal Balance of Collateral Obligations determined pursuant to this clause (b)(i) does not exceed 5% of the Collateral Principal Amount or (ii) otherwise, "Caa1."

For purposes of calculating a Moody's Derived Rating, each applicable rating, at the time of calculation, (i) on credit watch by Moody's with positive implications will be treated as having been upgraded by one rating subcategory and (ii) on credit watch by Moody's with negative implications will be treated as having been downgraded by one rating subcategory.

"Moody's Rating":

With respect to any Collateral Obligation, as of any date of determination, the rating determined in accordance with the following methodology:

(a) if such Collateral Obligation has an Assigned Moody's Rating or a credit estimate assigned to it by Moody's, such Assigned Moody's Rating or credit estimate, as applicable;

(b) if such Collateral Obligation is a Moody's Senior Secured Loan, and such rating is not determined pursuant to clause (a) above, if the obligor of such Collateral Obligation has a CFR, then the Moody's rating that is one subcategory higher than such CFR;

(c) if not determined pursuant to clause (a) or (b) above, if the obligor of such Collateral Obligation has one or more senior unsecured obligations with an Assigned Moody's Rating, then the Assigned Moody's Rating on any such obligation (or, if such Collateral Obligation is a Moody's Senior Secured Loan, the Moody's rating that is two subcategories higher than the Assigned Moody's Rating on any such senior unsecured obligation) as selected by the Investment Manager in its sole discretion;

(d) if such Collateral Obligation is not a Moody's Senior Secured Loan and such rating is not determined pursuant to clause (a) or (c) above, if the obligor of such Collateral Obligation has a CFR, then the Moody's rating that is one subcategory lower than such CFR;

Schedule 4-3

(e) if such Collateral Obligation is not a Moody's Senior Secured Loan and such rating is not determined pursuant to clause (a), (c) or (d) above, if the obligor of such Collateral Obligation has one or more subordinated obligations with an Assigned Moody's Rating, then the Moody's rating that is one subcategory higher than the Assigned Moody's Rating on any such obligation as selected by the Investment Manager in its sole discretion;

(f) if not determined pursuant to clauses (a) through (e) above, at the election of the Investment Manager, the Moody's Derived Rating; and

(g) if not determined pursuant to clause (a) through (f) above, "Caa3".

provided, that for purposes of calculating a Moody's Rating, each applicable rating, at the time of calculation, (i) on credit watch by Moody's with positive implications will be treated as having been upgraded by one rating subcategory and (ii) on credit watch by Moody's with negative implications will be treated as having been downgraded by one rating subcategory.

For purposes of the definitions of "Moody's Default Probability Rating," "Moody's Derived Rating" and "Moody's Rating," any credit estimate assigned by Moody's shall expire one year from the date such estimate was issued; provided that, for purposes of any calculation under this Indenture, if Moody's fails to renew for any reason a credit estimate for a previously acquired Collateral Obligation thereunder on or before such one-year anniversary (which may be extended at Moody's option to the extent the annual audited financial statements for the related obligor have not yet been received), after the Issuer or the Investment Manager on the Issuer's behalf has submitted to Moody's all information that Moody's required to be provided for such renewal, (1) for a period of 90 days, the previous credit estimate assigned by Moody's shall be downgraded by one notch and (2) thereafter, the Collateral Obligation will be deemed to have a Moody's rating of "Caa3"; provided that, if there is a Material Change with respect to any Collateral Obligation for which the Moody's Rating is based on a rating estimate from Moody's, the Issuer, or the Investment Manager on behalf of the Issuer, will, upon notice or knowledge thereof, use commercially reasonable efforts to notify Moody's and provide available information with respect thereto (provided that, for the avoidance of doubt, such notification will not, unless so requested by the Issuer, be considered a request for a new or refreshed rating estimate by the Issuer or be considered in determining whether or not the Issuer has complied with the annual rating estimate requirements set forth in this Indenture) and, in the event Moody's provides an unsolicited update of the rating estimate of such Collateral Obligation following receipt of such information, such rating estimate will be used by the Issuer until such later date that it is updated by Moody's.

For purposes of the preceding paragraph, "Material Change" means, with respect to any Collateral Obligation, the occurrence of any of the following events: (a) non-payment of interest or principal, (b) the rescheduling of any interest or principal, (c) any material covenant breach, (d) any restructuring of debt with respect to the obligor of such Collateral Obligation, (e) the addition of payment-in-kind terms, change in maturity date or any change in coupon rates and (f) the occurrence of the significant sale or acquisition of assets by the related obligor.

S&P RECOVERY RATE TABLES

Section 1.

(a)(i) If a Collateral Obligation has an S&P Recovery Rating, the S&P Recovery Rate for such Collateral Obligation shall be determined using the following table:

S&P Recovery Rating of a Collateral Obligation	Initial Liability Rating					
	"AAA"	"AA"	"A"	"BBB"	"BB"	"B" and below
1+	75%	85%	88%	90%	92%	95%
1	65%	75%	80%	85%	90%	95%
2	50%	60%	66%	73%	79%	85%
3	30%	40%	46%	53%	59%	65%
4	20%	26%	33%	39%	43%	45%
5	5%	10%	15%	20%	23%	25%
6	2%	4%	6%	8%	10%	10%

Recovery rate

(ii) If (x) a Collateral Obligation does not have an S&P Recovery Rating and such Collateral Obligation is a senior unsecured loan, second lien loan or senior unsecured bond and (y) the issuer of such Collateral Obligation has issued another debt instrument that is outstanding and senior to such Collateral Obligation that is a Senior Secured Loan, senior secured note or senior secured bond (a "**Senior Secured Debt Instrument**") that has an S&P Recovery Rating, the S&P Recovery Rate for such Collateral Obligation shall be determined using the following table:

For Collateral Obligations Domiciled in Group A

S&P Recovery Rating of the Senior Secured Debt Instrument	Initial Liability Rating					
	"AAA"	"AA"	"A"	"BBB"	"BB"	"B" and below
1+	18%	20%	23%	26%	29%	31%
1	18%	20%	23%	26%	29%	31%
2	18%	20%	23%	26%	29%	31%
3	12%	15%	18%	21%	22%	23%
4	5%	8%	11%	13%	14%	15%
5	2%	4%	6%	8%	9%	10%
6	— %	— %	— %	— %	— %	— %

Recovery rate

For Collateral Obligations Domiciled in Group B

S&P Recovery Rating of the Senior Secured Debt Instrument	Initial Liability Rating					
	“AAA”	“AA”	“A”	“BBB”	“BB”	“B” and below
1+	16%	18%	21%	24%	27%	29%
1	16%	18%	21%	24%	27%	29%
2	16%	18%	21%	24%	27%	29%
3	10%	13%	15%	18%	19%	20%
4	5%	5%	5%	5%	5%	5%
5	2%	2%	2%	2%	2%	2%
6	— %	— %	— %	— %	— %	— %

Recovery rate

For Collateral Obligations Domiciled in Group C

S&P Recovery Rating of the Senior Secured Debt Instrument	Initial Liability Rating					
	“AAA”	“AA”	“A”	“BBB”	“BB”	“B” and below
1+	13%	16%	18%	21%	23%	25%
1	13%	16%	18%	21%	23%	25%
2	13%	16%	18%	21%	23%	25%
3	8%	11%	13%	15%	16%	17%
4	5%	5%	5%	5%	5%	5%
5	2%	2%	2%	2%	2%	2%
6	— %	— %	— %	— %	— %	— %

Recovery rate

- (iii) If (x) a Collateral Obligation does not have an S&P Recovery Rating and such Collateral Obligation is a subordinated loan or subordinated bond and (y) the issuer of such Collateral Obligation has issued another debt instrument that is outstanding and senior to such Collateral Obligation that is a Senior Secured Debt Instrument that has an S&P Recovery Rating, the S&P Recovery Rate for such Collateral Obligation shall be determined using the following table:

For Collateral Obligations Domiciled in Groups A, B and C

**S&P Recovery Rating
of the Senior Secured
Debt Instrument**

	Initial Liability Rating					
	"AAA"	"AA"	"A"	"BBB"	"BB"	"B" and below
1+	8%	8%	8%	8%	8%	8%
1	8%	8%	8%	8%	8%	8%
2	8%	8%	8%	8%	8%	8%
3	5%	5%	5%	5%	5%	5%
4	2%	2%	2%	2%	2%	2%
5	— %	— %	— %	— %	— %	— %
6	— %	— %	— %	— %	— %	— %

Recovery rate

- (b) If a recovery rate cannot be determined using clause (a) and the Collateral Obligation is secured solely or primarily by common stock, other equity interests and goodwill, and the issuer of such Collateral Obligation has issued another debt instrument that is a senior unsecured loan, then the S&P Recovery Rate for such Collateral Obligation will be equal to the S&P Recovery Rate for such senior unsecured loan (or such other S&P Recovery Rate as S&P may provide, at the request of the Investment Manager, on a case by case basis).
- (c) If a recovery rate cannot be determined using clause (a) or clause (b) and the Collateral Obligation is secured solely or primarily by common stock, other equity interests and goodwill, then the recovery rate shall be determined using the table following clause (d) as if such Collateral Obligation were an Unsecured Loan.
- (d) If a recovery rate cannot be determined using clause (a), the recovery rate shall be determined using the following table.

Recovery rates for obligors Domiciled in Group A, B, C or D:

Priority Category	Initial Liability Rating					
	"AAA"	"AA"	"A"	"BBB"	"BB"	"B" and "CCC"
Senior Secured Loans						
Group A	50%	55%	59%	63%	75%	79%
Group B	45%	49%	53%	58%	70%	74%
Group C	39%	42%	46%	49%	60%	63%
Group D	17%	19%	27%	29%	31%	34%
Senior Secured Loans (Cov-Lite Loans), Senior Bonds, and Senior Secured Floating Rate Notes						
Group A	41%	46%	49%	53%	63%	67%
Group B	37%	41%	44%	49%	59%	62%
Group C	32%	35%	39%	41%	50%	53%
Group D	17%	19%	27%	29%	31%	34%

Priority Category	Initial Liability Rating					
	"AAA"	"AA"	"A"	"BBB"	"BB"	"B" and "CCC"
Unsecured loans, Unsecured Bonds, Second Lien Loans(2) and First Lien Las Out Loans						
Group A	18%	20%	23%	26%	29%	31%
Group B	16%	18%	21%	24%	27%	29%
Group C	13%	16%	18%	21%	23%	25%
Group D	10%	12%	14%	16%	18%	20%
Subordinated Loans						
Group A	8%	8%	8%	8%	8%	8%
Group B	10%	10%	10%	10%	10%	10%
Group C	9%	9%	9%	9%	9%	9%
Group D	5%	5%	5%	5%	5%	5%
Recovery rate						

Group A: Australia, Denmark, Finland, Hong Kong, Ireland, The Netherlands, New Zealand, Norway, Singapore, Sweden, U.K.

Group B: Austria, Belgium, Canada, Germany, Israel, Japan, Luxembourg, Portugal, South Africa, Switzerland, U.S.

Group C: Argentina, Brazil, Chile, France, Greece, Italy, Mexico, South Korea, Spain, Taiwan, Turkey, United Arab Emirates.

Group D: Kazakhstan, Russia, Ukraine, others

Section 2. S&P CDO Monitor

Liability Rating	"AAA"	"AA"	"A"	"BBB"	"BB"	"B"
Weighted Average S&P Recovery Rate						
	35.00%	43.50%	49.20%	55.60%	61.85%	67.10%
	35.00%	43.75%	49.45%	55.85%	62.10%	67.35%
	35.00%	44.00%	49.70%	56.10%	62.35%	67.60%
	35.00%	44.25%	49.95%	56.35%	62.60%	67.85%
	35.00%	44.50%	50.20%	56.60%	62.85%	68.10%
	36.00%	44.50%	50.20%	56.60%	62.85%	68.10%
	36.00%	44.75%	50.45%	56.85%	63.10%	68.35%
	36.00%	45.00%	50.70%	57.10%	63.35%	68.60%
	36.00%	45.25%	50.95%	57.35%	63.60%	68.85%
	36.00%	45.50%	51.20%	57.60%	63.85%	69.10%
	37.00%	45.50%	51.20%	57.60%	63.85%	69.10%
	37.00%	45.75%	51.45%	57.85%	64.10%	69.35%
	37.00%	46.00%	51.70%	58.10%	64.35%	69.60%
	37.00%	46.25%	51.95%	58.35%	64.60%	69.85%
	37.00%	46.50%	52.20%	58.60%	64.85%	70.10%
	38.00%	46.50%	52.20%	58.60%	64.85%	70.10%
	38.00%	46.75%	52.45%	58.85%	65.10%	70.35%

(2) Second Lien Loans with an Aggregate Principal Balance in excess of 15% of the Collateral Principal Amount shall use the "Subordinated loans" Priority Category for the purpose of determining their S&P Recovery Rate.

Liability Rating	“AAA”	“AA”	“A”	“BBB”	“BB”	“B”
Weighted Average S&P Recovery Rate						
	38.00%	47.00%	52.70%	59.10%	65.35%	70.60%
	38.00%	47.25%	52.95%	59.35%	65.60%	70.85%
	38.00%	47.50%	53.20%	59.60%	65.85%	71.10%
	39.00%	47.50%	53.20%	59.60%	65.85%	71.10%
	39.00%	47.75%	53.45%	59.85%	66.10%	71.35%
	39.00%	48.00%	53.70%	60.10%	66.35%	71.60%
	39.00%	48.25%	53.95%	60.35%	66.60%	71.85%
	39.00%	48.50%	54.20%	60.60%	66.85%	72.10%
	39.25%	47.75%	53.45%	59.85%	66.10%	71.35%
	39.25%	48.00%	53.70%	60.10%	66.35%	71.60%
	39.25%	48.25%	53.95%	60.35%	66.60%	71.85%
	39.25%	48.50%	54.20%	60.60%	66.85%	72.10%
	39.25%	48.75%	54.45%	60.85%	67.10%	72.35%
	39.50%	48.00%	53.70%	60.10%	66.35%	71.60%
	39.50%	48.25%	53.95%	60.35%	66.60%	71.85%
	39.50%	48.50%	54.20%	60.60%	66.85%	72.10%
	39.50%	48.75%	54.45%	60.85%	67.10%	72.35%
	39.50%	49.00%	54.70%	61.10%	67.35%	72.60%
	39.75%	48.25%	53.95%	60.35%	66.60%	71.85%
	39.75%	48.50%	54.20%	60.60%	66.85%	72.10%
	39.75%	48.75%	54.45%	60.85%	67.10%	72.35%
	39.75%	49.00%	54.70%	61.10%	67.35%	72.60%
	39.75%	49.25%	54.95%	61.35%	67.60%	72.85%
	40.00%	48.50%	54.20%	60.60%	66.85%	72.10%
	40.00%	48.75%	54.45%	60.85%	67.10%	72.35%
	40.00%	49.00%	54.70%	61.10%	67.35%	72.60%
	40.00%	49.25%	54.95%	61.35%	67.60%	72.85%
	40.00%	49.50%	55.20%	61.60%	67.85%	73.10%
	40.25%	48.75%	54.45%	60.85%	67.10%	72.35%
	40.25%	49.00%	54.70%	61.10%	67.35%	72.60%
	40.25%	49.25%	54.95%	61.35%	67.60%	72.85%
	40.25%	49.50%	55.20%	61.60%	67.85%	73.10%
	40.25%	49.75%	55.45%	61.85%	68.10%	73.35%
	40.50%	49.00%	54.70%	61.10%	67.35%	72.60%
	40.50%	49.25%	54.95%	61.35%	67.60%	72.85%
	40.50%	49.50%	55.20%	61.60%	67.85%	73.10%
	40.50%	49.75%	55.45%	61.85%	68.10%	73.35%
	40.50%	50.00%	55.70%	62.10%	68.35%	73.60%
	40.75%	49.25%	54.95%	61.35%	67.60%	72.85%
	40.75%	49.50%	55.20%	61.60%	67.85%	73.10%
	40.75%	49.75%	55.45%	61.85%	68.10%	73.35%
	40.75%	50.00%	55.70%	62.10%	68.35%	73.60%
	40.75%	50.25%	55.95%	62.35%	68.60%	73.85%
	41.00%	49.50%	55.20%	61.60%	67.85%	73.10%
	41.00%	49.75%	55.45%	61.85%	68.10%	73.35%
	41.00%	50.00%	55.70%	62.10%	68.35%	73.60%
	41.00%	50.25%	55.95%	62.35%	68.60%	73.85%
	41.00%	50.50%	56.20%	62.60%	68.85%	74.10%
	41.25%	49.75%	55.45%	61.85%	68.10%	73.35%
	41.25%	50.00%	55.70%	62.10%	68.35%	73.60%
	41.25%	50.25%	55.95%	62.35%	68.60%	73.85%
	41.25%	50.50%	56.20%	62.60%	68.85%	74.10%

Liability Rating	“AAA”	“AA”	“A”	“BBB”	“BB”	“B”
Weighted Average S&P Recovery Rate	41.25%	50.75%	56.45%	62.85%	69.10%	74.35%
	41.50%	50.00%	55.70%	62.10%	68.35%	73.60%
	41.50%	50.25%	55.95%	62.35%	68.60%	73.85%
	41.50%	50.50%	56.20%	62.60%	68.85%	74.10%
	41.50%	50.75%	56.45%	62.85%	69.10%	74.35%
	41.50%	51.00%	56.70%	63.10%	69.35%	74.60%
	41.75%	50.25%	55.95%	62.35%	68.60%	73.85%
	41.75%	50.50%	56.20%	62.60%	68.85%	74.10%
	41.75%	50.75%	56.45%	62.85%	69.10%	74.35%
	41.75%	51.00%	56.70%	63.10%	69.35%	74.60%
	41.75%	51.25%	56.95%	63.35%	69.60%	74.85%
	42.00%	50.50%	56.20%	62.60%	68.85%	74.10%
	42.00%	50.75%	56.45%	62.85%	69.10%	74.35%
	42.00%	51.00%	56.70%	63.10%	69.35%	74.60%
	42.00%	51.25%	56.95%	63.35%	69.60%	74.85%
	42.00%	51.50%	57.20%	63.60%	69.85%	75.10%
	42.25%	50.75%	56.45%	62.85%	69.10%	74.35%
	42.25%	51.00%	56.70%	63.10%	69.35%	74.60%
	42.25%	51.25%	56.95%	63.35%	69.60%	74.85%
	42.25%	51.50%	57.20%	63.60%	69.85%	75.10%
	42.25%	51.75%	57.45%	63.85%	70.10%	75.35%
	42.50%	51.00%	56.70%	63.10%	69.35%	74.60%
	42.50%	51.25%	56.95%	63.35%	69.60%	74.85%
	42.50%	51.50%	57.20%	63.60%	69.85%	75.10%
	42.50%	51.75%	57.45%	63.85%	70.10%	75.35%
	42.50%	52.00%	57.70%	64.10%	70.35%	75.60%
	42.75%	51.25%	56.95%	63.35%	69.60%	74.85%
	42.75%	51.50%	57.20%	63.60%	69.85%	75.10%
	42.75%	51.75%	57.45%	63.85%	70.10%	75.35%
	42.75%	52.00%	57.70%	64.10%	70.35%	75.60%
	42.75%	52.25%	57.95%	64.35%	70.60%	75.85%
	43.00%	51.50%	57.20%	63.60%	69.85%	75.10%
	43.00%	51.75%	57.45%	63.85%	70.10%	75.35%
	43.00%	52.00%	57.70%	64.10%	70.35%	75.60%
	43.00%	52.25%	57.95%	64.35%	70.60%	75.85%
	43.00%	52.50%	58.20%	64.60%	70.85%	76.10%
	43.25%	51.75%	57.45%	63.85%	70.10%	75.35%
	43.25%	52.00%	57.70%	64.10%	70.35%	75.60%
	43.25%	52.25%	57.95%	64.35%	70.60%	75.85%
	43.25%	52.50%	58.20%	64.60%	70.85%	76.10%
	43.25%	52.75%	58.45%	64.85%	71.10%	76.35%
	43.50%	52.00%	57.70%	64.10%	70.35%	75.60%
	43.50%	52.25%	57.95%	64.35%	70.60%	75.85%
	43.50%	52.50%	58.20%	64.60%	70.85%	76.10%
	43.50%	52.75%	58.45%	64.85%	71.10%	76.35%
	43.50%	53.00%	58.70%	65.10%	71.35%	76.60%
	43.75%	52.25%	57.95%	64.35%	70.60%	75.85%
	43.75%	52.50%	58.20%	64.60%	70.85%	76.10%
	43.75%	52.75%	58.45%	64.85%	71.10%	76.35%
	43.75%	53.00%	58.70%	65.10%	71.35%	76.60%
	43.75%	53.25%	58.95%	65.35%	71.60%	76.85%
	44.00%	52.50%	58.20%	64.60%	70.85%	76.10%

Liability Rating	“AAA”	“AA”	“A”	“BBB”	“BB”	“B”
Weighted Average S&P Recovery Rate						
	44.00%	52.75%	58.45%	64.85%	71.10%	76.35%
	44.00%	53.00%	58.70%	65.10%	71.35%	76.60%
	44.00%	53.25%	58.95%	65.35%	71.60%	76.85%
	44.00%	53.50%	59.20%	65.60%	71.85%	77.10%
	44.25%	52.75%	58.45%	64.85%	71.10%	76.35%
	44.25%	53.00%	58.70%	65.10%	71.35%	76.60%
	44.25%	53.25%	58.95%	65.35%	71.60%	76.85%
	44.25%	53.50%	59.20%	65.60%	71.85%	77.10%
	44.25%	53.75%	59.45%	65.85%	72.10%	77.35%
	44.50%	53.00%	58.70%	65.10%	71.35%	76.60%
	44.50%	53.25%	58.95%	65.35%	71.60%	76.85%
	44.50%	53.50%	59.20%	65.60%	71.85%	77.10%
	44.50%	53.75%	59.45%	65.85%	72.10%	77.35%
	44.50%	54.00%	59.70%	66.10%	72.35%	77.60%
	44.75%	53.25%	58.95%	65.35%	71.60%	76.85%
	44.75%	53.50%	59.20%	65.60%	71.85%	77.10%
	44.75%	53.75%	59.45%	65.85%	72.10%	77.35%
	44.75%	54.00%	59.70%	66.10%	72.35%	77.60%
	44.75%	54.25%	59.95%	66.35%	72.60%	77.85%
	45.00%	53.50%	59.20%	65.60%	71.85%	77.10%
	45.00%	53.75%	59.45%	65.85%	72.10%	77.35%
	45.00%	54.00%	59.70%	66.10%	72.35%	77.60%
	45.00%	54.25%	59.95%	66.35%	72.60%	77.85%
	45.00%	54.50%	60.20%	66.60%	72.85%	78.10%
	45.25%	53.75%	59.45%	65.85%	72.10%	77.35%
	45.25%	54.00%	59.70%	66.10%	72.35%	77.60%
	45.25%	54.25%	59.95%	66.35%	72.60%	77.85%
	45.25%	54.50%	60.20%	66.60%	72.85%	78.10%
	45.25%	54.75%	60.45%	66.85%	73.10%	78.35%
	45.50%	54.00%	59.70%	66.10%	72.35%	77.60%
	45.50%	54.25%	59.95%	66.35%	72.60%	77.85%
	45.50%	54.50%	60.20%	66.60%	72.85%	78.10%
	45.50%	54.75%	60.45%	66.85%	73.10%	78.35%
	45.50%	55.00%	60.70%	67.10%	73.35%	78.60%
	45.75%	54.25%	59.95%	66.35%	72.60%	77.85%
	45.75%	54.50%	60.20%	66.60%	72.85%	78.10%
	45.75%	54.75%	60.45%	66.85%	73.10%	78.35%
	45.75%	55.00%	60.70%	67.10%	73.35%	78.60%
	45.75%	55.25%	60.95%	67.35%	73.60%	78.85%
	46.00%	54.50%	60.20%	66.60%	72.85%	78.10%
	46.00%	54.75%	60.45%	66.85%	73.10%	78.35%
	46.00%	55.00%	60.70%	67.10%	73.35%	78.60%
	46.00%	55.25%	60.95%	67.35%	73.60%	78.85%
	46.00%	55.50%	61.20%	67.60%	73.85%	79.10%
	46.25%	54.75%	60.45%	66.85%	73.10%	78.35%
	46.25%	55.00%	60.70%	67.10%	73.35%	78.60%
	46.25%	55.25%	60.95%	67.35%	73.60%	78.85%
	46.25%	55.50%	61.20%	67.60%	73.85%	79.10%
	46.25%	55.75%	61.45%	67.85%	74.10%	79.35%
	46.50%	55.00%	60.70%	67.10%	73.35%	78.60%
	46.50%	55.25%	60.95%	67.35%	73.60%	78.85%
	46.50%	55.50%	61.20%	67.60%	73.85%	79.10%

Liability Rating	“AAA”	“AA”	“A”	“BBB”	“BB”	“B”
Weighted Average S&P Recovery Rate	46.50%	55.75%	61.45%	67.85%	74.10%	79.35%
	46.50%	56.00%	61.70%	68.10%	74.35%	79.60%
	46.75%	55.25%	60.95%	67.35%	73.60%	78.85%
	46.75%	55.50%	61.20%	67.60%	73.85%	79.10%
	46.75%	55.75%	61.45%	67.85%	74.10%	79.35%
	46.75%	56.00%	61.70%	68.10%	74.35%	79.60%
	46.75%	56.25%	61.95%	68.35%	74.60%	79.85%
	47.00%	55.50%	61.20%	67.60%	73.85%	79.10%
	47.00%	55.75%	61.45%	67.85%	74.10%	79.35%
	47.00%	56.00%	61.70%	68.10%	74.35%	79.60%
	47.00%	56.25%	61.95%	68.35%	74.60%	79.85%
	47.00%	56.50%	62.20%	68.60%	74.85%	80.10%
	47.25%	55.75%	61.45%	67.85%	74.10%	79.35%
	47.25%	56.00%	61.70%	68.10%	74.35%	79.60%
	47.25%	56.25%	61.95%	68.35%	74.60%	79.85%
	47.25%	56.50%	62.20%	68.60%	74.85%	80.10%
	47.25%	56.75%	62.45%	68.85%	75.10%	80.35%
	47.50%	56.00%	61.70%	68.10%	74.35%	79.60%
	47.50%	56.25%	61.95%	68.35%	74.60%	79.85%
	47.50%	56.50%	62.20%	68.60%	74.85%	80.10%
	47.50%	56.75%	62.45%	68.85%	75.10%	80.35%
	47.50%	57.00%	62.70%	69.10%	75.35%	80.60%
	47.75%	56.25%	61.95%	68.35%	74.60%	79.85%
	47.75%	56.50%	62.20%	68.60%	74.85%	80.10%
	47.75%	56.75%	62.45%	68.85%	75.10%	80.35%
	47.75%	57.00%	62.70%	69.10%	75.35%	80.60%
	47.75%	57.25%	62.95%	69.35%	75.60%	80.85%
	48.00%	56.50%	62.20%	68.60%	74.85%	80.10%
	48.00%	56.75%	62.45%	68.85%	75.10%	80.35%
	48.00%	57.00%	62.70%	69.10%	75.35%	80.60%
	48.00%	57.25%	62.95%	69.35%	75.60%	80.85%
	48.00%	57.50%	63.20%	69.60%	75.85%	81.10%
	48.25%	56.75%	62.45%	68.85%	75.10%	80.35%
	48.25%	57.00%	62.70%	69.10%	75.35%	80.60%
	48.25%	57.25%	62.95%	69.35%	75.60%	80.85%
	48.25%	57.50%	63.20%	69.60%	75.85%	81.10%
	48.25%	57.75%	63.45%	69.85%	76.10%	81.35%

Weighted Average Floating Spread	2.95%
	3.00%
	3.05%
	3.10%
	3.15%
	3.20%
	3.25%
	3.30%
	3.35%
	3.40%
	3.45%
	3.50%
	3.55%
	3.60%

	3.65%
	3.70%
	3.75%
	3.80%
	3.85%
	3.90%
	3.95%
	4.00%
	4.05%

As of the Closing Date the Investment Manager will elect the following Weighted Average S&P Recovery Rates for purposes of the S&P CDO Monitor Test:

<u>Liability Rating</u>	<u>"AAA"</u>	<u>"AA"</u>	<u>"A"</u>	<u>"BBB"</u>	<u>"BB"</u>	<u>"B"</u>
Weighted Average S&P Recovery Rate	43.00%	52.00%	57.70%	64.10%	70.35%	75.60%

As of the Closing Date the Investment Manager will elect the following Weighted Average Floating Spread for purposes of the S&P CDO Monitor Test:
3.65%

Schedule 6

APPROVED INDEX LIST

1. Merrill Lynch Investment Grade Corporate Master Index
2. CSFB Leveraged Loan Index
3. JPMorgan Domestic High Yield Index
4. Barclays Capital U.S. Corporate High-Yield Index
5. Merrill Lynch High Yield Master Index

Schedule 6-1

AMENDED AND RESTATED INVESTMENT MANAGEMENT AGREEMENT

This Amended and Restated Investment Management Agreement, dated as of October 17, 2013 (as the same may be amended from time to time, the "Agreement"), is entered into by and between Saratoga Investment Corp. CLO 2013-1, Ltd. (f/k/a GSC Investment Corp. CLO 2007, Ltd.), an exempted company with limited liability incorporated under the laws of the Cayman Islands, with its registered office located at c/o MaplesFS Limited, P.O. Box 1093, Queensgate House, South Church Street, George Town, Grand Cayman KY1 1102, Cayman Islands, as issuer (together with its successors and assigns permitted hereunder, the "Issuer") and Saratoga Investment Corp., a non-diversified closed end investment company incorporated in Maryland, as investment manager (together with its permitted successors and assigns, the "Investment Manager", as successor to GSC Investment Corp. (the "Original Collateral Manager")) and amends, supersedes and restates the Collateral Management Agreement dated as of January 22, 2008 (the "Original Collateral Management Agreement"), between the Issuer and the Original Collateral Manager.

WITNESSETH:

WHEREAS, the Issuer desires to engage the Investment Manager to provide the services described herein and the Investment Manager desires to provide such services;

WHEREAS, the Issuer issued certain classes of rated notes (the "Legacy Rated Notes") and one class of subordinated notes (the "Subordinated Notes"), each pursuant to an Indenture, dated as of January 22, 2008 (the "Original Indenture") between the Issuer, GSC Investment Corp. CLO 2007, Inc. and U.S. Bank National Association, as trustee, and engaged the Original Collateral Manager to act as collateral manager pursuant to the Original Collateral Management Agreement;

WHEREAS, the Original Collateral Manager selected a portfolio of debt obligations comprised mainly of broadly-syndicated commercial bank loans in connection with the issuance of the Legacy Rated Notes and Subordinated Notes pursuant to the Original Indenture and managed such portfolio on an ongoing basis in accordance with the terms of the Original Indenture and the Original Collateral Management Agreement until July 30, 2010, on which date the Investment Manager succeeded the Original Collateral Manager as collateral manager under, and in accordance with the terms and conditions of, the Original Collateral Management Agreement;

WHEREAS, on August 8, 2013, the Issuer provided written notice in accordance with the Original Indenture that the Issuer plans to redeem the Legacy Rated Notes on October 21, 2013, with the net proceeds of a new issuance;

WHEREAS, the Issuer intends to issue the Class X Notes, Class A Notes, the Class B Notes, the Class C Notes, the Class D Notes, the Class E Notes and the Class F Notes (collectively, the "Rated Notes") pursuant to an indenture, dated as of October 17, 2013 (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof and hereof, the "Indenture"), among the Issuer, Saratoga Investment Corp. CLO 2013-1,

Inc. (f/k/a GSC Investment Corp. CLO 2007, Inc.), as co-issuer (the “Co-Issuer”), and U.S. Bank National Association, as trustee (together with any successor trustee permitted under the Indenture, the “Trustee”), and upon such issuance, the Original Indenture will be deemed discharged and the rights inuring to the Legacy Rated Notes and Subordinated Notes thereunder shall be defeased;

WHEREAS, the subordinated notes issued pursuant to the Original Indenture are not being redeemed and will continue to be outstanding, and the terms and conditions applicable thereto are being amended and restated pursuant to the Indenture and the Amended and Restated Subordinated Note Paying Agency Agreement dated as of October 17, 2013 (as amended, supplemented or otherwise modified from time to time in accordance with the terms thereof, the “Subordinated Note Paying Agency Agreement”), between the Issuer, U.S. Bank National Association, as subordinated note paying agent (together with any successor subordinated note paying agent permitted under the Subordinated Note Paying Agency Agreement, the “Subordinated Note Paying Agent”), the Trustee and the Investment Manager, as holder of 100% of the Subordinated Notes as of the date hereof;

WHEREAS, following the discharge of the Original Indenture and the execution and delivery of the Indenture, the Issuer wishes to continue to engage the Investment Manager to manage the collateral owned by the Issuer and pledged to the secured parties under the Indenture and the Investment Manager wishes to continue as investment manager for the Issuer, in each case, on the terms and conditions set forth herein and in the Indenture, and any other applicable agreements, as the Issuer and the Investment Manager may from time to time agree in writing as permitted herein and under the Indenture;

WHEREAS, Saratoga Investment Advisors, in consideration of the fees paid to it as external investment adviser to the Investment Manager, will provide certain services on behalf of the Investment Manager to allow the Investment Manager to perform certain of the obligations set forth herein; and

WHEREAS, the Investment Manager has the capacity to provide the services required hereby and is prepared to perform such services upon the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein, the parties hereto hereby agree as follows:

1. Definitions.

Terms used and not defined herein shall have the meanings set forth in the Indenture.

“Accountants” has the meaning assigned to such term in Section 2(j) hereof.

“Advisers Act” means the United States Investment Advisers Act of 1940, as amended.

(a) “Cause” has the meaning set forth in Section 13 hereof.

“Investment Management Fees” has the meaning set forth in Section 8(a) hereof.

“Investment Manager Affiliates” has the meaning set forth in Section 10(a) hereof.

“Investment Manager Securities” means any Rated Notes or Subordinated Notes held by the Investment Manager, an Affiliate of the Investment Manager or any other entity as to which the Investment Manager or an Affiliate has discretionary authority over the voting of such Notes; provided that “Investment Manager Securities” shall not include Notes held by an entity for which the Investment Manager or an Affiliate acts as external investment adviser, if the voting of such Notes with respect to the matter in question is in fact directed by a board of directors or similar governing body with a Majority of members that are independent from the Investment Manager and its Affiliates.

“External Investment Adviser” means Saratoga Investment Advisors, in its capacity as external investment adviser to the Investment Manager or, from and after the date of the replacement of the Investment Manager, the successor Investment Manager or, if the successor Investment Manager is externally managed, such successor external investment adviser.

“Governing Instruments” means the applicable constitutional documents of an entity including, without limitation (i) in the case of a corporation, memorandum and articles of association or certificate of incorporation or association and by-laws, (ii) in the case of a limited liability company, the limited liability company operating agreement and (iii) in the case of a partnership, the partnership agreement.

“Liabilities” has the meaning set forth in Section 10(a) hereof.

“Offering Memorandum” has the meaning set forth in Section 10(a) hereof.

“Tax Guidelines” means the tax guidelines set forth in Exhibit A hereto.

“Tax Returns” has the meaning assigned to such term in Section 2(j) hereof.

2. General Duties of the Investment Manager.

The Issuer hereby appoints the Investment Manager as its investment adviser and manager with respect to the Collateral and authorizes the Investment Manager to perform such services and take such actions on its behalf as are contemplated hereby. Accordingly, the Investment Manager accepts such appointment and shall provide the Issuer with the following services:

(a) Subject to and in accordance with the terms of the Indenture and this Agreement (including without limiting the generality of the foregoing, the investment restrictions set forth in Exhibit A hereto), the Investment Manager agrees to supervise and direct the investment of Principal Proceeds and other proceeds of the Collateral in Collateral Obligations, to supervise and direct the sale of Collateral Obligations, Equity Securities and other Collateral in accordance with Article 12 of the Indenture, to supervise and direct the investment of funds on

deposit in the Accounts in Eligible Investments in accordance with the terms of the Indenture and to perform on behalf of the Issuer (or direct the Issuer's performance of) those investment related duties and functions assigned to the Issuer in the Indenture and those investment and other related duties and functions assigned to the Investment Manager in the other Transaction Documents, including, without limitation, the furnishing of Issuer Orders, Issuer Requests and officer's certificates relating thereto, and providing such certifications as are required of the Investment Manager or, in certain cases, the Issuer under the Transaction Documents with respect to permitted purchases and sales of Collateral Obligations and Equity Securities and the Investment Manager shall have the power to execute and deliver all necessary and appropriate documents and instruments on behalf of the Issuer with respect thereto (including the execution of assignments and other related documents on behalf of the Issuer reasonably necessary or advisable in connection with the acquisition or disposition of any Collateral Obligation or other Collateral by the Issuer). The Investment Manager has reviewed and agrees to be bound by Sections 15.1 and 15.2 of the Indenture, which sections of the Indenture shall be deemed incorporated herein. The Investment Manager, in performing its duties hereunder, shall, subject to the terms and conditions hereof and of the Indenture, perform its obligations hereunder and under the Indenture with reasonable care and in good faith using commercially reasonable efforts and commercially reasonable judgment, and using a degree of skill and attention no less than that which the Investment Manager exercises with respect to comparable assets that it manages for itself and for others in a manner reasonably consistent with its reasonable understanding of accepted asset management practices and procedures followed by reasonable and prudent institutional managers of national standing managing assets of the nature and character of the Collateral. In the event of a conflict between the terms of the Indenture and this Agreement with respect to the express duties of the Investment Manager set forth in the Indenture, the Indenture shall govern. The Investment Manager shall not be bound to follow any amendment, modification, supplement or waiver (including any supplemental indenture) to the Indenture until it has received written notice of such amendment, modification, supplement or waiver (including any supplemental indenture) and a copy thereof from the Issuer or the Trustee; provided, however, that the Investment Manager shall not be bound by any amendment, modification, supplement or waiver (including any supplemental indenture) to the Indenture that affects the rights or obligations of the Investment Manager unless the Investment Manager shall have consented thereto (which consent shall not be unreasonably withheld, conditioned or delayed). The Issuer agrees that it shall not enter into any amendment, modification, supplement or waiver (including any supplemental indenture) to the Indenture that affects the rights or obligations of the Investment Manager unless the Investment Manager has been given prior written notice of such amendment, modification, supplement or waiver (including any supplemental indenture) and has consented thereto.

(b) The Investment Manager shall (i) select all Collateral Obligations and Eligible Investments which shall be acquired by the Issuer and Granted to the Trustee pursuant to the Indenture, and (ii) facilitate the acquisition and settlement of Collateral Obligations by the Issuer. The Investment Manager shall select all Collateral which shall be acquired by the Issuer pursuant to the Indenture in accordance with the investment criteria set forth therein, and shall take into consideration, among other things, the payment obligations of the Issuer under the Indenture on each Payment Date in so doing, and shall perform all of its obligations hereunder with the intent that expected distributions on the Collateral Obligations, Eligible Investments and other Collateral will permit the Issuer to timely perform its payment obligations. The Investment

Manager does not guarantee that sufficient funds will be available on each Payment Date to satisfy any such payment obligations. In addition, nothing in this Section 2(b) shall relieve the Issuer, the Co-Issuer, the Trustee or the Subordinated Note Paying Agent of their responsibilities under the Indenture, the Subordinated Note Paying Agency Agreement, the Rated Notes or the Subordinated Notes in such regard or otherwise alter or reallocate their responsibilities under the Indenture, the Subordinated Note Paying Agency Agreement, the Rated Notes or the Subordinated Notes in such regard.

(c) The Investment Manager shall monitor the Collateral Obligations and Eligible Investments on behalf of the Issuer and, on an ongoing basis (and in conjunction with the Collateral Administrator), shall provide to the Issuer (or assist the Issuer in providing) or to the Trustee, on behalf of the Issuer, all reports, schedules and other data the Issuer is required to prepare and deliver under the Indenture (other than those reports, schedules, and other data that the Collateral Administrator is required to prepare and/or deliver, pursuant to the Indenture or the Collateral Administration Agreement), in substantially the forms and containing the information required thereby, and in reasonable time for the Issuer to review such required reports, schedules and other data and to deliver them to the party or parties entitled to receive them under the Indenture. The obligation of the Investment Manager to furnish the Issuer or the Trustee, as applicable, with such reports, schedules and other data in accordance with the Indenture is subject to the Investment Manager's timely receipt of accurate and appropriate information from the appropriate Person (other than the Investment Manager) in possession of or responsible for preparation of such reports, schedules and other data (including, without limitation, the Rating Agencies, the Trustee and the Collateral Administrator). To the extent that such information is not timely received by the Investment Manager, the Investment Manager shall promptly request such information and shall use commercially reasonable efforts to obtain such information from such Persons. In addition, the Investment Manager shall reasonably cooperate with the Collateral Administrator (to the extent reasonably requested by the Collateral Administrator) in connection with the performance by the Collateral Administrator of its obligations under the Collateral Administration Agreement. The Investment Manager shall, on behalf of the Issuer and from sources of information normally available to it, use its commercially reasonable efforts to obtain information concerning and to determine whether, a Collateral Obligation has become a Defaulted Obligation, a Credit Risk Obligation, a Credit Improved Obligation, an Equity Security, a CCC/Caa Collateral Obligation, a Discount Obligation, a Swapped Non-Discount Obligation, a Current Pay Obligation, a DIP Collateral Obligation, a Deferring Security or a Collateral Obligation to which a Tax Event has occurred.

(d) The Investment Manager may, subject to and in accordance with the Indenture and this Agreement, take on behalf of the Issuer or direct the Trustee to take the following actions with respect to a Collateral Obligation, an Equity Security, an Eligible Investment, or any other Collateral:

(i) identify Collateral Obligations and Eligible Investments or other Collateral to be purchased by the Issuer and select the dates for such purchases, and purchase or direct the purchase of (or entry into, if applicable) such Collateral Obligations, Eligible Investments or other Collateral on behalf of the Issuer; and

- (ii) retain such Collateral Obligation, Eligible Investment, Equity Security or other Collateral; and
- (iii) sell, terminate or otherwise dispose of such Collateral Obligation, Equity Security, Eligible Investment or other Collateral; and
- (iv) if applicable, tender such Collateral Obligation, Equity Security, Eligible Investment or other Collateral pursuant to an Offer; and
- (v) if applicable, consent to any proposed amendment, restatement, modification or waiver; and
- (vi) retain or dispose of any securities or other property (if other than cash) received with respect to such Collateral Obligation, Equity Security, Eligible Investment or other Collateral; and
- (vii) waive or elect not to exercise remedies in respect of any default with respect to a Collateral Obligation or other Collateral; and
- (viii) vote to accelerate (or rescind the acceleration of) the maturity of a Defaulted Obligation; and
- (ix) take appropriate action with respect to Collateral that do not constitute Collateral Obligations, Eligible Investments or Equity Securities; and
- (x) negotiate, execute and deliver all necessary or appropriate agreements, documents and instruments on behalf of the Issuer; and
- (xi) waive, modify, amend or terminate agreements, documents and instruments on behalf of the Issuer; and
- (xii) advise and assist the Issuer, with respect to the valuation of the Collateral Obligations in accordance with the Transaction Documents; and
- (xiii) retain legal counsel and other professionals (such as financial advisers) to assist in the negotiation, documentation and restructuring of Collateral Obligations; and
- (xiv) exercise any other rights or remedies with respect to such Collateral Obligation, Equity Security or Eligible Investment as provided in the related Underlying Instruments or take any other action consistent with the terms of the Indenture and with the standard of care set forth herein.

(e) Subject to the satisfaction of the requirements of this Agreement and the Indenture, upon the disposition of any Collateral Obligation, Equity Security or Eligible Investment (or any security or property received in exchange therefor), and upon receipt of Scheduled Distributions, the Investment Manager shall direct the Trustee to apply such Scheduled Distributions or the proceeds of such disposition in accordance with the Indenture to the purchase of substitute Collateral Obligations or Eligible Investments, as applicable, or as otherwise required or permitted by the Indenture.

(f) In providing services hereunder, the Investment Manager may, without the prior consent of any Person, employ third parties (including, without limitation, the Investment Manager's Affiliates) to render advice (including investment advice) and assistance and to exercise any power or authority granted to the Investment Manager hereunder or under the Indenture; provided that the Investment Manager shall not be relieved of any of its duties or liabilities hereunder regardless of the performance of any services by third parties except as expressly provided herein (including Section 15 hereof), and any fees and expenses of such third parties shall be payable in accordance with Section 8(b) hereof.

(g) In performing its duties hereunder and in connection with any transactions involving the Collateral Obligations, the Investment Manager shall carry out any written directions of the Issuer and reasonably cooperate with the Issuer for the purpose of the Issuer's compliance with the Indenture, so long as such direction or other action is not inconsistent with the Investment Manager's duties hereunder.

(h) The Investment Manager shall reasonably assist and cooperate with the Trustee (as reasonably requested by the Trustee) in effecting and continuing the perfection of the security interest granted in the Granting Clauses of the Indenture by the Issuer to the Trustee in any or all Collateral, and shall, as and when required in Section 12.3(b) of the Indenture, use commercially reasonable efforts to take or cause the taking of any and all other actions necessary (for which determination the Investment Manager may rely conclusively on an Opinion of Counsel) to create in favor of the Trustee a valid, perfected, first-priority security interest in any of the Collateral to the extent the method of perfection is not specified in the definition of "Deliver."

(i) The Investment Manager shall consult with each Rating Agency which is rating any of the Rated Notes at such times as may be reasonably requested by any such Rating Agency and provide each Rating Agency with any information reasonably requested and reasonably available to the Investment Manager in connection with such Rating Agency's maintenance of its rating of such Rated Notes and its assigning credit indicators to prospective Collateral Obligations, if applicable.

(j) The Investment Manager shall use commercially reasonable efforts to cause the Issuer to retain a firm or firms of independent certified public accountants of recognized national reputation ("Accountants"). The Investment Manager shall instruct such Accountants to, at the Issuer's expense (i) prepare and distribute information as described in Section 7.1(c) of the Subordinated Note Paying Agency Agreement, (ii) prepare on a timely basis any U.S. federal, state, local or foreign income tax or information returns ("Tax Returns") required to be filed by the Issuer or the Co-Issuer, (iii) if required to prevent the withholding and imposition of United States income tax, deliver or cause to be delivered on behalf of the Issuer (initially and every 3 years thereafter), to each applicable issuer or obligor of or counterparty with respect to an item included in the Collateral, an executed United States Internal Revenue Service Form W-8IMY or any successor form before any payments are made by such issuer or obligor or counterparty to or on behalf of the Issuer and (iv) make commercially reasonable

efforts to cause to be executed by the Issuer and timely filed any Tax Returns that were prepared under clause (ii) above. Notwithstanding the foregoing, the Investment Manager shall in no event be liable for the failure of the Accountants to perform any of the actions described in clauses (i) through (iv) above, and the Investment Manager shall have no liability for any failure by it, after commercially reasonable efforts, to identify a firm of independent certified public accountants that will perform the actions described in the clauses (i) through (iv) above.

In furtherance of the foregoing, the Issuer hereby appoints the Investment Manager and the External Investment Adviser and each successor Investment Manager duly appointed pursuant to Section 12(e) hereof as the Issuer's true and lawful agent and attorney-in-fact, with full power of substitution and full authority in the Issuer's name, place and stead and without any necessary further approval of the Issuer, in connection with the performance of the Investment Manager's duties provided for in this Agreement, including the following powers (subject in all cases to the limitations set forth in the Indenture): (a) to sign, execute, certify, swear to, acknowledge, deliver, file, receive and record any and all documents which the Investment Manager and the External Investment Adviser reasonably deem necessary or appropriate in connection with the Investment Manager's investment management duties under this Agreement and (b) to (i) vote in the Investment Manager's discretion any securities, instruments or obligations included in the Collateral, (ii) execute proxies, waivers, consents and other instruments with respect to such securities, instruments or obligations, (iii) endorse, transfer or deliver such securities, instruments and obligations, (iv) participate in or consent (or decline to consent) to any modification, work-out, restructuring, bankruptcy proceeding, class action, plan of reorganization, merger, combination, consolidation, liquidation or similar plan or transaction with regard to such securities, instruments and obligations and (v) take any other action specified in this Section 2 or otherwise incidental to or in furtherance of the performance of the Investment Manager's obligations hereunder. The foregoing power of attorney is a continuing power, is irrevocable and is coupled with an interest; provided that, this grant of power of attorney will expire, and the Investment Manager and the External Investment Adviser shall cease to have any power to act as the Issuer's attorney-in-fact, upon (x) termination of this Agreement in accordance with its terms, (y) as to a removed or resigning Investment Manager, the effectiveness of such removal or resignation or (z) as to the assigning Investment Manager, any assignment in whole by the Investment Manager of its obligations under this Agreement in accordance with Section 15 hereof; provided further, that any such expiration shall not affect any transaction initiated prior to such expiration. Nevertheless, if so requested by the Investment Manager, the External Investment Adviser or a purchaser of a Collateral Obligation, Equity Security or Eligible Investment, the Issuer shall ratify and confirm any such sale or other disposition by executing and delivering to the Investment Manager or such purchaser all proper bills of sale, assignments, releases and other instruments as may be designated in any such request.

3. Brokerage.

(a) The Issuer hereby acknowledges that the Investment Manager shall be authorized to select the brokers and dealers through which transactions for the purchase and sale of Collateral Obligations will be effected and that the Issuer shall be responsible for brokerage commissions with respect to such transactions.

(b) The Investment Manager shall use its commercially reasonable efforts to obtain the best executions for all orders placed with respect to the Collateral Obligations, considering all reasonable circumstances, including, if applicable, the conditions or terms of early redemption of the Rated Notes, it being understood that the Investment Manager does not guarantee the success of such efforts. Subject to the first sentence of this Section 3(b), the Investment Manager may take into consideration all factors the Investment Manager reasonably determines to be relevant, including, without limitation, timing, general relevant trends and research and other brokerage services and support equipment and services related thereto furnished to the Investment Manager or its Affiliates by brokers and dealers. Such services may be used in connection with the other advisory activities or investment operations of the Investment Manager and/or its respective Affiliates. In addition, subject to the objective of obtaining best execution, the Investment Manager may take into account available prices, rates of brokerage commissions and size and difficulty of the order, the nature of the market for such security, the time constraints of the transaction, in addition to other relevant factors (such as, without limitation, execution capabilities, reliability (based on total trading rather than individual trading), integrity, financial condition in general, execution and operational capabilities of competing brokers and/or dealers), without having to demonstrate that such factors are of a direct benefit to the Issuer in any specific transaction. The Issuer acknowledges that the determination by the Investment Manager of any benefit to the Issuer is subjective and represents the Investment Manager's evaluation at the time that the Issuer will be benefited by relatively better purchase or sales prices, lower brokerage commissions and beneficial timing of transactions or a combination of these and other factors.

(c) The Investment Manager may aggregate sales and purchase orders of securities placed with respect to the Collateral with similar orders being made simultaneously for other accounts managed by the Investment Manager or with accounts of the Affiliates of the Investment Manager, if in the Investment Manager's sole judgment such aggregation would result in an overall economic benefit to the Issuer, taking into consideration the availability of purchasers or sellers, the selling or purchase price, brokerage commission and other expenses. In the event that a sale or purchase of a Collateral Obligation, occurs as part of any aggregate sales or purchase orders, the objective of the Investment Manager (and any of its Affiliates involved in such transactions) shall be to allocate the executions among the relevant accounts in a manner reasonably believed by the Investment Manager to be equitable over time for all accounts involved, taking into consideration, among other relevant factors, the differing investment objectives of the Issuer and the Investment Manager's (or its Affiliates') other clients, the amount of capital available, eligibility criteria set forth in the Indenture and in any governing documents relating to the Investment Manager's (or its Affiliates') other clients, the maturity of the account and the exposure to similar or offsetting positions. The Issuer acknowledges that circumstances may arise in which such an allocation could have adverse effects upon the Issuer or the other clients of the Investment Manager or its Affiliates with respect to the price or size of positions obtainable or saleable.

(d) All purchases and sales of Collateral Obligations and Eligible Investments, and all sales of Equity Securities, by the Investment Manager on behalf of the Issuer shall be conducted in compliance with all applicable laws (including, without limitation, the Advisers Act) and the terms of the Indenture. Subject to the objective of obtaining best execution, the Investment Manager may, in the allocation of business, take into consideration research and

other brokerage services furnished to the Investment Manager or its Affiliates by brokers and dealers which are not Affiliates of the Investment Manager in compliance with Section 28(e) of the United States Securities Exchange Act of 1934. Such services may be furnished to the Investment Manager or its Affiliates in connection with its other advisory activities or investment operations. The Investment Manager shall cause any purchase or sale of any Collateral Obligation or Eligible Investment to be conducted on terms that reflect an arm's-length transaction.

4. Additional Activities of the Investment Manager.

Nothing herein shall prevent the Investment Manager or any of its Affiliates, members, principals, partners, directors, officers, employees or agents from engaging in other businesses, or from rendering services of any kind (including investment management and advisory services) to the Issuer and its Affiliates, the Trustee, the Subordinated Note Paying Agent, the Noteholders or any other Person. Without limiting the generality of the foregoing, the Investment Manager, its Affiliates and the members, principals, partners, directors, officers, employees and agents of the Investment Manager and its Affiliates may:

(a) serve as directors (whether supervisory or managing), officers, employees, agents, nominees or signatories for the Issuer, its Affiliates or any obligor or issuer of any Collateral Obligation, Equity Security or other obligation included in the Collateral, to the extent permitted by their Governing Instruments, as from time to time amended, or by any resolutions duly adopted by the Issuer, its Affiliates or any issuer or obligor of any obligations included in the Collateral, pursuant to their respective Governing Instruments; provided that in the reasonable business judgment of the Investment Manager (exercised in good faith), such activity will not have a material adverse effect on the enforceability of the Collateral;

(b) receive fees for services of any nature rendered to the issuer or obligor of any Collateral Obligation, Equity Security or other obligation included in the Collateral or any Affiliate of any such issuer or obligor or any direct or indirect Noteholder; provided that in the reasonable business judgment of the Investment Manager (exercised in good faith), such activity will not have a material adverse effect on the enforceability of the Collateral;

(c) be retained to provide services unrelated to this Agreement to the Issuer or its Affiliates, and be paid therefor, in each case on terms that reflect an arm's-length transaction;

(d) be a secured or unsecured creditor of, or hold an equity interest in, the Issuer, its Affiliates, the issuer or obligor (or any Affiliate of an issuer or obligor) of any Collateral Obligation, Equity Security or other obligation included in the Collateral;

(e) serve as a member of any "creditors' board" or "creditors' committee" with respect to any obligation included in the Collateral which has become, or, in the Investment Manager's reasonable opinion, may become, a Defaulted Obligation; and

(f) purchase any security or obligation from, or sell any security or obligation to, the Issuer while acting in the capacity of principal or agent, in compliance with the provisions of Section 3 or 5 of this Agreement, as applicable, and Article 12 of the Indenture.

It is understood and agreed that the services of the Investment Manager to the Issuer are not to be deemed exclusive and the Investment Manager and any of its Affiliates may engage in any other business and furnish services of any kind (including investment management and advisory services) to others, including Persons which may have investment policies similar to or different from those followed by the Investment Manager on behalf of the Issuer with respect to the Collateral Obligations or the Eligible Investments and which may own securities or loans of the same or different class, or which are the same or different type, as the Collateral Obligations or the Eligible Investments or other debt or equity interests of the obligors of the Collateral Obligations or Eligible Investments. The Investment Manager and its Affiliates will be free, in their sole discretion, to make recommendations to others and to effect transactions on behalf of themselves or for others, which may be similar to or different from those made or effected with respect to the Collateral.

Nothing contained in this Agreement or the Indenture shall prevent the Investment Manager or any of its Affiliates, acting either as principal or agent on behalf of others, from buying or selling, or from recommending to or directing any other account to buy or sell, at any time, securities or loans of the same kind or class, or securities or loans of a different kind or class of the same issuer or obligor, as those directed by the Investment Manager to be purchased or sold hereunder. It is understood and agreed that, to the extent permitted by applicable law, the Investment Manager, its Affiliates, and any member, principal, partner, manager, officer, director, stockholder, agent or employee of the Investment Manager or any such Affiliate or any member of their families or a Person advised by the Investment Manager may have an interest in a particular transaction or in securities or loans of the same kind or class, or securities or loans of a different kind or class issued by the same obligor, as those whose purchase or sale the Investment Manager may direct hereunder.

The Investment Manager shall not be obligated to exploit any particular investment opportunity that may arise with respect to the Collateral.

5. Conflicts of Interest.

The Investment Manager shall not knowingly direct the Trustee to purchase any security or loan to be included in the Collateral from the Investment Manager or any of its Affiliates as principal or to sell any security or loan to the Investment Manager or any of its Affiliates as principal unless (a) such purchase or sale is not in violation of the Advisers Act, (b) the Board of Directors shall have received from the Investment Manager such information relating to such acquisition or disposition as it shall reasonably require, (c) the Board of Directors shall have approved such purchase or sale and (d) such purchase or sale is effected in a transaction that would be representative of a transaction entered into on terms that reflect an arm's-length basis. The Investment Manager shall not knowingly direct the Trustee to purchase any security or loan for inclusion in the Collateral from any account or portfolio for which the Investment Manager or any of its Affiliates serve as investment adviser, or direct the Trustee to sell any security or loan to any account or portfolio for which the Investment Manager or any of its Affiliates serve as investment adviser unless (a) such purchase or sale is not in violation of the Advisers Act and (b) such purchase or sale is effected in a transaction that would be representative of a transaction entered into on an arm's-length basis. For the avoidance of doubt, for purposes of this paragraph, no Person shall be or become an Affiliate of the Investment Manager by reason of the Investment Manager or an Affiliate of the Investment Manager acting as an investment adviser, asset manager or collateral manager (or acting in a similar capacity, however denominated) with respect to such Person.

Notwithstanding the foregoing, the Issuer hereby authorizes the Investment Manager to cause the purchase (subject to the applicable provisions of the Indenture and this Agreement) of Eligible Investments and Collateral Obligations that are securities of or owned by investment companies registered under the Investment Company Act for which the Investment Manager or an Affiliate acts as investment adviser or distributor; provided, however, that (a) all such transactions comply with the Investment Company Act, (b) all such transactions comply with the Investment Manager's then existing practices and procedures and (c) the Issuer may at any time, by written notice to the Investment Manager, revoke the authorization provided by this sentence.

Unless the Investment Manager determines in its reasonable business judgment (exercised in good faith), that such purchase or sale is appropriate, the Investment Manager may refrain from directing the Trustee to purchase or sell securities issued by (i) Persons of which the Investment Manager, any of its Affiliates or any of their respective members, managers, officers, directors or employees are directors or officers; (ii) Persons of which the Investment Manager or any of its Affiliates act as financial adviser or underwriter; or (iii) Persons about which the Investment Manager or any of its Affiliates have information which the Investment Manager deems confidential or non-public or otherwise might prohibit it from advising as to the trading of such securities in accordance with applicable law.

Although the officers and employees of the Investment Manager and the External Investment Adviser will devote as much time to the Issuer as the Investment Manager and the External Investment Adviser deem appropriate, such officers and employees may have conflicts in allocating their time and services among the Issuer and the Investment Manager's, the External Investment Adviser's and any of their respective Affiliates' other accounts. The Investment Manager, the External Investment Adviser and any of their respective Affiliates, in connection with their other business activities, may acquire material non-public confidential information that may restrict the Investment Manager or the External Investment Adviser from purchasing securities or selling securities for itself or its clients (including the Issuer) or otherwise using such information for the benefit of its clients or itself.

Various potential and actual conflicts of interest may arise from the overall investment activity of the Investment Manager, the External Investment Adviser and any of their respective Affiliates. The Investment Manager, the External Investment Adviser and any of their respective Affiliates and their respective clients may invest for their own accounts in securities or obligations that would be appropriate as items of Collateral Obligations. Such investments may be different from those made on behalf of the Issuer. The Investment Manager, the External Investment Adviser and any of their respective Affiliates and their respective clients may have ongoing relationships with companies whose securities or obligations are pledged as Collateral and may own securities and obligations issued by, or loans to, issuers or obligors of Collateral Obligations or Equity Securities. The Investment Manager, the External Investment Adviser and any of their respective Affiliates and their respective clients may invest in securities or loans that are senior to, or have interests different from or adverse to, the securities that are pledged as

Collateral. The Investment Manager and the External Investment Adviser may serve as investment adviser for, invest in, or be Affiliated with, other entities organized to issue collateralized debt obligations secured by debt obligations that are similar to the Collateral Obligations, and with the same or similar objectives as the Issuer. The Investment Manager or the External Investment Adviser will at certain times (i) be simultaneously seeking to purchase or sell investments for the Issuer and any similar entity for which it serves as investment adviser in the future, or for its clients or Affiliates and/or (ii) be shorting certain securities that will be the same as the securities included in the Collateral Obligations. The recommendations made to others by the Investment Manager and the External Investment Adviser and transactions effected by the Investment Manager and the External Investment Adviser on behalf of themselves or others may be the same or different from those made or effected to or on behalf of the Issuer.

The Issuer acknowledges (i) that the Investment Manager will on the Closing Date hold 100% of the Subordinated Notes, (ii) that funds advised by the Investment Manager or the External Investment Adviser may sell Collateral Obligations to the Issuer on or prior (or subsequent to) to the Closing Date and (iii) that the Investment Manager, the External Investment Adviser, their respective Affiliates or clients and certain other investors identified by the Investment Manager or the External Investment Adviser may at times own Notes of one or more Classes. In certain circumstances, the interests of the Issuer and/or the Noteholders under the Indenture with respect to matters as to which the Investment Manager or the External Investment Adviser is advising the Issuer may conflict with the interests of the Investment Manager or the External Investment Adviser including, without limitation, in the Investment Manager's, the External Investment Adviser's or their respective Affiliates' capacity as a Holder, directly or indirectly, of the Subordinated Notes or the Rated Notes, as applicable.

The Issuer hereby consents to the various potential and actual conflicts of interests that may exist with respect to the Investment Manager or the External Investment Adviser as described above; provided, however, that nothing contained in this Section 5 shall be construed as altering or limiting the duties of the Investment Manager or the External Investment Adviser set forth in this Agreement or in the Indenture nor the requirement of any law, rule or regulation applicable to the Investment Manager or the External Investment Adviser.

6. Records; Requests for Information; Confidentiality.

The Investment Manager shall maintain appropriate books of account and records relating to services performed hereunder, and such books of account and records shall be accessible for inspection by authorized representatives of the Issuer, the Trustee, the Subordinated Note Paying Agent and the Independent accountants appointed by the Issuer pursuant to the Indenture at a mutually agreed-upon time during normal business hours and upon not less than three Business Days' prior notice; provided that the Investment Manager shall not be obligated to provide access to any non-public information if the Investment Manager in good faith determines that the disclosure of such information would violate any applicable law, regulation or contractual arrangement. The Investment Manager shall keep confidential all information obtained in connection with the services rendered hereunder (including any Standard & Poor's confidential private credit assessments) and shall not disclose any such information to non-affiliated third parties except (i) with the prior written consent of the Issuer (which consent shall not be unreasonably withheld), (ii) such information as the Rating Agencies shall reasonably request in connection with their rating or evaluation of the Rated Notes, the

Subordinated Notes and/or the Investment Manager, as applicable, (iii) as required by law, regulation, court order or the rules, regulations or request of any regulatory or self-regulating organization, body or official (including any securities exchange on which the Notes may be listed from time to time) having jurisdiction over the Investment Manager or as otherwise required by law or judicial process or as required by an Underlying Instrument, (iv) such information as shall have been publicly disclosed other than in violation of this Agreement, (v) to its members, principals, partners, officers, directors, agents and employees, and to its attorneys, accountants and other professional advisers in conjunction with the transactions described herein, (vi) such information as may be necessary or desirable in order for the Investment Manager to prepare, publish and distribute to any Person any information relating to the investment performance of any Collateral Obligation, (vii) in connection with the enforcement of the Investment Manager's rights hereunder or in any dispute or proceeding related hereto, (viii) to the Trustee, the Collateral Administrator or the Subordinated Note Paying Agent, (ix) to Noteholders and potential purchasers of and (with respect to Notes in book-entry form) owners of beneficial interests in any of the Notes, (x) such information that was or is obtained by the Investment Manager on a non-confidential basis, (xi) in connection with establishing trading or investment accounts or otherwise in connection with effecting transactions on behalf of the Issuer and (xii) subject to applicable law and to the extent not inconsistent with securities law restrictions with respect to the Notes, any information relating to the investment performance of the Collateral. For purposes of this Section 6, the Trustee, the Collateral Administrator, the Custodian, the Placement Agent and the Holders of and (with respect to Notes in book-entry form) owners of beneficial interests in the Notes shall not be considered "non-affiliated third parties." Notwithstanding anything to the contrary set forth herein or in any other agreement to which the parties hereto are parties or by which they are bound, each party hereto (and any employee, representative, or agent of any party hereto) may disclose to any and all persons, without limitation of any kind, the tax structure and tax treatment of the transactions contemplated hereby and by the Transaction Documents and all materials of any kind (including opinions or other tax analysis) that are provided to such party relating to such tax treatment and tax structure; provided, however, that such disclosure shall not include the name (or other identifying information not relevant to the tax structure or tax treatment) of any person and shall not include information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

7. Certain Obligations of Investment Manager.

(a) Subject to the limitations set forth in Section 10 hereof, the Investment Manager shall use commercially reasonable efforts not to take any action which would (a) materially adversely affect the status of the Issuer or Co-Issuer for purposes of Cayman Islands law, United States Federal or state law or any other law known to the Investment Manager's to be applicable to the Issuer or Co-Issuer, (b) not be permitted by the Issuer's or the Co-Issuer's Governing Instruments, (c) cause the Issuer or the Co-Issuer to violate any law rule or regulation of any government body or agency having jurisdiction over the Issuer or the Co-Issuer including Cayman Islands, United States federal, state or other applicable securities law known to the Investment Manager to be applicable to the Issuer or the Co-Issuer, the violation (individually or in the aggregate with any other such violation) of which would have a material adverse effect on the business, operations, assets or financial condition of the Issuer or the Collateral, (d) require registration of the Issuer, the Co-Issuer or the pool of Collateral as an "investment company"

under the Investment Company Act, (e) cause the Issuer or the Co-Issuer to violate the terms of the Indenture or any other agreement or representation of the Issuer or the Co-Issuer contemplated by the Indenture, in each case, in any material respect or (f) adversely affect the interests of the Holders of the Notes in any material respect (other than the effect of such actions expressly permitted hereunder or under the Indenture, including through a supplemental indenture entered into in accordance with Article 8 of the Indenture), it being understood that in connection with this sentence, subject to the Investment Manager satisfying the standard of care set forth in Section 2(a), the Investment Manager will not be required to make any independent investigation of any facts or laws not otherwise known to it in connection with its obligations under this Agreement and the Indenture or other conduct of its business generally.

(b) If the Investment Manager is requested to take any action described in clause (a), above, by the Issuer, the Investment Manager shall promptly notify the Issuer, the Trustee and the Subordinated Note Paying Agent of the Investment Manager's reasonable business judgment (exercised in good faith), that such action would have one or more of the consequences set forth above and the Investment Manager need not take such action unless the Issuer again requests the Investment Manager to do so and at least 66²/₃% of the Aggregate Outstanding Amount of the Controlling Class has consented thereto in writing. Notwithstanding any such request, the Investment Manager need not take such action unless (i) arrangements satisfactory to it are made to insure or indemnify the Investment Manager, the External Investment Adviser and their respective Affiliates and each of their respective directors, officers, stockholders, partners, agents, members and employees from any liability they may incur as a result of such action and (ii) if the Investment Manager so requests in respect of a question of law, the Issuer, at its expense, delivers to the Investment Manager a favorable opinion of counsel as to such question of law. Notwithstanding anything to the contrary contained in this Agreement, the Investment Manager shall not be required to take any action if the Investment Manager reasonably believes that the taking of such action will or may violate any applicable law, rule or regulation, and shall not take any discretionary action that it reasonably believes would cause an Event of Default under the Indenture. The Investment Manager and the Investment Manager Affiliates shall not be liable to the Co-Issuers, the Trustee, the Noteholders or any other Person with respect to the foregoing except as provided in Section 10.

(c) The Investment Manager and the External Investment Adviser shall be entitled to treat any notice or other communication that on its face comes from the Issuer or the Board of Directors as having been sent by the Issuer or the Board of Directors, as applicable, unless it has actual knowledge that the Issuer or the Board of Directors has not sent such notice or other communication. The Investment Manager shall not have any liability for any action taken by the Investment Manager or the External Investment Adviser in good faith reliance on information that had been provided by the Issuer, the Co-Issuer, the Trustee or the Collateral Administrator.

8. Compensation.

(a) The Issuer shall pay to the Investment Manager, for services rendered and performance of its obligations under this Agreement on and after the Closing Date (i) the Base Management Fee, (ii) the Subordinated Management Fee and (iii) the Incentive Management Fee (together with the Base Management Fee and the Subordinated Management Fee, the

“Investment Management Fees”). The Investment Management Fees shall be payable in arrears to the Investment Manager on each Payment Date in accordance with the Priority of Payments. If on any Payment Date there are insufficient funds to pay the Base Management Fee, the Subordinated Management Fee and/or the Incentive Management Fee then due in full, the amount not so paid shall be deferred and shall be payable (without interest thereon) on such subsequent Payment Date on which any funds are available therefor, subject to and in accordance with the Priority of Payments.

(b) The parties hereto acknowledge and agree that a portion of the gross proceeds received from the issuance and sale of the Rated Notes will be used to pay or reimburse the organizational, placement, structuring and other fees and expenses of the Co-Issuers on the Closing Date or otherwise in connection with the organization of the Issuer and the Co-Issuer, the issuance and sale of the Rated Notes and the execution and delivery of this Agreement and the other agreements and documents relating to the issuance and sale of the Rated Notes, including the legal fees and expenses of counsel to the Investment Manager. The Investment Manager shall be responsible for its rent, office expenses, employee salaries and all other ordinary expenses incurred in the performance of its obligations under this Agreement (but not any expenses otherwise payable by the Issuer or the Co-Issuer under the Indenture or the Subordinated Note Paying Agency Agreement); provided, that (i) the fees and expenses of employing outside lawyers and consultants in connection with the purchase, sale and management of Collateral Obligations, Equity Securities, Eligible Investments or any other Collateral and the possible amendment, default, bankruptcy or restructuring of any Collateral Obligation, Equity Security or any other Collateral, (ii) all amounts payable under the Collateral Administration Agreement, (iii) the fees and expenses of employing outside lawyers or accountants to assist the Investment Manager in interpreting and fulfilling its obligations and duties under this Agreement and the Indenture, (iv) reasonable travel expenses in connection with the Investment Manager’s performance of its duties hereunder, (v) the cost of any fees related to the administration and monitoring of the Notes, the Collateral Obligations and any securities to be purchased for inclusion as Collateral, including, without limitation, the cost of any research software or credit databases used by the Investment Manager in connection with its management of the Collateral Obligations, (vi) the fees and expenses payable by the Issuer in accordance with the Indenture, including any fees, expenses or other amounts payable to the Rating Agencies, the Collateral Administrator, the Trustee, the Administrator, any Paying Agent, the Independent accountants appointed under the Indenture or any other accountants, (vii) the reasonable expenses of exercising observation rights (including through a representative) pursuant to Section 17 hereof, and (viii) premiums for insurance protecting the Investment Manager and each Investment Manager Affiliate from liability with respect to third persons in connection with the affairs of the Issuer, in each case, shall constitute Administrative Expenses and be reimbursed by the Issuer in accordance with the Indenture and shall be payable in accordance with the Priority of Payments. Except as provided in the immediately preceding sentence, the Investment Manager shall be responsible for the payment of all fees and expenses incurred by any third parties employed by the Investment Manager to render investment advice or any other services to the Issuer agreed by the Investment Manager to be rendered by the Investment Manager hereunder.

(c) If this Agreement is terminated pursuant to Section 12, Section 13 or otherwise, the Investment Management Fees calculated as provided in the Indenture shall be prorated for any partial periods between Payment Dates during which this Agreement was in effect and shall be due and payable on the first Payment Date following the date of such termination in accordance with the Priority of Payments set forth in the Indenture and, to the extent not paid in full on such Payment Date, on each Payment Date thereafter subject to the Priority of Payments until paid in full.

9. Benefit of the Agreement and Assignment of the Agreement.

The Investment Manager shall perform its duties hereunder in accordance with the terms of this Agreement and the terms of the Indenture applicable to it. Subject to Section 15.1 of the Indenture, the Investment Manager agrees that such duties shall be enforceable by (i) the Issuer, (ii) the Trustee, on behalf of the Noteholders, (iii) the Subordinated Note Paying Agent, on behalf of the Holders of the Subordinated Notes, and (iv) the requisite percentage of Holders of the Notes, on behalf of themselves, as provided in the Indenture and the Subordinated Note Paying Agency Agreement, in each case, as and to the extent provided in the Indenture or the Subordinated Note Paying Agency Agreement.

10. Limits of Investment Manager Responsibility.

(a) Notwithstanding anything set forth in the Indenture or the Collateral Administration Agreement to the contrary, the Investment Manager assumes no responsibility under this Agreement other than to render the services called for hereunder and under the terms of the Indenture applicable to it pursuant to the terms of this Agreement in good faith in accordance with the standard of care provided in Section 2(a) and subject to the standard of conduct described in the next succeeding sentence, shall not be liable for any action or inaction of the Issuer or the Trustee in following or declining to follow any advice, recommendation or direction of the Investment Manager or for any action or inaction of the Collateral Administrator. Notwithstanding anything to the contrary herein, in the Indenture or in any other Transactional Document, the Investment Manager, its Affiliates and their respective members, principals, partners, managers, directors, officers, stockholders, employees and agents (collectively, the "Investment Manager Affiliates") shall not be liable to the Co-Issuers, the Trustee, the Collateral Administrator, the Subordinated Note Paying Agent, the Noteholders or any other Person for any expenses, losses, damages, demands, charges, judgments, assessments, costs or other liabilities or claims of any nature whatsoever (including reasonable attorneys' and accountants' fees and expenses) (collectively, "Liabilities") incurred by the Co-Issuers, the Trustee, the Subordinated Note Paying Agent, the Noteholders or any other Person that arise out of or in connection with the performance by the Investment Manager of its duties under this Agreement, the Collateral Administration Agreement or the Indenture or for any acts or omissions by the Investment Manager or any other Investment Manager Affiliate under or in connection with this Agreement or the terms of the Indenture or any other Transactional Document applicable to it, except (i) by reason of acts or omissions of the Investment Manager constituting criminal conduct, fraud, bad faith, willful misconduct or gross negligence in the performance, or reckless disregard, of the obligations of the Investment Manager hereunder or under the terms of the Indenture applicable to the Investment Manager or (ii) with respect to the information concerning the Investment Manager set forth under the heading "Investment Manager" in the Offering Memorandum for the Rated Notes dated October [15], 2013 (the "Offering Memorandum"), such information containing any untrue statement of material fact or omitting to state a material fact necessary in

order to make the statements therein, in light of the circumstances under which they were made, not misleading. The occurrences of the events described in clauses (i) and (ii) above are collectively referred to for purposes of this Section 10 as “Investment Manager Breaches.” Notwithstanding the foregoing, in no event shall the Investment Manager or any other Investment Manager Affiliate be liable for consequential, special, exemplary or punitive damages. For the avoidance of doubt, the Investment Manager will not be liable for trade errors that may result from ordinary negligence, such as errors in the trade process (including, but not limited to, a buy order being entered instead of a sell order, or the wrong security being purchased or sold, or a security being purchased or sold in an amount or at a price other than the correct amount or price), except to the extent that any such errors are due to an Investment Manager Breach. Any stated limitations on liability shall not relieve the Investment Manager from any responsibility it has under any state or federal statutes.

(b) The Issuer shall indemnify and hold harmless the Investment Manager, the External Investment Adviser and every other Investment Manager Affiliate from and against any Liabilities, and will reimburse the Investment Manager, the External Investment Adviser or any other Investment Manager Affiliate for all reasonable fees and expenses (including reasonable fees and expenses of counsel) as such fees and expenses are incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation, caused by, or arising out of or in connection with, (i) the issuance of the Rated Notes or the transactions contemplated by the Offering Memorandum, the Indenture, this Agreement or the other Transaction Documents, and/or (ii) any action taken by, or any failure to act by, the Investment Manager, the External Investment Adviser or any other Investment Manager Affiliates, and in either case to the extent not constituting an Investment Manager Breach. Notwithstanding anything contained herein to the contrary, the obligations of the Issuer under this Section 10 shall be limited recourse in accordance with Section 23 hereof and payable as an Administrative Expense out of the Collateral in accordance with the Priority of Payments set forth in the Indenture. Nothing contained herein shall be deemed to waive any liability which cannot be waived under applicable state or federal law or any rules or regulations adopted thereunder.

(c) The Investment Manager shall not be obligated to appear in, prosecute or defend any legal action that is not incidental to its responsibilities under this Agreement or that, in its sole opinion, may involve it in any expense or liability. In the exercise of its discretion, however, the Investment Manager may undertake any such action that it may deem necessary or desirable with respect to the enforcement or protection of the rights and duties of the parties to this Agreement or the interest of the Issuer hereunder. In such event, the legal expenses and costs of such action, and any liability resulting therefrom (other than liabilities to the extent arising from an Investment Manager Breach), shall be borne by the Issuer, and the Investment Manager shall be entitled to receive reimbursement thereof from the Issuer in accordance with the Priority of Payments set forth in the Indenture.

(d) The Investment Manager shall indemnify and hold harmless the Issuer in respect of any Liabilities and will reimburse the Issuer for all reasonable fees and expenses (including reasonable fees and expenses of counsel) incurred in investigating, preparing, pursuing or defending any claim, action, proceeding or investigation with respect to any pending or threatened litigation, in each case, to the extent and only to the extent that such Liabilities,

fees, expenses and other amounts result from an Investment Manager Breach. Any Liabilities, fees, expenses and other amounts to be paid by the Investment Manager in respect of its indemnification of the Issuer under this Section 10(e) will be payable only upon and to the extent that a court of competent jurisdiction has found in a judgment which has become final (whether or not subject to appeal) that such Liabilities, fees, expenses and other amounts resulted from an Investment Manager Breach.

11. No Partnership or Joint Venture.

The Issuer and the Investment Manager are not partners or joint venturers with each other and nothing herein shall be construed to make them such partners or joint venturers or impose any liability as such on either of them. The Investment Manager's relation to the Issuer shall be, for all purposes herein, deemed to be that of an independent contractor and the Investment Manager shall, unless otherwise expressly provided herein or authorized by the Issuer from time to time, have no authority to act for or represent the Issuer in any way or otherwise be deemed an agent of the Issuer.

12. Term; Termination.

(a) This Agreement shall become effective as of the Closing Date and shall continue in force until the first of the following occurs: (i) the payment in full of the Rated Notes, the termination of the Indenture in accordance with its terms and the payment in full of the Subordinated Notes; (ii) the liquidation of the Collateral and the final distribution of the proceeds of such liquidation to the Noteholders; or (iii) the termination of this Agreement in accordance with this Section 12 or Section 13.

(b) Notwithstanding any other provisions hereof to the contrary, the Investment Manager may resign upon 90 days' prior written notice to the Issuer, the Rating Agencies and the Trustee (or such shorter notice as is acceptable to the Issuer); provided, however, that such resignation shall not be effective until the date as of which a successor Investment Manager has been appointed in accordance with Section 12(e) and has accepted the duties of the successor Investment Manager hereunder. The Issuer will use commercially reasonable efforts to appoint a successor Investment Manager to assume such duties and obligations.

(c) The Investment Manager may be removed without Cause upon 90 days' (or such shorter notice as is acceptable to the Investment Manager) prior written notice to the Investment Manager (with a copy sent to S&P) by the Issuer with the consent of the Holders of at least 66²/₃% in Aggregate Outstanding Amount of each Class of Rated Notes (voting separately) and the consent of the Holders of at least 66²/₃% in Aggregate Outstanding Amount of the Subordinated Notes (excluding, in each case, any Investment Manager Securities); provided, however, that such termination or removal shall not be effective until the date as of which a successor Investment Manager has been appointed in accordance with Section 12(e) and has accepted the duties of the successor Investment Manager hereunder. In determining whether the requisite Noteholders have given any such direction, notice or consent, all Investment Manager Securities will be disregarded and deemed not to be Outstanding. The Issuer will use commercially reasonable efforts to appoint a successor Investment Manager to assume such duties and obligations.

(d) If this Agreement is terminated pursuant to this Section 12 or Section 13, such termination will be without any further liability or obligation of either party to the other, except as provided in Sections 8, 10, 14 and 23.

(e) Upon any removal or resignation of the Investment Manager (in each case, whether pursuant to this Section 12 or pursuant to Section 13) while any of the Rated Notes or Subordinated Notes are Outstanding, the Issuer at the direction of a Majority of the Subordinated Notes shall appoint as successor Investment Manager an institution which (i) has demonstrated an ability to professionally and competently perform duties similar to those imposed upon the Investment Manager hereunder (or that has been approved by a Majority of the Controlling Class), (ii) is legally qualified and has the capacity to act as Investment Manager hereunder, as successor to the Investment Manager under this Agreement in the assumption of all of the responsibilities, duties and obligations of the Investment Manager hereunder and under the applicable terms of the Indenture, (iii) shall not cause the Issuer or the Co-Issuer or the pool of Collateral to become required to register under the provisions of the Investment Company Act and (iv) will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. No termination or removal of the Investment Manager, whether pursuant to this Section 12 or pursuant to Section 13 hereof, shall be effective until a successor has been appointed and approved pursuant to this Agreement, subject to and in accordance with this Section 12(e), and has agreed in writing to assume all of the Investment Manager's duties and obligations with respect to the period commencing with such appointment.

Any successor Investment Manager must be appointed by the Issuer at the direction of a Majority of the Subordinated Notes and not rejected by a Majority of the Controlling Class within 20 days of the issuance of notice of a vote regarding the successor Investment Manager to the Holders of the Notes; provided that such rejection shall not be unreasonable. For purposes of this paragraph, in determining whether the Holders of the requisite percentage of Aggregate Outstanding Amount of Rated Notes or Subordinated Notes have given such rejection, Investment Manager Securities shall not be disregarded and shall be deemed to be Outstanding. Such successor Investment Manager must be ready and able to assume the duties of the Investment Manager within 40 days after the date of such notice of resignation or removal of the Investment Manager.

In the event of a removal of the Investment Manager, if no successor Investment Manager shall have been appointed or an instrument of acceptance by a successor Investment Manager shall not have been delivered to the Investment Manager (a) within 20 days after approval of the successor Investment Manager by the Issuer, and the issuance of notice of a vote regarding the successor Investment Manager to the Holders of the Notes, or (b) within 90 days after the date of notice of removal of the Investment Manager, the removed Investment Manager, a Majority of the Controlling Class or a Majority of the Subordinated Notes may petition any court of competent jurisdiction for the appointment of a successor Investment Manager without the approval of the Holders of the Notes.

In the event of a resignation by the Investment Manager, if no successor Investment Manager shall have been appointed or an instrument of acceptance by a successor Investment Manager shall not have been delivered to the Investment Manager within 120 days after the date of notice of resignation by the Investment Manager, the resigned Investment Manager, a Majority of the Controlling Class or a Majority of the Subordinated Notes may petition any court of competent jurisdiction for the appointment of a successor Investment Manager without the approval of the Holders of the Notes.

In connection with such appointment and assumption and subject to the provisions of the Indenture, the Issuer may make such arrangements for the compensation of such successor as the Issuer and such successor Investment Manager shall agree; provided, however, that no compensation payable to such successor Investment Manager from payments on the Collateral shall be greater than that paid to the Investment Manager under this Agreement without the prior written consent of a Majority of the Aggregate Outstanding Amount of the Notes voting separately. The Issuer, the Trustee and the successor Investment Manager shall take such action (or cause the outgoing Investment Manager to take such action) consistent with this Agreement and the terms of the Indenture applicable to the Investment Manager, as shall be necessary to effectuate any such succession.

(a) Upon the later of (i) the expiration of the applicable notice period with respect to a termination specified in this [Section 12](#) or [Section 13](#), as applicable, and (ii) the acceptance, in writing, by a successor Investment Manager of such appointment, all authority and power of the Investment Manager under this Agreement and the Indenture, whether with respect to the Collateral Obligations or otherwise, shall automatically and without further action by any Person pass to and be vested in the successor Investment Manager.

13. Termination for Cause.

Subject to [Section 12\(e\)](#) of this Agreement, this Agreement may be terminated, and the Investment Manager may be removed, by the Issuer, at the direction of a Majority of all the Classes of Notes, voting collectively (excluding any Investment Manager Securities, which will be disregarded and deemed not to be Outstanding for such purpose), for Cause upon 10 Business Days' prior written notice by the Issuer to the Investment Manager and upon written notice to the Holders of the Notes as set forth below. For purposes of determining "Cause" with respect to termination of this Agreement pursuant to this [Section 13](#), such term shall mean any one of the following events:

(a) the Investment Manager willfully violates any material provision of this Agreement or the Indenture applicable to it;

(b) the Investment Manager breaches in any material respect any provision of this Agreement or any term of the Indenture applicable to it (other than the failure to satisfy any of the Collateral Quality Tests and the Coverage Tests) or any representation, certificate or other statement made or given in writing by the Investment Manager (or any of its directors or officers) pursuant to this Agreement or the Indenture shall prove to have been incorrect in any material respect when made or given, which breach or materially incorrect representation, certificate or statement (i) has a material adverse effect on any Class of Notes and (ii) if such breach or such materially incorrect representation, certificate or statement is capable of being

cured, the Investment Manager fails (within 30 days of it becoming aware or receiving notice from the Trustee) to cure such breach, or to take such action so that the facts (after giving effect to such actions) conform in all material respects to such representation, certificate or statement;

(c) the Investment Manager is wound up or dissolved or there is appointed over it or all or substantially all of its assets a receiver, administrator, administrative receiver, trustee or similar officer; or the Investment Manager (i) ceases to be able to, or admits in writing its inability to, pay its debts as they become due and payable, or makes a general assignment for the benefit of, or enters into any composition or arrangement with, its creditors generally; (ii) applies for or consents (by admission of material allegations of a petition or otherwise) to the appointment of a receiver, trustee, assignee, custodian, liquidator or sequestrator (or other similar official) of the Investment Manager or all or substantially all of its properties or assets, or authorizes such an application or consent, or proceedings seeking such appointment are commenced without such authorization, consent or application against the Investment Manager and continue undismissed for 60 consecutive days; (iii) authorizes or files a voluntary petition in bankruptcy, or applies for or consents (by admission of material allegations of a petition or otherwise) to the application of any bankruptcy, reorganization, arrangement, readjustment of debt, insolvency or dissolution, or authorizes such application or consent, or proceedings to such end are instituted against the Investment Manager without such authorization, application or consent and are approved as properly instituted and remain undismissed for 60 consecutive days or result in adjudication of bankruptcy or insolvency; or (iv) permits or suffers all or substantially all of its properties or assets to be sequestered or attached by court order and the order remains undismissed for 60 consecutive days;

(d) the occurrence of any Event of Default under the Indenture that primarily results from any breach by the Investment Manager of its duties under the Indenture or this Agreement, other than those set forth in Sections 5.1(d) or 5.1(e) of the Indenture; or

(e) the occurrence of an act by the Investment Manager that constitutes fraud or criminal activity in the performance of the Investment Manager's obligations under this Agreement or the Indenture or the indictment of the Investment Manager or any of its Affiliates or any senior officer of the Investment Manager having direct responsibility over the Issuer's investment activities for a criminal offense materially related to the provision of investment advisory services.

In addition to a removal for Cause, the Investment Manager may be removed upon written notice from the Issuer in the event that the Issuer determines in good faith that the appointment of the Investment Manager under this Agreement has caused or required the Issuer, the Co-Issuer or the pool of Collateral to become registered as an investment company under the Investment Company Act.

14. Action Upon Termination.

(a) From and after the effective date of termination of this Agreement, the Investment Manager shall not be entitled to compensation and reimbursement for further services hereunder, but shall be paid all compensation and reimbursement accrued to the effective date of termination, as provided in Section 8 and shall be entitled to receive any amounts owing under Sections 7, 8(b) and 10. Upon such termination, the Investment Manager shall as soon as practicable:

(i) deliver to the Issuer all property and documents of the Trustee or the Issuer or otherwise relating to the Pledged Securities then in the custody of the Investment Manager (although the Investment Manager may keep copies of such documents for its records); and

(ii) deliver to the Trustee or the successor Investment Manager appointed pursuant to Section 12(e) its books and records with respect to the Collateral Obligations (although the Investment Manager may keep copies of such documents for its records).

Notwithstanding such termination, (i) the Investment Manager shall remain liable for (a) its acts or omissions hereunder described in Section 10 arising prior to termination (subject to the limitations in Section 10) and (b) any expenses, losses, damages, liabilities, demands, charges and claims of any nature whatsoever (including reasonable attorneys' fees) in respect of or arising out of a breach of the representations and warranties made by the Investment Manager in Section 16(b) or from any failure of the Investment Manager to comply with the provisions of this Section 14 and (ii) the Issuer shall remain liable for its obligations under Sections 7, 8 and 10.

(b) The Investment Manager agrees, that notwithstanding any termination, it shall (i) reasonably cooperate, at the expense of the Issuer, in any Proceeding arising in connection with this Agreement, the Indenture or any of the Collateral (excluding any such proceeding in which claims are or may be asserted against the Investment Manager or any Investment Manager Affiliate) relating to the period of time during which this Agreement was in effect with respect to the Investment Manager, so long as the Investment Manager, the External Investment Adviser and, as applicable, every other Investment Manager Affiliate, shall have been provided such indemnity, security or other provision as is satisfactory to the Investment Manager and the External Investment Adviser against all costs, expenses and liabilities that might be incurred in connection therewith and (ii) reasonably cooperate, at the expense of the Issuer (with respect to the Investment Manager's out-of-pocket expenses only) with any duly approved and appointed successor Investment Manager hereunder in order to facilitate the succession by such successor Investment Manager.

15. Assignment.

(a) The rights and obligations of the Investment Manager under this Agreement shall not be assigned by the Investment Manager without (i) the prior written consent of the Issuer, (ii) the prior written consent of a Majority of each Class of Notes, voting separately (in each case, excluding Investment Manager Securities), and (iii) receiving Rating Agency Confirmation with respect to such assignment; provided, however, that the Investment Manager may assign its obligations under this Agreement to an Affiliate of the Investment Manager without obtaining the consents specified in the preceding clauses (i) and (ii), so long as such assignment does not constitute an "assignment" under the Advisers Act. Upon any such assignment, the assignee shall execute and deliver to the Issuer and the Trustee a counterpart of this Agreement naming such assignee as Investment Manager. Upon the execution and delivery

of such a counterpart by the assignee, the Investment Manager shall be released from further obligation pursuant to this Agreement, except with respect to its obligations arising under Section 7 of this Agreement prior to such assignment and except with respect to its obligations specified in Section 14 hereof as surviving such a termination. No assignment of obligations or duties by the Investment Manager, other than an assignment described in the first sentence of this Section 15, shall (1) relieve the Investment Manager from any liability under this Agreement or (2) cause any third party to be a third party beneficiary under this Agreement or any other document to which the Investment Manager is a party.

(b) This Agreement shall not be assigned by the Issuer without the prior written consent of the Investment Manager and the Trustee and prior written notice to S&P, except in the case of assignment by the Issuer (i) to an entity which is a successor to the Issuer permitted under the Indenture, in which case such successor organization shall be bound under this Agreement and by the terms of said assignment in the same manner as the Issuer is bound under the Indenture or (ii) to the Trustee as contemplated by the Indenture. In the event of any assignment by the Issuer, the Issuer shall use commercially reasonable efforts to cause its successor to execute and deliver to the Investment Manager such documents as the Investment Manager shall consider reasonably necessary to effect fully such assignment.

(c) Any corporation, partnership or limited liability company into which the Investment Manager may be merged or converted or with which it may be consolidated, or any corporation, partnership or limited liability company resulting from any merger, corporation, partnership or limited liability company succeeding to all or substantially all of the collateral management business of the Investment Manager, shall be the successor to the Investment Manager without any further action by the Investment Manager, the Issuer, the Trustee, the Noteholders or any other Person; provided that (i) to the extent legally required, the Issuer consents to such action and (ii) the resulting entity has the ability and capacity to perform professionally and competently duties similar to those imposed upon the Investment Manager hereunder.

16. Representations, Warranties and Covenants.

(a) The Issuer hereby represents and warrants to the Investment Manager as follows as of the date hereof:

(i) The Issuer has been duly incorporated and is validly existing under the laws of the Cayman Islands, has the full corporate power and authority to own its assets and the obligations proposed to be owned by it and included in the Collateral and to transact the business in which it is presently and proposed to be engaged and is duly qualified under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires, or the performance of its obligations under the Transaction Documents would require, such qualification, except for failures to be so qualified, authorized or licensed that would not in the aggregate have a material adverse effect on the business, operations, assets or financial condition of the Issuer.

(ii) The Issuer has full corporate power and authority to execute, deliver and perform the Transaction Documents and all obligations required under the Transaction Documents and has taken all necessary action to authorize the Transaction Documents on the terms and conditions hereof and thereof and the execution, delivery and performance of Transaction Documents and the performance of all obligations imposed upon it hereunder and thereunder. No consent of any other person including, without limitation, shareholders and creditors of the Issuer, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by the Issuer in connection with the Transaction Documents or the execution, delivery, performance, validity or enforceability of the Transaction Documents or the obligations imposed upon it hereunder or thereunder. Each Transactional Document to which the Issuer is a party has been executed and delivered by the Issuer (by its duly authorized director or attorney) and, following execution of all parties thereto, constitutes the valid and legally binding obligation of the Issuer enforceable against the Issuer in accordance with its terms, subject, as to enforcement, to (a) the effect of bankruptcy, insolvency or similar laws affecting generally the enforcement of creditors' rights, as such laws would apply in the event of any bankruptcy, receivership, insolvency or similar event applicable to the Issuer and (b) general equitable principles (whether enforceability of such principles is considered in a proceeding at law or in equity).

(iii) The execution, delivery and performance of this Agreement, the other Transaction Documents and the documents and instruments required hereunder and thereunder will not violate any provision of any existing law or regulation binding on the Issuer, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Issuer, or the Governing Instruments of, or any securities issued by, the Issuer or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Issuer is a party or by which the Issuer or any of its assets is or may be bound, the violation of which would have a material adverse effect on the business, operations, assets or financial condition of the Issuer or its ability to perform its obligations under the Transaction Documents, and will not result in or require the creation or imposition of any lien on any of its property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking (other than the lien of the Indenture).

(iv) The Issuer is not in violation of its Governing Instruments or in breach or violation of or in default under the Indenture or any contract or agreement to which it is a party or by which it or any of its assets may be bound, or any applicable statute or any rule, regulation or order of any court, government agency or body having jurisdiction over the Issuer or its properties, the breach or violation of which or default under which would have a material adverse effect on the ability of the Issuer to perform its obligations under, or the validity and enforceability of, this Agreement or any other Transactional Document.

(v) The Offering Memorandum as of the date of the Offering Memorandum and as of the Closing Date does not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, except that no representation or warranty is made as to statements in or omissions from the section of the Offering Memorandum entitled "Investment Manager."

(vi) The Issuer is not an “investment company” required to register under the Investment Company Act, and has not engaged in any transaction that would result in the violation of, or require the Issuer or the pool of Collateral to register as an investment company under, the Investment Company Act.

(vii) True and complete copies of the Transaction Documents and the Issuer’s Governing Instruments have been or, no later than the Closing Date, will be delivered to the Investment Manager. The Issuer agrees to deliver a true and complete copy of each and every amendment to any Transactional Document as promptly as practicable after its adoption or execution.

(b) The Investment Manager hereby represents, warrants and covenants to the Issuer as follows as of the date hereof:

(i) The Investment Manager is a non-diversified closed end investment company duly organized, validly existing and in good standing under the laws of Maryland and has full power and authority as a corporation to own its assets and to transact the business in which it is currently engaged and is duly qualified as a corporation and is in good standing under the laws of each jurisdiction where its ownership or lease of property or the conduct of its business requires, or the performance of this Agreement would require, such qualification, except for those jurisdictions in which the failure to be so qualified, authorized or licensed would not have a material adverse effect on the business, operations, assets or financial condition of the Investment Manager or on the ability of the Investment Manager to perform its obligations hereunder, or on the validity or enforceability of this Agreement and the provisions of the Indenture applicable to the Investment Manager.

(ii) The Investment Manager is not registered as an investment adviser under the Advisers Act.

(iii) The Investment Manager has the necessary corporate power and authority to execute, deliver and perform this Agreement and all obligations required hereunder and under the provisions of the Indenture applicable to the Investment Manager and has taken all necessary corporate action to authorize this Agreement on the terms and conditions hereof and the execution, delivery and performance of this Agreement and all obligations required hereunder and under the terms of the Indenture applicable to the Investment Manager. No consent of any other person, including, without limitation, members or creditors of the Investment Manager, and no license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any governmental authority is required by the Investment Manager in connection with this Agreement or the execution, delivery, performance, validity or enforceability of this Agreement or the obligations required hereunder or under the terms of the Indenture applicable to the Investment Manager. Each Transactional Document to which the Investment Manager is a party has been executed and delivered by the Investment

Manager (by its duly authorized officer), and constitutes the valid and legally binding obligation of the Investment Manager enforceable against the Investment Manager in accordance with its terms, subject, as to enforcement, to (a) the effect of bankruptcy, insolvency or similar laws affecting generally the enforcement of creditors' rights, as such laws would apply in the event of any bankruptcy, receivership, insolvency or similar event applicable to the Investment Manager and (b) general equitable principles (whether enforceability of such principles is considered in a proceeding at law or in equity).

(iv) The execution, delivery and performance of this Agreement and the terms of the Indenture applicable to the Investment Manager and the documents and instruments required hereunder or under such terms of the Indenture and the other Transaction Documents to which it is a party will not violate any provision of any existing law or regulation binding on the Investment Manager, or any order, judgment, award or decree of any court, arbitrator or governmental authority binding on the Investment Manager, or the Governing Instruments of, or any securities issued by, the Investment Manager or of any mortgage, indenture, lease, contract or other agreement, instrument or undertaking to which the Investment Manager is a party or by which the Investment Manager or any of its assets may be bound, the violation of which would have a material adverse effect on the business operations, assets or financial condition of the Investment Manager or any of its subsidiaries, and will not result in or require the creation or imposition of any lien on any of its property, assets or revenues pursuant to the provisions of any such mortgage, indenture, lease, contract or other agreement, instrument or undertaking.

(v) The section entitled "Investment Manager" contained in the Offering Memorandum does not purport to provide the scope of disclosure required to be included in a prospectus with respect to a registrant in connection with the offer and sale of securities of such registrant registered under the Securities Act (other than with respect to the anti-fraud rules under the Securities Act). Within such scope of disclosure, however, as of the date of such Offering Memorandum and as of the Closing Date, such section accurately restates the information provided by the Investment Manager and is true in all material respects and does not omit to state any material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(vi) To the Investment Manager's best knowledge, no event constituting Cause hereunder has occurred and is continuing and no event that with the giving of notice or passage of time would become an event constituting Cause has occurred or is continuing and no such event would occur as a result of its entering into or performing its obligations under this Agreement.

(c) The Investment Manager makes no representation, express or implied, with respect to the Issuer or any portion of the Offering Memorandum other than as set forth in clause (b)(v) above.

(d) The Investment Manager and the Issuer agree that each shall take such actions, and furnish such certificates, opinions and other documents, as may be reasonably requested by the other in order to effectuate the purposes of this Agreement and to facilitate compliance with applicable laws and regulations and the terms of this Agreement.

(e) The Investment Manager agrees that it shall promptly notify the Issuer, the Trustee and each Rating Agency if any Cause shall occur with respect to the Investment Manager.

(f) The Investment Manager shall promptly notify the Issuer, the Trustee and each Rating Agency if any representation, warranty or certification previously made by the Investment Manager is subsequently determined to have been incorrect or misleading in any material respect as of the date such representation, warranty or certification was made.

(g) Each of the Issuer and the Investment Manager shall, so long as either party has or may have any obligation under this Agreement:

(i) Use commercially reasonable efforts to maintain in full force and effect all consents of any governmental or other authority that are required to be obtained by it with respect to this Agreement in order to perform its obligation hereunder and use all commercially reasonable efforts to obtain such consents that become necessary therefor in the future; and

(ii) comply with all applicable laws, regulations and orders in all material respects to which it may be subject if failure to do so would materially impair its ability to perform its obligations under this Agreement.

(h) The Investment Manager agrees that the Investment Manager (or its Affiliates) shall hold legal and beneficial ownership of 100% of the Subordinated Notes for as long as it is the Investment Manager under this Agreement.

(i) At any time prior to the earlier of (i) the completion of the offering of Rated Notes and (ii) the date 90 days after the Closing Date, the Investment Manager shall not make any public announcement concerning the issuance of the Rated Notes, the Investment Manager's role hereunder or any other aspect of the transaction contemplated by this Agreement, the Indenture or the Offering Memorandum without the prior written consent of the Placement Agent.

17. Observation Rights.

The Issuer covenants and agrees to notify timely the Investment Manager of each meeting of the Board of Directors, to provide timely any materials distributed to the Board of Directors in connection with such meeting and to afford a representative of the Investment Manager the opportunity to be present at each such meeting, in person or by telephone at the option of the Investment Manager.

18. Notices.

Unless expressly provided otherwise herein, all notices, requests, demands and other communications required or permitted under this Agreement shall be in writing (including by telecopy) and shall be deemed to have been duly given, made and received when delivered against receipt or upon actual receipt of registered or certified mail, postage prepaid, return receipt requested, or, in the case of telecopy notice, when received in legible form, addressed as set forth below:

(a) If to the Issuer:

Saratoga Investment Corp. CLO 2013-1, Ltd
c/o Maples Finance Limited
PO Box 1093, Boundary Hall
Cricket Square
Grand Cayman KY1-1102
Cayman Islands
Telephone: (345) 945-7099
Telecopy: (345) 945-7100
Attention: Directors

with a copy to:

Maples and Calder
PO Box 309, Ugland House
Grand Cayman KY1-1104
Cayman Islands
Telephone: (345) 949-8066
Telecopy: (345) 949-8080
Attention: Directors

(b) If to the Investment Manager:

Saratoga Investment Corp.
535 Madison Avenue, 4th Floor
New York, New York 10022
Telecopy: (212) 884-6184
Attention: Thomas Inglesby

With a simultaneous copy to:

Saratoga Investment Advisors
Email: saratoga@saratogapartners.com

(c) If to the Trustee, the Collateral Administrator, the Custodian or the Securities Intermediary:

U.S. Bank National Association
214 North Tryon Street
26th Floor
Charlotte, North Carolina 28202
Telephone: (704) 335-4600
Telecopy: (704) 335-4678
Attention: CDO Trust Services—Saratoga Investment Corp. CLO 2013-1, Ltd.

(d) If to Moody's:

Moody's Investors Service
7 World Trade Center at 250 Greenwich Street
New York, New York 10007
Telephone: []
Telecopy: []
Attention: CLO Monitoring — Saratoga Investment Corp. CLO 2013-1, Ltd

(e) If to S&P:

Standard & Poor's
55 Water Street, 41st Floor
New York, New York 10041
Telephone: []
Telecopy: []
Attention: Asset-backed CDO Surveillance
With a copy by e-mail to: cdo_surveillance@standardandpoors.com

(f) If to Noteholders:

At their respective addresses set forth on the Register.

Any party may alter the address or telecopy number to which communications or copies are to be sent by giving notice of such change of address in conformity with the provisions of this Section 18 for the giving of notice.

19. Amendment to this Agreement.

(a) No provision of this Agreement may be amended, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of the amendment, waiver, discharge or termination is sought.

(b) This Agreement may not be modified or amended other than in writing by the parties hereto and (i) with the consent of the Noteholders or without such consent, in each case, that would be sufficient to meet the consent requirements (if any) for a modification or amendment made to the Indenture for substantially the same purpose as the proposed modification or amendment to this Agreement or for a purpose as to which the proposed modification or amendment to this Agreement is a necessary or incidental conforming change, (ii) with the consent of the External Investment Adviser to the extent that any Section of which it is a third party beneficiary is affected and (iii) with the receipt of Rating Agency Confirmation (or waiver thereof by any affected Classes) with respect to such modification or amendment.

20. Binding Nature of Agreement; Successors and Assigns.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns as provided herein.

21. Entire Agreement.

This Agreement contains the entire agreement and understanding among the parties hereto with respect to the subject matter hereof, and supersedes all prior and contemporaneous agreements, understandings, inducements and conditions, express or implied, oral or written, of any nature whatsoever with respect to the subject matter hereof. The express terms hereof control and supersede any course of performance and/or usage of the trade inconsistent with any of the terms hereof.

22. Conflict with the Indenture.

In the event that this Agreement requires any action to be taken with respect to any matter and the Indenture requires that a different action be taken with respect to such matter, and such actions are mutually exclusive, the provisions of the Indenture in respect thereof shall control.

23. Priority of Payments; Non-Recourse; Non-Petition.

The Investment Manager agrees that the payment of all amounts to which it is entitled, after the Closing Date, pursuant to this Agreement shall be subject to the Priority of Payments and shall be payable only to the extent funds are available in accordance with the Priority of Payments.

Notwithstanding any other provision of this Agreement and except as provided in the preceding paragraph, the liability of the Issuer to the Investment Manager hereunder is limited in recourse to the Collateral, and if the proceeds of the Collateral following the liquidation thereof, when applied in accordance with the Priority of Payments, are insufficient to meet the obligations of the Issuer hereunder in full, the Issuer shall have no further liability in respect of any such outstanding obligations, and such obligations and all claims of the Investment Manager or any other Person against the Issuer hereunder shall thereupon extinguish and not thereafter revive.

The Investment Manager accepts that the obligations of the Issuer hereunder are the corporate obligations of the Issuer and are not the obligations of any employee, shareholder, officer, director or administrator of the Issuer and no action may be taken against any such person in relation to the obligations of the Issuer hereunder.

Notwithstanding any other provision of this Agreement, the Investment Manager agrees not to institute against, or join any other Person in instituting against, either of the Co-Issuers any bankruptcy, reorganization, arrangement, insolvency, moratorium or liquidation proceedings, or other proceedings under Cayman Islands bankruptcy laws, United States federal or state bankruptcy laws, or similar laws of any jurisdiction until at least one year and one day or the then applicable, if longer, preference period plus one day after the payment in full of all amounts payable in respect of the Notes; provided, however, that nothing in this provision shall preclude, or be deemed to stop, the Investment Manager (A) from taking any action prior to the expiration of the aforementioned one year and one day period (or, if longer, the applicable preference period then in effect plus one day) in (x) any case or proceeding voluntarily filed or commenced by the Issuer or the Co-Issuer, as the case may be, or (y) any involuntary insolvency proceeding filed or commenced against the Issuer or the Co-Issuer, as the case may be, by a Person other than the Investment Manager, the External Investment Adviser or any of their respective Affiliates, or (B) from commencing against the Issuer or the Co-Issuer or any properties of the Issuer or the Co-Issuer any legal action which is not a bankruptcy, reorganization, arrangement, insolvency, moratorium, liquidation or similar proceeding.

Each of the Investment Manager and Issuer hereby consents to the assignment of this Agreement as provided in Section 15.1 of the Indenture.

The Issuer hereby acknowledges and agrees that the Investment Manager's obligations hereunder shall be solely the corporate obligations of the Investment Manager, and the Issuer shall not have any recourse hereunder to the External Investment Adviser or any other Investment Manager Affiliates with respect to any claims, losses, damages, liabilities, indemnities or other obligations hereunder.

The provisions of this Section 23 shall survive termination of this Agreement for any reason whatsoever.

24. Governing Law.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK (WITHOUT GIVING EFFECT TO THE CONFLICTS OF LAWS PRINCIPLES THEREOF OTHER THAN SECTIONS 5-1401 AND 5-1402 OF THE GENERAL OBLIGATION LAW OF THE STATE OF NEW YORK).

25. Indulgences Not Waivers.

Neither the failure nor any delay on the part of any party hereto to exercise any right, remedy, power or privilege under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy, power or privilege preclude any other or further exercise of the same or of any other right, remedy, power or privilege, nor shall any

waiver of any right, remedy, power or privilege with respect to any occurrence be construed as a waiver of such right, remedy, power or privilege with respect to any other occurrence. No waiver shall be effective unless it is in writing and is signed by the party asserted to have granted such waiver.

26. Titles Not to Affect Interpretation.

The titles of paragraphs and subparagraphs contained in this Agreement are for convenience only, and they neither form a part of this Agreement nor are they to be used in the construction or interpretation hereof.

27. Execution in Counterparts.

This Agreement may be executed in any number of counterparts by facsimile or other written form of communication, each of which shall be deemed to be an original as against any party whose signature appears thereon, and all of which shall together constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories.

28. Provisions Separable.

The provisions of this Agreement are independent of and separable from each other, and no provision shall be affected or rendered invalid or unenforceable by virtue of the fact that for any reason any other or others of them may be invalid or unenforceable in whole or in part.

29. Number and Gender.

Words used herein, regardless of the number and gender specifically used, will be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires.

30. Submission to Jurisdiction; Service of Process; Waiver of Jury Trial Right.

THE PARTIES HERETO HEREBY IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF ANY NEW YORK STATE OR FEDERAL COURT SITTING IN THE BOROUGH OF MANHATTAN IN THE CITY OF NEW YORK IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT, AND SUCH PARTIES HEREBY IRREVOCABLY AGREE THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH NEW YORK STATE OR FEDERAL COURT. THE PARTIES HERETO HEREBY IRREVOCABLY WAIVE, TO THE FULLEST EXTENT THAT THEY MAY LEGALLY DO SO, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING. THE PARTIES HERETO IRREVOCABLY CONSENT TO THE SERVICE OF ANY AND ALL PROCESS IN ANY ACTION OR PROCEEDING BY THE MAILING OR DELIVERY OF COPIES OF SUCH PROCESS TO EACH SUCH PARTY AT THE ADDRESS SPECIFIED IN SECTION 18. THE PARTIES HERETO AGREE THAT

A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. EACH OF THE PARTIES HERETO WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) RELATED DIRECTLY OR INDIRECTLY TO THIS AGREEMENT.

31. Certain Tax Matters.

(a) Notwithstanding anything to the contrary contained herein, the Investment Manager shall use commercially reasonable efforts to ensure that the Issuer does not acquire or own any asset, conduct any activity or take any action unless the acquisition or ownership of such asset, the conduct of such activity or the taking of such action, as the case may be, would not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. The requirements of this Section 31(a) shall be deemed to be satisfied if the requirements of Section 31(b) are satisfied, so long as the Investment Manager does not have actual knowledge that there has been a change in U.S. federal income tax law or the interpretation thereof that could cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes notwithstanding the satisfaction of such requirements.

(b) In furtherance and not in limitation of Section 31(a), notwithstanding anything to the contrary contained herein, the Investment Manager shall use commercially reasonable efforts to ensure that the Issuer complies with all of the provisions of the Tax Guidelines unless, with respect to a particular transaction, the Issuer, the Investment Manager and the Trustee have received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in the United States experienced in such matters, to the effect that the Issuer's contemplated activities will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes. The Tax Guidelines may be waived, amended, eliminated, modified or supplemented if the Issuer, the Investment Manager and the Trustee have received advice of Cadwalader, Wickersham & Taft LLP Pillsbury Winthrop Shaw Pittman LLP, or a written opinion of other tax counsel of nationally recognized standing in the United States experienced in such matters, to the effect that the Issuer's contemplated activities will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes.

32. Hedge Agreements.

Notwithstanding any provision herein, if any supplemental indenture permits the Issuer to enter into a Synthetic Security or other hedge, swap or derivative transaction, the Investment Manager shall not cause the Issuer to enter into a hedge agreement that would cause the Issuer to be considered a "commodity pool" as defined in Section 1a(10) of the Commodity Exchange Act, as amended unless (A) the Investment Manager would be the "commodity pool operator" and "commodity trading advisor" and (B) with respect to the Issuer as the commodity pool, the Investment Manager would be eligible for an exemption from registration as a commodity pool operator and commodity trading advisor and all conditions for obtaining the exemption have been satisfied.

33. Advisers Act Disclosure.

The Issuer acknowledges receipt of Part II of the External Investment Adviser's Form ADV, as required by Rule 204-3 under the Advisers Act, more than 48 hours prior to the date of execution of this Agreement. For so long as the External Investment Adviser's form of organization remains a limited partnership, the External Investment Adviser hereby undertakes to promptly notify the Issuer of any change in the identity of its general partner.

34. Third Party Beneficiaries.

The Investment Manager and the Issuer agree that the External Investment Adviser is an intended third party beneficiary of this Agreement and that the Trustee and the Subordinated Note Paying Agent are intended third party beneficiaries of Sections 16(b)(iii) and 16(b)(iv).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement (as a deed in the case of the Issuer) as of the date first written above.

SARATOGA INVESTMENT CORP., as
Investment Manager

By: _____
Name:
Title:

SARATOGA INVESTMENT CORP. CLO 2013-1, Ltd.

By: _____
Name:
Title:

Exhibit A

Tax Guidelines

The purpose of these investment guidelines is to help ensure that Saratoga Investment Corp. CLO 2013-1, Ltd. (the “Issuer”) (i) is either treated as an “investor” for U.S. federal income tax purposes or qualifies for the safe harbor contained in section 864(b)(2) of the U.S. Internal Revenue Code (the “Code”), (ii) is not treated as a dealer in stocks, securities or derivatives, as originating loans, as providing guarantees, or as providing insurance or reinsurance, and (iii) does not invest in assets that could cause it to be treated as engaged in a trade or business in the United States or otherwise subject to U.S. federal income tax on a net income basis. These guidelines should be read consistently with that purpose. References in these guidelines to the Issuer do not include any subsidiaries of the Issuer that are treated as corporations for U.S. federal income tax purposes (each, an “Issuer Subsidiary”).

Equity Interests.

1. The Issuer will only acquire interests that are treated as equity for U.S. federal income tax purposes in an entity that is:

(i) (A) treated as a corporation for U.S. federal income tax purposes, and (B) the equity interests in the corporation are not “United States real property interests” within the meaning of section 897(c)(1) of the Code (“USRPIs”), provided that stock will not be treated as a USRPI if the class of such stock is regularly traded on an established securities market and the Issuer holds no more than 5% of such class at any time, all within the meaning of section 897(c)(3) of the Code, and provided further that the Issuer may acquire equity interests in an Issuer Subsidiary that are USRPIs if the Issuer does not dispose of stock in the Issuer Subsidiary, and the Issuer Subsidiary does not make any distributions to the Issuer that give rise to capital gain, while equity interests in the Issuer Subsidiary remain USRPIs,

(ii) (A) treated as a partnership or disregarded entity for U.S. federal income tax purposes, (B) not engaged in a U.S. trade or business for U.S. federal income tax purposes, and (C) does not own any “United States real property interests” within the meaning of section 897(c)(1) of the Code, or

(iii) (A) treated as a grantor trust for U.S. federal income tax purposes, (B) all of the assets of which are treated as debt instruments for U.S. federal income tax purposes and would satisfy these guidelines if acquired directly by the Issuer, and (C) all of such assets are in registered form for U.S. federal income tax purposes.

Real Property Interests.

2. The Issuer will not acquire any interest in (i) real property located in the United States or the U.S. Virgin Islands or (ii) property (including any equity interest) that is treated as a “United States real property interest” within the meaning of section 897(c) of the Code, except as provided in paragraph 1(i)(A) above.

Non-Loan Private Debt Securities.

3. The Issuer will not acquire investments that are treated as debt instruments for U.S. federal income tax purposes at their initial offering unless (A) they are issued in a public offering or (B) with respect to any other securities that are not loans (“Non-Loan Private Debt Securities”), (1) they are purchased pursuant to an offering memorandum, private placement memorandum or other similar offering document, (2) the Issuer, and the manager on behalf of the Issuer, does not communicate directly or indirectly with the issuer, its employees, agents or affiliates (including, without limitation, to solicit, negotiate the terms of, or structure the security) other than customary due diligence communications that would be reasonably necessary for a secondary market investor to make a reasonably informed decision to purchase a security for its own account, (3) any comments on the terms of any such Non-Loan Private Debt Securities are made only to the placement agent or other similar person with respect to the Non-Loan Private Debt Securities, and (4)(x) the Issuer does not acquire 50% or more of any class of Non-Loan Private Debt Securities or (y) if the Issuer acquires 50% or more of any class of Non- Loan Private Debt Securities, (i) they are not the most senior class of securities being offered by the issuer, (ii) they do not constitute the “controlling class” and (iii) the Issuer’s investment in such Non-Loan Private Debt Securities represents not more than 20% of the aggregate principal balance of all classes of securities being concurrently offered by the related issuer in connection with the offering of such securities.

Special Restrictions Applicable to Loans.

4. The Issuer will acquire a loan only if (A) the loan is issued by an entity that is treated as a corporation for U.S. federal income tax purposes or (B) based upon advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, (1) the loan is issued by an entity that is not engaged in a trade or business in the United States for U.S. federal income tax purposes, (2) the loan is treated as indebtedness for U.S. federal income tax purposes, or (3) the acquisition, ownership, and disposition of the loan will not cause the Issuer to be engaged in a trade or business in the United States for U.S. federal income tax purposes.
5. The Issuer will acquire only loans which constitute loans of a type that bank and non-bank purchasers regularly purchase and commit to purchase in secondary market transactions.
6. Except with respect to Revolving Obligations and Delayed Drawdown Obligations described in paragraph 11, the Issuer will not acquire a loan prior to 48 hours after the later of (1) the date that the loan has been fully funded and the seller thereof has completed all of its obligations with respect to the loan and (2) the last date on which the loan was significantly modified within the meaning of U.S. Treasury regulations section 1.1001-3.
7. The Issuer will not, directly or indirectly, communicate, solicit, negotiate the terms of, or structure a loan other than customary due diligence communications that would be reasonably necessary for a secondary market investor to make a reasonably informed decision to purchase a loan for its own account.

8. The Issuer will not hold a loan, directly or indirectly, for or on behalf of, or as nominee for, any bank. Further, the Issuer will not use funds borrowed from a bank on a limited recourse or other basis to acquire an interest in a loan if the effect of such use of borrowed funds is to shift the economic benefits or burdens of ownership of an interest in such loan to such bank, it being understood that if a loan is treated as sold (including by participation or otherwise) by the Issuer to a bank for federal income tax purposes, such transaction shall not be considered to violate this restriction.
9. The Issuer will not have a contractual relationship with the obligor with respect to a loan until the Issuer actually closes the purchase of the loan subject to a commitment.
10. The Issuer will not be listed as an original lender. For avoidance of doubt, the Issuer will not be treated as an original lender if a loan is renegotiated in compliance with paragraph 17.
11. The Issuer will acquire an interest in a Revolving Obligation or Delayed Drawdown Obligation (each, an "Obligation"), or enter into a commitment to acquire any risks or benefits of such an interest, only if:

(a) (1) the Issuer, acting at arm's length, acquires the interest or is assigned the commitment at least 60 days after the later of (x) the original legal document closing of the Obligation and (y) the last date on which the Obligation was significantly modified within the meaning of U.S. Treasury regulations section 1.1001-3, or

(2) (x) the Issuer, acting at arm's length, acquires the interest from a person that is not an affiliate or is assigned the commitment from a person that is not an affiliate at least 48 hours after the date that is the later of (A) the original legal document closing of the Obligation and (B) the last date on which the Obligation was significantly modified within the meaning of U.S. Treasury regulations section 1.1001-3 and, in the case of a forward commitment, the condition of the obligor with respect to the Obligation and market conditions have not changed between the date of such commitment and the acquisition of such Obligation in a manner that would have a materially adverse effect on the value of the Obligation, and

(y) at the time of acquisition, (i) an associated term loan is made available for purchase by the Issuer only if the Issuer purchases the Obligation together with the associated term loan, and in connection with a sale of the Obligation, the Obligation is sold only together with the associated term loan, or

(ii) the cost of the Obligation to the Issuer reflects a discount or premium of at least 2% of the fair market value of the Obligation on the later of (A) the original closing of the Obligation and (B) the last date on which the Obligation was significantly modified within the meaning of U.S. Treasury regulations section 1.1001-3, or

(iii) at least one advance equal to the lesser of \$5 million or 10% of the maximum amount of the Obligation is outstanding, and

(b) all of the terms of any advance required to be made by the Issuer are fixed as of the date of the Issuer's acquisition (or determinable under a formula that is fixed as of such date), and such Obligation does not permit the Issuer to have any discretion as to whether to make advances thereunder, provided that the fact that certain advances under such Obligation may be made under optional bidding procedures will not disqualify the Obligation from this prohibition so long as the Issuer does not exercise any such option), and

(c) the Issuer does not acquire any interest in the Obligation that would cause the Issuer to own more than 25% of the commitment amount in respect of the Obligation, and

(d) on the date of acquisition, the aggregate funded and unfunded commitments under all Obligations with unfunded commitments do not constitute more than 10% of the aggregate principal balance of the Issuer's assets.

(e) As used herein:

(1) "Delayed Drawdown Obligation" means an investment that pursuant to its terms requires the Issuer to make one or more future advances to the obligor thereunder, but any such investment will be a Delayed Drawdown Obligation only until all commitments to make advances to the obligor expire or are terminated or reduced to zero; and

(2) "Revolving Obligation" means any investment (other than a Delayed Drawdown Obligation) that is a loan (including, without limitation, revolving loans, unfunded commitments under specific facilities and other similar loans and investments) that pursuant to its terms may require one or more future advances to be made to the obligor thereunder by the Issuer, but any such investment will be a Revolving Obligation only until all commitments to make advances to the obligor expire or are terminated or reduced to zero.

Modifications.

12. Except as permitted in paragraph 17, the Issuer will not consent to a modification of the terms of any investment unless it has received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, that the modification will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax on a net income basis.

Letters of Credit.

13. The Issuer will not participate in any letter of credit facility or synthetic letter of credit facility.

Portfolio Interest Exemption.

14. The Issuer will not acquire investments treated as indebtedness for U.S. federal income tax purposes if (A) the indebtedness provides for interest or other payments based on the income, cash flow, property, distributions, earnings, or similar amounts of the obligor, (B) the indebtedness is not in registered form for U.S. federal income tax purposes, (C) the Issuer owns 10% or more of the voting stock of the obligor (or 10% or more of the capital or profits interest if the obligor is a partnership) within the meaning of section 881(c)(3)(B) of the Code, or (D) the Issuer is a controlled foreign corporation related to the obligor within the meaning of section 881(c)(3)(C) of the Code, unless the obligor of such indebtedness is required to make “gross up” payments that ensure that the net amount actually received by the Issuer (free and clear of taxes, whether assessed against such obligor or the Issuer) will equal the full amount that the Issuer would have received had no such deduction or withholding been required.

Limitation on Acquisition of Real Estate Mortgages.

15. The Issuer will not acquire any investment if the investment constitutes a real estate mortgage (as defined for purposes of Code section 7701(i)), unless immediately following such acquisition, no more than 50% of the debt obligations (as determined for U.S. federal income tax purposes) held by the Issuer consist of real estate mortgages as determined for purposes of Code section 7701(i), except upon advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, that the acquisition of such investment will not cause the Issuer to be treated as a taxable mortgage pool for U.S. federal income tax purposes.

Restrictions on Acquisitions of Investment From or That Were Originated By the Manager or its Affiliates.

16. The Issuer will not acquire any investment with respect to which the manager or any affiliate thereof originated, or acted as underwriter or placement agent, or from the related issuer of which the manager or any affiliate thereof received any compensation (other than any compensation received in a person’s capacity as a borrower or acting on behalf of a borrower), unless an affiliate (and not the manager) originated or acted as underwriter or placement agent with respect to the investment or received the compensation from the issuer and (a) the affiliate is neither directly nor indirectly owned or controlled by the manager (and, for the avoidance of doubt, the fact that the manager and an affiliate are under common control shall not by itself deem the affiliate to be directly or indirectly controlled by the manager if no such direct or indirect control exists), (b) none of the affiliate’s officers, directors or employees is involved in the investment decisions of the manager, (c) the manager has the sole ability to designate and

purchase such investment and the affiliate has no role in the designation or purchase of such investment, (d) the manager does not have any information with respect to the investment that is not available to all potential investors, and any information provided to the manager (whether in written or oral form) by the affiliate is provided to all unrelated investors prior to their commitment to purchase, (e) there is no fee sharing in any form between the affiliate and the manager, whether with respect to this transaction or any other transaction, and the manager and its employees are not provided any incentives (monetary or otherwise) to purchase the particular investment as opposed to any other security, (f) the manager applies identical criteria to all securities and any decision to purchase such investment was made without any consideration of the role of the affiliate, and (g) with respect to loans, the Issuer does not acquire 50% or more of any class of the investment, and at least 50% of the investment is acquired by persons not affiliated with the Issuer or the manager (and that have not given discretionary trading authority to the manager) on substantially the same terms and conditions as those of the Issuer.

Distressed Securities.

17. The Issuer will not acquire an investment with the expectation of restructuring or “working out” the investment. If at the time of acquisition an investment was performing and there was no reasonable expectation that the investment would likely default, and the investment subsequently defaults or default is reasonably expected, the Issuer may renegotiate the terms of the investment with the debtor or other creditors and may participate on a creditor’s committee with respect to the investment to protect its investment but may not advance any additional funds (other than in compliance with the other provisions in these guidelines). In all other cases, neither the Issuer nor any affiliate thereof will negotiate with a debtor or other creditors or participate on a creditors’ committee without the Issuer having received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, that such activity will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax on a net income basis.

Restrictions on “When Issued” Commitments to Purchase.

18. The Issuer will not acquire, or enter into a commitment, forward sale agreement, or arrangement or understanding to purchase a security (collectively, a “commitment”), before completion of the initial closing and full funding of the security unless (i) the security is an Obligation described in paragraph 11, (ii) in case of an investment that is not a loan, such commitment is made only in connection with a firm commitment underwriting, a reasonable best efforts underwriting, or customary underwriter or placement agent allocation (i.e., “circling procedures”) and only after the seller has committed to acquire the investment, or (iii) the condition of the issuer, the investment, and market conditions have not changed between the date of the commitment and the date of the purchase in a manner that would have a materially adverse effect on the Issuer.

Restrictions on Acquisitions of Synthetic Securities.

19. The Issuer will not acquire or enter into any credit default swap, total return swap or other derivative instrument.

Trading and Not Dealing In Securities.

20. The Issuer will buy, sell and hold securities only for its own account and will not buy, sell or hold securities for or on behalf of, or as nominee for any person other than the Issuer. The Issuer will buy and hold its securities solely for investment with the expectation of realizing a profit (either with respect to a single security or a combination of securities) from income earned on the securities and/or any rise in their value during the interval of time between purchase and sale. The Issuer will buy and sell securities only through a broker-dealer or a financial institution.
21. The Issuer will not act, hold itself out, or perform services as a middleman, or as a retailer or wholesaler of any security, for any person. The Issuer will not buy securities to subdivide them and sell the components or buy securities and sell them with different securities as a package or unit. The Issuer will not make a market in any security. The Issuer will not have or seek customers for its securities. The Issuer will not be regulated as a broker or a dealer in any jurisdiction, and the Issuer will not apply for a license to operate as a broker or a dealer in any jurisdiction. The Issuer will not hold itself out as a broker or a dealer or in any other manner as ready to enter into (and will not enter into) trades or other transactions (including purchases or sales of securities or other property) at the request of, as the agent of, for or on behalf of, or otherwise for the benefit of another person.
22. The Issuer will not engage in any activities which entitle it to any fee, commission, spread, markup or servicing income, other than a commitment fee, a fee for consenting to a modification of an investment or a fee that would be included in the "stated redemption price at maturity" (within the meaning of section 1273(a)(2) of the Code) of the investment.
23. The Issuer will not hold itself out as being willing to enter into either side of, or to offer to enter into, assume, offset, assign or otherwise terminate positions in (x) interest rate, currency, equity, or commodity swaps, or caps or (y) derivative financial instruments (including options, forward contracts, short positions, and similar instruments) in any commodity, currency, share of stock, partnership or trust, note, bond, debenture or other evidence of indebtedness, swap or cap.

Not a Regulated Entity.

24. The Issuer will not register as or become subject to regulatory supervision or other legal requirements under the laws of any country or political subdivision thereof as a bank, insurance company or finance company. The Issuer will not be treated as a bank, insurance company or finance company for purposes of (i) any tax, securities law or other filing or submission made to any governmental authority, (ii) any application made to a rating agency or (iii) qualification for any exemption from tax, securities law or any other legal requirements.

25. The Issuer will not hold itself out to the public as a bank, insurance company or finance company. The Issuer will not hold itself out to the public, through advertising or otherwise, as originating loans, lending funds, or making a market in loans or other assets.

Not a “Surrogate Foreign Corporation” or an “Inverted Corporation”.

26. The Issuer will not, directly or indirectly, acquire (i) 70% (or such other percentage as shall be established pursuant to regulations issued under section 7874 of the Code) or more of the properties held, directly or indirectly, by a corporation that is organized under the laws of the United States or any state thereof or (ii) 70% (or such other percentage as shall be established pursuant to regulations issued under section 7874 of the Code) or more of the properties constituting a trade or business of a partnership that is organized under the laws of the United States or any state thereof unless, based on the advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, the acquisition will not cause the Issuer to be (i) a surrogate foreign corporation or (ii) an inverted corporation within the meaning of section 7874 of the Code.

Notwithstanding the criteria set forth above, an investment shall be eligible for acquisition, or the Issuer may engage in any activity if the Issuer has received advice of Cadwalader, Wickersham & Taft LLP or Pillsbury Winthrop Shaw Pittman LLP, or an opinion of other nationally recognized U.S. tax counsel experienced in such matters, that the acquisition, ownership or disposition of the investment, or such activity will not cause the Issuer to be treated as engaged in a trade or business within the United States for U.S. federal income tax purposes or otherwise subject to U.S. federal income tax on a net income basis.

December 5, 2014

Saratoga Investment Corp.
535 Madison Avenue
New York, New York 10022

Re: Saratoga Investment Corp.
Registration Statement on Form N-2

Ladies and Gentlemen:

We have acted as counsel to Saratoga Investment Corp., a Maryland corporation (the "**Company**"), in connection with the preparation and filing by the Company with the Securities and Exchange Commission (the "**Commission**") of a registration statement on Form N-2 on June 4, 2014 (as amended from time to time, the "**Registration Statement**") under the Securities Act of 1933, as amended (the "**Securities Act**"), with respect to the offer, issuance and sale from time to time pursuant to Rule 415 under the Securities Act of up to \$50,000,000 in aggregate offering amount of (i) shares ("**Common Shares**") of the Company's common stock, par value \$0.001 per share (the "**Common Stock**"), (ii) shares of preferred stock of the Company ("**Preferred Shares**"), (iii) subscription rights to purchase Common Shares ("**Rights**"), (iv) debt securities ("**Debt Securities**"), and (v) warrants representing rights to purchase Common Shares, Preferred Shares or Debt Securities ("**Warrants**" and together with the Common Shares, the Preferred Shares, the Rights and the Debt Securities, the "**Securities**"). The Registration Statement provides that the Securities may be issued from time to time in amounts, at prices, and on terms to be set forth in one or more supplements (each, a "**Prospectus Supplement**") to the final prospectus included in the Registration Statement at the time it becomes effective (the "**Prospectus**").

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined the originals or copies, certified or otherwise identified to our satisfaction as being true copies, of such records, documents or other instruments as we in our judgment have deemed to be necessary or appropriate to enable us to render the opinions hereinafter expressed including, without limitation, the following:

- (i) The Articles of Incorporation of the Company, as amended by the Articles of Amendment thereto, certified as of the date hereof by an officer of the Company (the "**Charter**");
- (ii) The Amended and Restated Bylaws of the Company, certified as of the date hereof by an officer of the Company (the "**Bylaws**");
- (iii) A form of indenture pertaining to the Debt Securities, to be entered into by and between the Company and the trustee named therein (the "**Trustee**"), in the form filed as an exhibit to the Registration Statement (the "**Indenture**");
- (iv) A Certificate of Good Standing with respect to the Company issued by the State Department of Assessments and Taxation of the State of Maryland as of a recent date (the "**Certificate of Good Standing**"); and
- (v) The resolutions of the board of directors of the Company (the "**Board**") relating to, among other things, (a) the authorization and approval of the preparation and filing of the Registration Statement, and (b) the authorization of the issuance, offer and sale of the Securities pursuant to the Registration Statement, certified as of the date hereof by an officer of the Company (collectively, the "**Resolutions**").

With respect to such examination and our opinion expressed herein, we have assumed, without any independent investigation or verification, (i) the genuineness of all signatures on all documents submitted to us for

examination, (ii) the legal capacity of all natural persons, (iii) the authenticity of all documents submitted to us as originals, (iv) the conformity to original documents of all documents submitted to us as conformed or reproduced copies and the authenticity of the originals of such copied documents, and (v) that all certificates issued by public officials have been properly issued. We also have assumed without independent investigation or verification the accuracy and completeness of all corporate records made available to us by the Company.

As to certain matters of fact relevant to the opinions in this opinion letter, we have relied upon certificates of public officials (which we have assumed remain accurate as of the date of this opinion), upon certificates and/or representations of officers and employees of the Company, upon such other certificates as we deemed appropriate, and upon such other data as we have deemed to be appropriate under the circumstances. We have not independently established the facts, or in the case of certificates of public officials, the other statements, so relied upon.

The opinions set forth below are limited to the effect of the Maryland General Corporation Law (the “**MGCL**”) and the laws of the State of New York that are applicable to the Securities, in each case as in effect on the date hereof, and we express no opinion as to the applicability or effect of any other laws of such jurisdictions or the laws of any other jurisdictions. Without limiting the preceding sentence, we express no opinion as to (i) any federal or state securities or broker-dealer laws or regulations thereunder relating to the offer, issuance and sale of the Securities pursuant to the Registration Statement, (ii) enforceability to the extent it may be limited by (a) bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance and other similar laws affecting the rights and remedies of creditors generally and (b) general principles of equity (including without limitation the availability of specific performance or injunctive relief and the application of concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding at law or in equity, and (iii) enforcement of rights to indemnity and contribution to the extent it may be limited by federal or state securities laws or principles of public policy.

On the basis of and subject to the foregoing, and in reliance thereon, and subject to the limitations and qualifications set forth in this opinion letter, and assuming that (i) Articles Supplementary classifying and designating the number of shares and the terms of any class or series of Preferred Shares to be issued by the Company (the “**Articles Supplementary**”) have been duly authorized and determined or otherwise established by proper action of the Board or a duly authorized committee thereof in accordance with the Company’s Charter and Bylaws and have been filed with and accepted for record by the State Department of Assessments and Taxation of the State of Maryland prior to the issuance of any such Preferred Shares, and such Articles Supplementary comply with the applicable requirements with respect thereto under the MGCL and the Company’s Charter and Bylaws, (ii) each of the Indenture and a supplemental indenture containing the specific terms and conditions of the Debt Securities to be issued (a “**Supplemental Indenture**”) have been duly authorized, executed and delivered by each of the Company and the Trustee in accordance with the terms of the Indenture, (iii) such Supplemental Indenture constitutes a valid and legally binding obligation of each of the Company and the Trustee, (iv) a Warrant Agreement (the “**Warrant Agreement**”) pertaining to the Warrants, including any amendments or supplements thereto, has been duly authorized, executed and delivered by each of the Company and the warrant agent named therein (the “**Warrant Agent**”) in accordance with the terms of the Warrant Agreement, (v) the Warrant Agreement constitutes a valid and legally binding obligation of each of the Company and the Warrant Agent, (vi) the issuance, offer and sale of the Securities from time to time and the final terms of such issuance, offer and sale, including those relating to price and amount of the Securities to be issued, offered and sold, have been duly authorized and determined or otherwise established by proper action of the Board or a duly authorized committee thereof in accordance with the Company’s Charter, Articles Supplementary, if applicable, the Indenture, if applicable, the Warrant Agreement, if applicable, and the Company’s Bylaws, and are consistent with the terms and conditions for such issuance, offer and sale set forth in the Resolutions and the descriptions thereof in the Registration Statement, the Prospectus and the applicable Prospectus Supplement (such authorization or action being hereinafter referred to as the “**Corporate Proceedings**”), (vii) the terms of the Debt Securities and the Warrants as established and the issuance thereof comply with the requirements of the Investment Company Act of 1940, as amended, (viii) the Debt Securities have been duly executed by the Company and authenticated by the Trustee in accordance with the Indenture, as modified by such Supplemental Indenture, and delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (ix) any Common Shares, Preferred Shares or Warrants issued and sold pursuant to the Registration Statement, including upon the exercise of any Securities convertible into or exercisable for Common Shares or Preferred Shares, have been delivered to, and the agreed consideration has been fully paid at the time of such delivery by, the purchasers thereof, (x) upon the issuance of any Common Shares or Preferred

Shares pursuant to the Registration Statement, including upon the exercise of any Securities convertible into or exercisable for Common Shares or Preferred Shares, the total number of Common Shares or Preferred Shares, as applicable, issued and outstanding does not exceed the total number of Common Shares or Preferred Shares, as applicable, that the Company is then authorized to issue under the Charter; and (xi) the Certificate of Good Standing remains accurate, the Resolutions and the applicable Corporate Proceedings remain in effect, without amendment, and the Registration Statement has become effective under the Securities Act and remains effective at the time of the issuance, offer and/or sale of the Securities, we are of the opinion that:

1. Upon completion of all Corporate Proceedings relating thereto, the issuance of the Common Shares will be duly authorized and, when issued and paid for in accordance with the Registration Statement, the Prospectus, the applicable Prospectus Supplement, the Resolutions and all Corporate Proceedings relating thereto, the Common Shares will be validly issued, fully paid and nonassessable.
2. Upon completion of all Corporate Proceedings relating thereto, the issuance of the Preferred Shares will be duly authorized and, when issued and paid for in accordance with the Registration Statement, the Prospectus, the applicable Prospectus Supplement, the Resolutions and all Corporate Proceedings relating thereto, the Preferred Shares will be validly issued, fully paid and nonassessable.
3. Upon completion of all Corporate Proceedings relating thereto, the issuance of the Rights will be duly authorized.
4. Upon completion of all Corporate Proceedings relating thereto, the Debt Securities will, when issued, constitute valid and legally binding obligations of the Company.
5. Upon completion of all Corporate Proceedings relating thereto, the Warrants will, when issued, constitute valid and legally binding obligations of the Company.

The opinions expressed in this opinion letter (i) are strictly limited to the matters stated in this opinion letter, and without limiting the foregoing, no other opinions are to be implied and (ii) are only as of the date of this opinion letter, and we are under no obligation, and do not undertake, to advise the addressee of this opinion letter or any other person or entity either of any change of law or fact that occurs, or of any fact that comes to our attention, after the date of this opinion letter, even though such change or such fact may affect the legal analysis or a legal conclusion in this opinion letter.

We hereby consent to the filing of this opinion letter as an exhibit to the Registration Statement and to the reference to our firm in the "Legal Matters" section in the Registration Statement. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Respectfully submitted,

/s/ SUTHERLAND ASBILL & BRENNAN LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the reference to our firm under the captions “Selected Financial and Other Data”, “Senior Securities” and “Independent Registered Public Accounting Firm” within the Registration Statement and related Prospectus of Saratoga Investment Corp. (Pre-Effective Amendment No. 1 to the Registration Statement Form N-2 No. 333-196526) and to the use of our reports dated May 27, 2014 relating to Saratoga Investment Corp.’s consolidated financial statements and Saratoga Investment Corp. CLO 2013-1, Ltd.’s financial statements as of February 28, 2014 and June 4, 2014 relating to Saratoga Investment Corp’s senior securities table as of February 28, 2014, within the Pre-Effective Amendment No. 1 to the Registration Statement Form N-2 No. 333-196526.

/s/ Ernst & Young LLP

New York, New York
December 5, 2014

Saratoga Investment Corp.
Computation of Ratios of Earnings to Fixed Charges

	<u>For the Six Months Ended August 31, 2014</u>	<u>For the Year Ended February 28, 2014</u>	<u>For the Year Ended February 28, 2013</u>	<u>For the Year Ended February 29, 2012</u>	<u>For the Year Ended February 28, 2011</u>	<u>For the Year Ended February 28, 2010</u>
Earnings:						
Net increase (decrease) in net assets resulting from operations	\$ 4,893,802	\$ 8,744,367	\$ 14,601,917	\$ 13,275,143	\$ 16,958,241	\$ (10,462,560)
Income tax expense, including excise tax	—	—	—	—	—	27,445
Total earnings before taxes	\$ 4,893,802	\$ 8,744,367	\$ 14,601,917	\$ 13,275,143	\$ 16,958,241	\$ (10,435,115)
Fixed Charges:						
Interest Expense	\$ 3,597,103	\$ 6,083,891	\$ 2,540,413	\$ 1,297,985	\$ 2,611,839	\$ 4,096,041
Total fixed charges	\$ 3,597,103	\$ 6,083,891	\$ 2,540,413	\$ 1,297,985	\$ 2,611,839	\$ 4,096,041
Earnings available to cover fixed charges	\$ 8,490,905	\$ 14,828,258	\$ 17,142,330	\$ 14,573,128	\$ 19,570,080	\$ (6,339,074)
Ratio of earnings to fixed charges	2.4	2.4	6.7	11.2	7.5	(1.5)

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN
CONJUNCTION WITH FUTURE COMMON STOCK OFFERINGS] (1)

SUBJECT TO COMPLETION, DATED _____, 20__

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated _____, 20__)

Shares

Saratoga Investment Corp.

Common Stock

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are offering for sale _____ shares of our common stock. We have granted the underwriter a []-day option to purchase additional shares of our common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments.

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “SAR.” On _____, 20__, the last reported sales price on the NYSE for our common stock was \$ _____ per share. Our net asset value per share of our common stock as of _____ was \$ _____.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our common stock and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our common stock. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page [] of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$ _____	\$ _____
Sales Load (Underwriting Discounts and Commissions)	\$ _____	\$ _____
Proceeds to the Company (before expenses)	\$ _____	\$ _____

The underwriters expect to deliver the shares on or about _____, 20__.

- (1) In addition to the sections outlined in this form of prospectus supplement, each prospectus supplement actually used in connection with an offering conducted pursuant to the registration statement to which this form of prospectus supplement is attached will be updated to include such other information as may then be required to be disclosed therein pursuant to applicable law or regulation as in effect as of the date of each such prospectus supplement, including, without limitation, information particular to the terms of each security offered thereby and any related risk factors or tax considerations pertaining thereto. This form of prospectus supplement is intended only to provide a rough approximation of the nature and type of disclosure that may appear in any actual prospectus supplement used for the purposes of offering securities pursuant to the registration statement to which this form of prospectus supplement is attached, and is not intended to and does not contain all of the information that would appear in any such actual prospectus supplement, and should not be used or relied upon in connection with any offer or sale of securities.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
About this Prospectus Supplement	S-1
Summary	S-2
The Offering	S-11
Fees and Expenses	S-15
Cautionary Statement Regarding Forward-Looking Statements	S-17
Capitalization	S-18
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-19
Use of Proceeds	S-20
Underwriting	S-21
Legal Matters	S-24
Independent Registered Public Accounting Firm	S-25
Available Information	S-26
Index to Financial Statements	S-27

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	
Description of Our Capital Stock	131
Description of Our Subscription Rights	137
Description of Our Debt Securities	139
Description of Our Warrants	153
Plan of Distribution	155
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information” and “Risk Factors” included in this prospectus supplement and in the accompanying prospectus, respectively, before investing in our common stock.

Neither we nor the underwriters have authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

SUMMARY

The following summary contains basic information about the offering of shares of our common stock pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering of shares of our common stock pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in the accompanying prospectus.

Except where the context requires otherwise, the terms “we,” “us,” “our,” the “Company,” or “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters’ option to purchase additional shares.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of _____, we had total assets of _____ and investments in _____ portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of _____ as of _____. The overall portfolio composition as of _____ consisted of _____% of middle market loans, _____% of first lien term loans, _____% of second lien term loans, _____% of senior secured notes, _____% of unsecured notes, _____% of subordinated notes of Saratoga CLO and _____% of common equity. As of _____, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately _____. As of _____, approximately _____% of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at _____,

, was composed of \$ in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with , , and years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a -year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of _____, _____ % of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, _____ % of our debt investments at _____ had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors' investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser's investment process generally includes the following steps:

- **Initial screening.** A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed
- **Comprehensive analysis.** A comprehensive analysis includes:
- **Business and Industry analysis**—a review of the company's business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
- **Company analysis**—a review of the company's historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
- **Structural/security analysis**—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- **Approval of the investment committee.** The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company's ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our common stock, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our common stock involves other risks, including those discussed under the caption “Risk Factors” beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in shares of our common stock. Some of these risks include:

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.
- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.

- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.
- Our ability to enter into transactions with our affiliates is restricted.

- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.

- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.

[Insert other Risk Factors specific to common stock]

THE OFFERING

Common stock offered by us	shares (excluding shares issuable upon exercise of the underwriter's over-allotment option)
Common stock outstanding prior to this offering	shares
Common stock to be outstanding after this offering	shares (excluding shares issuable upon exercise of the underwriter's over-allotment option)
Use of proceeds	<p>If we sell shares of our common stock with an aggregate offering price of \$ million, we anticipate that our net proceeds, after deducting sales agent commissions and estimated expenses payable by us, will be approximately \$ million. We intend to use substantially all of the net proceeds from the sale of our common stock to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See "Use of Proceeds."</p>
Distributions	<p>Our distributions, if any, will be determined by our board of directors and paid out of assets legally available for distribution. Any such distributions generally will be taxable to our stockholders, including to those stockholders who receive additional shares of our common stock pursuant to our dividend reinvestment plan. Prior to January 2009, we paid quarterly dividends to our stockholders. However, in January 2009, we suspended the practice of paying quarterly dividends to our stockholders and only paid five dividend distributions (December 2013, 2012, 2011, 2010 and 2009) to our stockholders through December 2013, which distributions were made with a combination of cash and the issuance of shares of our common stock. On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash dividend to our shareholders. In this regard, our board of directors declared a dividend in the amount of \$0.18 per share for the fiscal quarter ended August 31, 2014, and a dividend in the amount of \$0.22 per share for the fiscal quarter ended November 30, 2014. The dividend for the fiscal quarter ended August 31, 2014 will be payable on November 28, 2014 to all stockholders of record at the close of business on November 3, 2014, and the dividend for the fiscal quarter ended November 30, 2014 will be payable on February 27, 2015 to all stockholders of record at the close of business on February 2, 2015.</p>
Taxation	<p>We elected to be treated for federal income tax purposes as a RIC under Subchapter M of the Code. Accordingly, we generally will not pay corporate-level federal income taxes on any net ordinary income or realized net capital gains that we distribute to our stockholders as dividends. To maintain our RIC tax treatment, we must meet specified source-of- income and asset diversification requirements and distribute annually at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income. Any such carryover taxable income must be distributed through a dividend declared prior to filing the final tax return related to the year which generated such taxable income. See "Material U.S. Federal Income Tax Considerations."</p>

New York Stock Exchange symbol

Dividend reinvestment plan

Investment Advisory and Management Agreement

“SAR”

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a dividend, then stockholders’ cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash dividends.

Saratoga Investment Advisors serves as our investment adviser. Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment advisor in July 2010. Subject to the overall supervision of our board of directors, Saratoga Investment Advisors manages our day-to-day operations and provides investment advisory and management services to us. Under the terms of an investment advisory and management agreement, Saratoga Investment Advisors:

- determines the composition of our portfolio, the nature and timing of the changes to our portfolio and the manner of implementing such changes;
- identifies, evaluates and negotiates the structure of the investments we make (including performing due diligence on our prospective portfolio companies);
- closes and monitors the investments we make; and
- determines the securities and other assets that we purchase, retain or sell.

Pursuant to the investment advisory and management agreement with Saratoga Investment Advisors, we pay Saratoga Investment Advisors a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee.

The base management fee is paid quarterly in arrears, and equals 1.75% per annum of our gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) and calculated at the end of each fiscal quarter based on the average value of our gross assets (other than cash or cash equivalents but including assets purchased with borrowed funds) as of the end of such fiscal quarter and the end of the immediate prior fiscal quarter. Base management fees for any partial month or quarter are appropriately pro-rated.

The incentive fee has the following two parts:

The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding fiscal quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock or debt security, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments with a deferred interest feature (such as market discount, debt instruments with payment-in-kind interest, preferred stock with payment-in-kind dividends and zero coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets (defined as total assets less liabilities) at the end of the immediately preceding fiscal quarter, is compared to a “hurdle rate” of 1.875% per quarter (7.5% annualized), subject to a “catch up” provision. The base management fee is calculated prior to giving effect to the payment of any incentive fees.

We pay Saratoga Investment Advisors an incentive fee with respect to our pre-incentive fee net investment income in each fiscal quarter as follows: (A) no incentive fee in any fiscal quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (B) 100.0% of our pre-incentive fee net investment income with respect to that portion of such 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) is payable to Saratoga Investment Advisors; and (C) 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized). We refer to the amount specified in clause (B) as the “catch-up.” The “catch-up” provision is intended to provide Saratoga Investment Advisors with an incentive fee of 20.0% on all of our pre-incentive fee net investment income as if a

hurdle rate did not apply when our pre-incentive fee net investment income exceeds 2.344% in any fiscal quarter. Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, Saratoga Investment Advisors was only entitled to 20.0% of the amount of our pre-incentive fee net investment income, if any, that exceeded 1.875% in any fiscal quarter (7.5% annualized) without any catch-up provision. These calculations are appropriately pro-rated when such calculations are applicable for any period of less than three months. See "Management Agreements".

Administration Agreement

Pursuant to a separate administration agreement, Saratoga Investment Advisors, who also serves as our administrator, furnishes us with office facilities, equipment and clerical, book-keeping and record keeping services. Under the administration agreement, our administrator also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain, preparing reports for our stockholders and reports required to be filed with the SEC. In addition, our administrator assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Payments under the administration agreement equal an amount based upon our allocable portion of our administrator's overhead in performing its obligations under the administration agreement, including rent and our allocable portion of the cost of our officers and their respective staffs relating to the performance of services under this agreement (including travel expenses). Our allocable portion is based on the proportion that our total assets bears to the total assets administered or managed by our administrator. Under the administration agreement, our administrator also provides managerial assistance, on our behalf, to those portfolio companies who accept our offer of assistance. The administration agreement may be terminated by either party without penalty upon 60 days written notice to the other party. The amount payable by us under the administration agreement is currently capped at \$1.0 million for each annual term of the agreement. On July 15, 2013, our board of directors approved the renewal of the administration agreement for an additional one-year term and determined to maintain the cap on the payment or reimbursement of expenses by us thereunder to \$1.0 million for the additional one-year term. See "Management Agreements".

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by “us” or “Saratoga,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Saratoga.

Stockholder transaction expenses (as a percentage of offering price):	
Sales load paid	%(1)
Offering expenses borne by us	%(2)
Dividend reinvestment plan expenses	None(3)
Total stockholder transaction expenses (as a percentage of offering price)	%
Annual expenses (as a percentage of average net assets attributable to common stock):	
Management fees	%(4)
Incentive fees payable under the investment advisory and management agreement	%(5)
Interest payments on borrowed funds	%(6)
Other expenses (estimated)	%(7)
Total annual expenses (estimated)	%(8)

EXAMPLE

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we assumed we would maintain the current amount of leverage, that our operating expenses would remain at the levels set forth in the table above, that we pay the transaction expenses set forth in the table above, including a sales load of % paid by you (the commission to be paid by us with respect to common stock sold by us in this offering).

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$	\$	\$	\$

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. Moreover, while the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5% annual return, would either not be payable or have a de minimis effect, is not included in the example. If we achieve sufficient returns on our investments to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See “Dividend Reinvestment Plan” in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

- (1) Represents the commission with respect to the shares of our common stock being sold in this offering.
- (2) The offering expenses of this offering are estimated to be approximately \$.
- (3) The expenses of the dividend reinvestment plan are included in “other expenses.” The participants in the dividend reinvestment plan will pay a pro rata share of brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see “Dividend Reinvestment Plan.”
- (4) Assumes gross assets of \$ million and \$ million of leverage, and assumes net assets of \$ million. Our base management fee under the investment advisory and management agreement with Saratoga Investment Advisors is based on our gross assets, which is defined as all of our assets, including those acquired using borrowings for investment purposes, but excluding cash and cash equivalents. See “Investment Advisory and Management Agreement.”

- (5) Assumes that annual incentive fees earned by Saratoga Investment Advisors remain consistent with the incentive fees earned by Saratoga Investment Advisors during the period ended . Incentive fees would increase if, and to the extent that, we earn greater interest income through our investments in portfolio companies and realize additional capital gains upon the sale of warrants or other equity investments in such companies. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our “pre-incentive fee net investment income” for the immediately preceding quarter, subject to a preferred return, or “hurdle,” and a “catch up” feature. For this purpose, “pre-incentive fee net investment income” means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued by us during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee).

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 investment advisory and management agreement) and equals 20% 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. Under the investment advisory and management agreement, 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 Saratoga Investment Advisors will be entitled to 20% of incentive fee capital gains that arise after May 31, 2010. In addition, 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. We estimate this as zero for purposes of this table as these fees are hard to predict, as they are based on capital gains and losses. See “Investment Advisory and Management Agreement.”

- (6) Assumes that we maintain our current level of \$ million of outstanding borrowings as of . Interest payments on borrowed funds represents our annualized interest expense based on the months ended . For the months ended , the effective annualized average interest rate, which includes all interest and related costs, was %. We may also issue preferred stock, which may be considered a form of leverage. While we have no present intent to do so, in the event we were to issue preferred stock, our borrowing costs, and correspondingly our total annual expenses, including our base management fee as a percentage of our net assets, would increase.
- (7) Assumes that the amount of our operating expenses remains consistent with the operating expenses incurred by us during the months ended . In addition, our “other expenses” include any fees and expenses, including underwriting discounts, associated with debt securities we expect to offer during the twelve months following the date of this prospectus supplement. These expenses are presented based on net assets attributable to common shares given that such expenses are borne directly or indirectly by our common shareholders.
- (8) The holders of shares of our common stock (and not the holders of our debt securities, if any) indirectly bear the cost associated with our annual expenses.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus 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;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- the risks, uncertainties and other factors we identify in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the respective dates of this prospectus supplement and the accompanying prospectus. However, we will update this prospectus supplement and the accompanying prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

CAPITALIZATION

The following table sets forth:

- the actual capitalization of Saratoga at _____, 20____; and
- the pro forma capitalization of Saratoga to reflect the sale of shares of our common stock in this offering at an assumed public offering price of \$_____ per share (the last reported closing price of our common stock on _____, 20____) after deducting the underwriting discounts and commissions of approximately \$_____ and estimated offering expenses of approximately \$_____ payable by us.

This table should be read in conjunction with “Use of Proceeds” included in this prospectus supplement and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and notes thereto included in the accompanying prospectus.

	As of _____, 20____	
	Actual (in thousands)	Pro Forma (1) (in thousands)
Assets:		
Cash and cash equivalents	\$ _____	\$ _____
Investments at fair value	\$ _____	\$ _____
Other assets	\$ _____	\$ _____
Total assets	\$ _____	\$ _____
Liabilities:		
Notes payable	\$ _____	\$ _____
Other Liabilities	\$ _____	\$ _____
Total Liabilities	\$ _____	\$ _____
Stockholders’ equity:		
Common stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, shares issued and outstanding, as adjusted, respectively		\$ _____
Capital in excess of par value		\$ _____
Total stockholders’ equity		\$ _____

- (1) We may change the size of this offering based on demand and market conditions. A \$0.50 increase (decrease) in the assumed offering price per share would increase (decrease) net proceeds to us from this offering by \$_____ million, assuming the number of shares offered by us as set forth on the cover page of this prospectus supplement remains the same, after deducting the underwriting discount and estimated expenses payable by us. Any additional proceeds to us resulting from an increase in the public offering price or the number of shares offered pursuant to this prospectus supplement will increase our cash and cash equivalents on an as adjusted basis and will be used as described in “Use of Proceeds.”

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

USE OF PROCEEDS

If we sell _____ shares of our common stock with an aggregate offering price of \$ _____ million (based on a public offering price of \$ _____, the last reported sales price of our common stock on the NYSE on _____), we anticipate that our net proceeds, after deducting underwriting discounts and commissions and estimated expenses payable by us, will be approximately \$ _____ million.

We intend to use the net proceeds from the sale of our common stock to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure— We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results” for additional information regarding this matter.

UNDERWRITING

is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Shares</u>
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the overallotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the shares to dealers at the public offering price less a concession not to exceed \$ _____ per share. The underwriting discount of \$ _____ per share is equal to _____ % of the initial offering price. If all of the shares are not sold at the initial offering price, the representative may change the public offering price and other selling terms. The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an additional _____ shares at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We, along with each of our directors and officers, have agreed that we will not, without the prior written consent of _____, on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge shares or securities convertible into or exchangeable for shares for a period of _____ days from the date of this prospectus supplement (the "Lock-up Period"), provided, however, that we may issue and sell shares pursuant to our dividend reinvestment plan. _____ in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Lock-up Period in the preceding paragraph will be extended if (i) during the last 17 days of the Lock-up Period we issue an earnings release or material news or a material event relating to Saratoga occurs or (ii) prior to the expiration of the Lock-up Period, we announce that we will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event.

Our shares are listed on the NYSE under the symbol "SAR."

The following table shows the underwriting discounts to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. This offering will conform with the requirements set forth in Financial Industry Regulatory Authority Rule 2310. The sum of all compensation to the underwriters in connection with this offering of shares, including the underwriting discount, will not exceed 10% of the total public offering price of the shares sold in this offering.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per Common Share	\$	\$
Total	\$	\$

Saratoga and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the shares. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the shares as a result of any market-making activities undertaken by any underwriter. This prospectus supplement is to be used by any underwriter in connection with the offering and, during the period in which a prospectus supplement must be delivered, with offers and sales of the shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, _____, on behalf of the underwriters, may purchase and sell shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short position involve either purchases of shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when _____ repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of shares. They may also cause the price of shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange, or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering, excluding the underwriting discounts, will be approximately \$ _____.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representative will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Certain underwriters may perform investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they receive customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

[Additional Underwriter Compensation

[to be provided as applicable]]

The principal business address of _____ is _____ .

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by _____.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of _____ and _____ and for each of the two years in the period ended included in the accompanying prospectus and this prospectus supplement have been so included in reliance on the report of Ernst & Young LLP, our independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

Saratoga Investment Corp.

Shares

Common Stock

PRELIMINARY PROSPECTUS SUPPLEMENT

, 20

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

**[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN
CONJUNCTION WITH FUTURE PREFERRED STOCK OFFERINGS] (1)**

SUBJECT TO COMPLETION, DATED _____, 20____

**PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated _____, 20____)**

Shares

Saratoga Investment Corp.

**Series [] Preferred Stock
Liquidation Preference \$ _____ Share**

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

All of the _____ shares of Series [] preferred stock, or the preferred stock, offered by this prospectus supplement are being sold by us. Each share of preferred stock has a liquidation preference of \$ _____ per share, and the share of preferred stock are subject to redemption at the option of the holder as described in this prospectus supplement. [We have applied to list the Series [] Preferred Stock on _____ [so that trading on the exchange will begin within days after the date of this prospectus supplement, subject to notice of issuance. Prior to the expected commencement of trading on _____, the underwriters do not intend to make a market in our preferred stock. Consequently, it is anticipated that, prior to the commencement of trading on _____, an investment in our preferred stock will be illiquid and holders thereof may not be able to sell such shares as it is unlikely that a secondary market for our preferred stock will develop. If a secondary market does develop prior to the commencement of trading on _____, holders of our preferred stock may be able to sell such shares only at substantial discounts from their liquidation preference.] The trading symbol for our preferred stock will be “_____”.]

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “SAR.” On _____, 20____, the last reported sales price on the NYSE for our common stock was \$ _____ per share. Our net asset value per share of our common stock as of _____ was \$ _____.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our preferred stock and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our preferred stock. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page S-14 of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$ _____	\$ _____
Sales Load (Underwriting Discounts and Commissions)	\$ _____	\$ _____

[In addition, the underwriters may purchase up to an additional _____ shares of preferred stock from us at the public offering price, less the underwriting discount, within _____ days of the date of this prospectus supplement to cover overallocments. If the underwriters exercise this option in full, the total public offering price will be \$ _____, the total underwriting discount (sales load) paid by us will be \$ _____, and total proceeds, before expenses, will be \$ _____.]

The underwriters expect to deliver the shares on or about _____, 20____.

Prospectus Supplement dated _____, 20____.

-
- (1) In addition to the sections outlined in this form of prospectus supplement, each prospectus supplement actually used in connection with an offering conducted pursuant to the registration statement to which this form of prospectus supplement is attached will be updated to include such other information as may then be required to be disclosed therein pursuant to applicable law or regulation as in effect as of the date of each such prospectus supplement, including, without limitation, information particular to the terms of each security offered thereby and any related risk factors or tax considerations pertaining thereto. This form of prospectus supplement is intended only to provide a rough approximation of the nature and type of disclosure that may appear in any actual prospectus supplement used for the purposes of offering securities pursuant to the registration statement to which this form of prospectus supplement is attached, and is not intended to and does not contain all of the information that would appear in any such actual prospectus supplement, and should not be used or relied upon in connection with any offer or sale of securities.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
About this Prospectus Supplement	S-1
Summary	S-2
The Offering	S-12
Risk Factors	S-14
Cautionary Statement Regarding Forward-Looking Statements	S-17
Capitalization	S-18
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-19
Use of Proceeds	S-20
Ratio of Earnings to Fixed Charges and Preferred Dividends	S-21
Description of the Preferred Stock	S-22
Underwriting	S-26
Legal Matters	S-29
Independent Registered Public Accounting Firm	S-30
Available Information	S-31
Index to Financial Statements	S-32

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	
Description of Our Capital Stock	131
Description of Our Subscription Rights	137
Description of Our Debt Securities	139
Description of Our Warrants	153
Plan of Distribution	155
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of preferred stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information” and “Risk Factors” included in this prospectus supplement and in the accompanying prospectus, respectively, before investing in our preferred stock.

Neither we nor the underwriters have authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

SUMMARY

The following summary contains basic information about the offering of shares of our preferred stock pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering of shares of our preferred stock pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the shares we are offering. You should carefully read the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in the accompanying prospectus.

Except where the context requires otherwise, the terms “we,” “us,” “our,” the “Company,” or “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters’ option to purchase additional shares.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of _____, we had total assets of _____ and investments in _____ portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of _____ as of _____. The overall portfolio composition as of _____ consisted of _____ % of middle market loans, _____ % of first lien term loans, _____ % of second lien term loans, _____ % of senior secured notes, _____ % of unsecured notes, _____ % of subordinated notes of Saratoga CLO and _____ % of common equity. As of _____, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately _____. As of _____, approximately _____ % of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at _____,

, was composed of \$ in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with , , and years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a -year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of _____, _____ % of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, _____ % of our debt investments at _____ had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors' investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser's investment process generally includes the following steps:

- Initial screening. A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed
- Comprehensive analysis. A comprehensive analysis includes:
 - Business and Industry analysis—a review of the company's business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
 - Company analysis—a review of the company's historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
 - Structural/security analysis—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- Approval of the investment committee. The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company's ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our stock, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our stock involves other risks, including those discussed under the caption “Risk Factors” beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in shares of our stock. Some of these risks include:

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.

- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.
- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.

- Our ability to enter into transactions with our affiliates is restricted.
- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.

- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.
- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.
- Prior to this offering, there has been no public market for our preferred stock, and we cannot assure you that the market price of our preferred stock will not decline following the offering.
- The preferred stock are unrated securities.
- The preferred stock will be subordinate to the rights of holders of senior indebtedness.
- An investment in term preferred stock with a fixed interest rate bears interest rate risk.
- There will be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop.
- The Series [] Term Preferred Shares will not be rated.
- The Series [] Term Preferred Shares will bear a risk of early redemption by us.

- Claims of holders of the Series [] Term Preferred Shares will be subject to a risk of subordination relative to holders of our debt instruments.
- We are subject to risks related to the general credit crisis and related liquidity risks.
- Holders of the Series [] Term Preferred Shares will bear reinvestment risk.
- Holders of Series [] Term Preferred Shares will bear dividend risk.
- There is a risk of delay in our redemption of the Series [] Term Preferred Shares, and we may fail to redeem such securities as required by their terms.

[Insert other risk factors applicable to the preferred stock.]

THE OFFERING

Shares of Series [] Preferred Stock offered by us	shares excluding shares of preferred stock issuable pursuant to the overallotment often granted to the Underwriters.			
Shares of Series [] Preferred Stock Outstanding after this Offering	shares excluding shares of preferred stock issuable pursuant to the overallotment often granted to the Underwriters.			
Use of proceeds	We intend to use the net proceeds from selling our securities for general corporate purposes, which includes investing in debt and equity securities, repayment of any outstanding indebtedness and other general corporate purposes. See "Use of Proceeds" in this prospectus supplement for more information.			
Dividend Rate	% per annum			
Dividend Payment Dates	on , , and or each year, commencing			
Record Dates	, , and			
[] symbol	" "			
Liquidation Preference	The liquidation preference of our preferred stock is \$ per share.			
Restrictions on Dividend, Redemption and Other Payments	No full dividends and distributions will be declared or paid on the preferred stock for any dividend period, or a part of a dividend period, unless the full cumulative dividends and distributions due through the most recent dividend payment dates for all outstanding shares of preferred stock have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each series of preferred stock. If full cumulative dividends and distributions due have not been paid on all outstanding preferred stock of any series, any dividends and distributions being declared and paid on preferred stock will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of preferred stock on the relevant dividend payment date. No holders of preferred stock will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Certificate of Designations.			
Optional Redemption	The preferred stock may be redeemed, in whole or in part, at any time after , at a redemption price per share equal to the applicable percentage set forth below multiplied by the sum of the liquidation preference per share plus accrued but unpaid dividends not previously added to the liquidation preference on such share.			
Redemption at the Option of the Holder	<table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Year</td> <td style="text-align: center;">Applicable Percentage</td> <td style="text-align: center;">%</td> </tr> </table> <p>On and after , , each holder of our preferred stock will have the right to require us to repurchase all or any part of such holder's preferred stock at a purchase price per share equal to % of the sum of the liquidation preference per share plus accrued but unpaid dividends. In</p>	Year	Applicable Percentage	%
Year	Applicable Percentage	%		

addition, each holder of our preferred stock will have the right to require us to repurchase all or any part of such holder's preferred stock at a purchase price per share equal to % of the sum of the liquidation preference per share plus accrued but unpaid dividends upon the occurrence of certain fundamental changes.

Voting Rights

Voting rights associated with the preferred stock are described under the heading "Description of Preferred Stock—Voting Rights."

Rating

The preferred stock is not rated.

Conversion

[Describe any applicable conversion provisions set forth in the Certificate of Designations.]

Exchange

[Describe any applicable exchange provisions set forth in the Certificate of Designations.]

Material U.S. Federal Income Tax Consequences

[Insert summary disclosure regarding federal income tax consequences of an investment in the preferred stock.]

An investment in term preferred stock with a fixed interest rate bears interest rate risk.

Term preferred stock pays dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to the Series [] Term Preferred Shares may increase, which would likely result in a decline in the secondary market price of the Series [] Term Preferred Shares prior to the term redemption date. For additional information concerning dividends on the Series [] Term Preferred Shares, see “Description of the Series [] Term Preferred Stock — Dividends and Dividend Periods.”

There will be no initial secondary trading market due to delayed listing, and even after listing a liquid secondary trading market may not develop.

Because we have no prior trading history for exchange-listed Preferred Stock, we cannot predict the trading patterns of the Series [] Term Preferred Shares, including the effective costs of trading the stock. During a period of up to days from the date of this prospectus supplement, the Series [] Term Preferred Shares will not be listed on any securities exchange. During this period, the underwriters do not intend to make a market in the Series [] Term Preferred Shares. Consequently, an investment in the Series [] Term Preferred Shares during this period will be illiquid, and holders of such shares may not be able to sell them during that period as it is unlikely that a secondary market for the Series [] Term Preferred Shares will develop. If a secondary market does develop during this period, holders of the Series [] Term Preferred Shares may be able to sell such shares only at substantial discounts from the Liquidation Preference. We have applied to list the Series [] Term Preferred Shares on the []. If we are unable to list the Series [] Term Preferred Shares on the [] or another national securities exchange, holders of such shares may be unable to sell them at all or, if they are able to, only at substantial discounts from the Liquidation Preference. Even if the Series [] Term Preferred Shares are listed on the [] as anticipated, there is a risk that such shares may be thinly traded, and the market for such shares may be relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms and features.

The Series [] Term Preferred Shares will not be rated.

We do not intend to have the Series [] Term Preferred Shares rated by any rating agency. Unrated securities usually trade at a discount to similar, rated securities. As a result, there is a risk that the Series [] Term Preferred Shares may trade at a price that is lower than they might otherwise trade if rated by a rating agency.

The Series [] Term Preferred Shares will bear a risk of early redemption by us.

We may voluntarily redeem some or all of the Series [] Term Preferred Shares on or after [] and we may be forced to redeem some or all of the Series [] Term Preferred Shares to meet regulatory requirements and the asset coverage requirements of such shares. Any such redemptions may occur at a time that is unfavorable to holders of the Series [] Term Preferred Shares. We may have an incentive to redeem the Series [] Term Preferred Shares voluntarily before the Term Redemption Date if market conditions allow us to issue other Preferred Stock or debt securities at a rate that is lower than the Fixed Dividend Rate on the Series [] Term Preferred Shares. For further information regarding our ability to redeem the Term Preferred Stock, see “Description of the Series [] Term Preferred Stock — Redemption” and “— Asset Coverage.”

Claims of holders of the Series [] Term Preferred Shares will be subject to a risk of subordination relative to holders of our debt instruments.

Rights of holders of the Series [] Term Preferred Shares will be subordinated to the rights of holders of our indebtedness. Therefore, dividends, distributions and other payments to holders of Term Preferred Shares in liquidation or otherwise may be subject to prior payments due to the holders of our indebtedness. In addition, under some circumstances the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of holders of the Series [] Term Preferred Shares.

We are subject to risks related to the general credit crisis and related liquidity risks.

General market uncertainty and extraordinary conditions in the credit markets may impact the liquidity of our investment portfolio. In turn, during extraordinary circumstances, this uncertainty could impact our distributions and/or ability to redeem the Series [] Term Preferred Shares in accordance with their terms. Further, there may be market imbalances of sellers and buyers of Series [] Term Preferred Shares during periods of extreme illiquidity and volatility in the credit markets. Such market conditions may lead to periods of thin trading in any secondary market for the Series [] Term Preferred Shares and may make valuation of the Series [] Term Preferred Shares uncertain. As a result, the spread between bid and ask prices is likely to increase significantly such that an investor in the Series [] Term Preferred Shares may have difficulty selling his or her shares. Less liquid and more volatile trading environments could also result in sudden and significant valuation declines in the Series [] Term Preferred Shares.

Holders of the Series [] Term Preferred Shares will bear reinvestment risk.

Given the []-year term and potential for early redemption of the Series [] Term Preferred Shares, holders of such shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of the Series [] Term Preferred Shares may be lower than the return previously obtained from the investment in such shares.

Holders of Series [] Term Preferred Shares will bear dividend risk.

We may be unable to pay dividends on the Series [] Term Preferred Shares under some circumstances. The terms of any future indebtedness we may incur could preclude the payment of dividends in respect of equity securities, including the Series [] Term Preferred Shares, under certain conditions.

There is a risk of delay in our redemption of the Series [] Term Preferred Shares, and we may fail to redeem such securities as required by their terms.

Substantially all of the investments we presently hold and the investments we expect to acquire in the future are, and will be, subject to legal and other restrictions on resale and will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to obtain cash equal to the value at which we record our investments quickly if a need arises. If we are unable to obtain sufficient liquidity prior to the Term Redemption Date, we may be forced to engage in a partial redemption or to delay a required redemption. If such a partial redemption or delay were to occur, the market price of the Series [] Term Preferred Shares might be adversely affected.

[Insert any additional relevant risk factors not included in the base prospectus.]

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus 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;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- the risks, uncertainties and other factors we identify in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the respective dates of this prospectus supplement and the accompanying prospectus. However, we will update this prospectus supplement and the accompanying prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

CAPITALIZATION

The following table sets forth:

- the actual capitalization of Saratoga at _____, 20____; and
- the pro forma capitalization of Saratoga to reflect the sale of shares of our preferred stock in this offering at an assumed public offering price of \$ _____ per share after deducting the underwriting discounts and commissions of approximately \$ _____ and estimated offering expenses of approximately \$ _____ payable by us.

This table should be read in conjunction with “Use of Proceeds” included in this prospectus supplement and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and notes thereto included in the accompanying prospectus.

	As of	, 20
	Actual	Pro Forma
	(in thousands)	(in thousands)
Assets:		
Cash and cash equivalents	\$	\$
Investments at fair value	\$	\$
Other assets	\$	\$
Total assets	\$	\$
Liabilities:		
Notes payable	\$	\$
Other Liabilities	\$	\$
Total Liabilities	\$	\$
Stockholders’ equity:		
Common stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, shares issued and outstanding, as adjusted, respectively		\$
Preferred stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, actual, shares issued and outstanding, as adjusted		
Capital in excess of par value		\$
Total stockholders’ equity		\$

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

USE OF PROCEEDS

If we sell _____ shares of our preferred stock with an aggregate offering price of \$ _____ million, we anticipate that our net proceeds, after deducting underwriting discounts and commissions and estimated expenses payable by us, will be approximately \$ _____ million. We intend to use the net proceeds from the sale of our preferred stock to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure—We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.” for additional information regarding this matter.

RATIO OF EARNINGS TO FIXED CHARGES AND PREFERRED DIVIDENDS

[Insert information required by Item 503(d) of Regulation S-K at time of offering.]

DESCRIPTION OF THE PREFERRED STOCK

The following is a brief description of the terms of our preferred stock. This is not a complete description and is subject to and entirely qualified by reference to our articles of incorporation, as amended, and the certificate of designation setting forth the terms of the preferred stock. These documents are filed with the SEC as exhibits to our registration statement of which this prospectus supplement is a part, and the Certificate of Designation is attached as Appendix A to this prospectus supplement.

General

At the time of issuance the Preferred Stock will be fully paid and non-assessable and have no preemptive, conversion or exchange rights or rights to cumulative voting. The Preferred Stock and all other preferred stock that we may issue from time to time in accordance with the 1940 Act, if any, are senior as to dividends and distributions to our common stock. We may issue additional series of preferred stock in the future to the extent permitted under the 1940 Act.

Dividends

Holders of our Preferred Stock are entitled to receive dividends per shares in an amount equal to % per annum, or the dividend rate. Dividends will be payable quarterly in arrears on , , , and (each, a "Dividend Payment Date"), commencing on , to holders of record as of the immediately preceding , and . [In addition, in the event a cash dividend or other distribution in cash is declared on our common stock, holders of our Preferred Stock will be entitled to receive an additional amount equal to the liquidation preference divided by , as may be adjusted from time to time, times the cash amount per share distributed or to be distributed in respect of our common stock.]

Dividends payable at the dividend rate will begin to accrue and be cumulative from , , whether or not we have funds legally available for such dividends or such dividends are declared, and shall compound on each Dividend Payment Date (i.e., no dividends shall accrue on other dividends unless and until the first Dividend Payment Date for such other dividends has passed without such other dividends having been paid on such date). Dividends that are payable on the Preferred Stock on any Dividend Payment Date shall be payable to holders of record of the Preferred Stock as they appear on the stock register of the Company on the record date for such dividend.

Dividends on our Preferred Stock will be computed on the basis of a [360-day year consisting of twelve 30-day months]. The amount of dividends payable on our preferred stock on any date prior to the end of a dividend period, and for the initial dividend period, will be computed on the basis of a [360-day year consisting of twelve 30-day months, and actual days elapsed over a 30-day month].

Cash dividends will be paid only to the extent we have assets legally available for such payment and only when authorized by our Board of Directors and declared by us. Dividends not paid in cash will be added to the liquidation preference.

We will not declare any dividend (other than a dividend payable in common stock) or other distribution on our common stock or purchase any common stock unless at the time of the declaration of such dividend or distribution or at the time of any such purchase we have an asset coverage of at least 200%, as computed in accordance with the 1940 Act, after deducting the amount of such dividend, distribution or purchase price.

Voting Rights

Except for matters that do not require the vote of holders of the Preferred Stock under the 1940 Act and except as otherwise provided in the certificate of incorporation or bylaws, in the Certificate of Designation or as otherwise required by applicable law, (1) each holder of Preferred Stock will be entitled to one vote for each share of Preferred Stock held on each matter submitted to a vote of stockholders of the Company and (2) the holders of outstanding Preferred Stock and shares of common stock shall vote together as a single class on all matters submitted to stockholders. Notwithstanding the foregoing, the holders of the Preferred Stock, voting as a separate class, will have the right to elect [two] members of the Board of Directors. The holders of outstanding shares of common stock together with the holders of outstanding shares of Preferred Stock, voting together as a single class, will elect the remaining members of the Board of Directors.

In addition, in the event that dividends on the Preferred Stock are unpaid in an amount equal to two full years' dividends on the Preferred Stock, we will increase the size of our Board of Directors such that the holders of the Preferred Stock, voting as a separate class, will have the ability to elect a majority of the members of the Board of Directors until such time as all dividends in arrears shall have been paid or otherwise provided for at which point the size of the Board of Directors shall be decreased and the term of such additional directors shall terminate.

During the period in which any shares of Preferred Stock are outstanding, we will not, without the affirmative vote of the holders of a majority of the outstanding shares of Preferred Stock determined with reference to a "majority of outstanding voting securities" as that term is defined in Section 2(a)(42) of the 1940 Act (a "1940 Act Majority"), voting as a separate class:

- amend, alter or repeal any of the preferences, rights or powers of the Preferred Stock so as to affect materially and adversely such preferences, rights or powers [(for purposes of the foregoing, no matters shall be deemed to adversely affect any right, preference or power unless such matter (i) alters or abolishes any preferential right of the Series [] Preferred Stock; (ii) creates, alters or abolishes any right in respect of redemption of the Series [] Preferred Stock; or (iii) creates or alters (other than to abolish) any restriction on transfer applicable to the Series [] Preferred Stock)]; or
- create, authorize or issue shares of any class of capital stock ranking senior to or on a parity with the Preferred Stock with respect to the payment of dividends or the distribution of assets, or any securities convertible into, or warrants, options or similar rights to purchase, acquire or receive, such shares of capital stock ranking senior to or on a parity with the Preferred Stock or reclassify any authorized shares of our capital stock into any shares ranking senior to or on a parity with the Preferred Stock (except that, notwithstanding the foregoing, the Board of Directors, without the vote or consent of the holders of the shares of Series [] Preferred Stock may from time to time authorize, create and classify, and the Company, to the extent permitted by the 1940 Act, may from time to time issue, shares or series of preferred stock ranking on a parity with the Series [] Preferred Stock with respect to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Company, and may authorize, reclassify and/or issue any additional Series [] Preferred Stock, including shares previously purchased or redeemed by the Company); provided that any such class of Capital Stock shall be created, authorized or issued only to the extent permitted by the 1940 Act).

The affirmative vote of the holders of a 1940 Act Majority of the outstanding shares of Preferred Stock, voting as a separate class, will be required to approve any plan of reorganization (as such term is used in the 1940 Act) adversely affecting such shares or any action requiring a vote of our security holders under Section 13(a) of the 1940 Act.

Redemption

Optional Redemption. The Preferred Stock may be redeemed, in whole or in part, at any time after _____, _____, at our option, upon giving notice of redemption at a redemption price per share equal to the applicable percentage set forth below multiplied by the sum of the liquidation preference per share plus accrued but unpaid dividends not previously added to the liquidation preference on such share. The following redemption prices are for shares of Preferred Stock redeemed during the _____-month period commencing on _____ of the years set forth below:

<i>Year</i>	<i>Applicable Percentage</i>
-------------	------------------------------

Redemption at the Option of the Holder. Upon the occurrence of certain bankruptcy events or the delisting of our common stock from a national securities exchange, each holder of the Preferred Stock will have the right to require us to repurchase all or any part of the holder's Preferred Stock at a purchase price per share equal to _____% of the sum of the liquidation preference per share plus accrued but unpaid dividends not previously added to the liquidation preference on such share.

On and after _____, _____, each holder of the Preferred Stock will have the right, by providing written notice to us, to require us to repurchase all or any part of the holder's Preferred Stock at a purchase price equal to _____% of the sum of the liquidation preference per share plus accrued but unpaid dividends not previously added to the liquidation preference on such share.

Partial Redemption. In case of any partial redemption of the preferred stock, the shares to be redeemed will be selected pro rata. Subject to the provisions of the Certificate of Designation, we have full power and authority to prescribe the terms and conditions upon which shares of preferred stock shall be redeemed from time to time. If fewer than all the shares represented by any certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without charge to the holder thereof.

Redemption Procedures. We will provide notice of any redemption of the preferred stock by first class mail, postage prepaid, addressed to the holders of record of the shares to be redeemed at their respective last addresses appearing on our books and through any means required under the 1940 Act. Such mailing shall be at least _____ days and not more than _____ days before the date fixed for redemption.

Liquidation

Upon any liquidation, dissolution or winding up by us, whether voluntary or involuntary, the holders of shares of our preferred stock will be entitled to be paid (before any distribution or payment is made upon any shares of common stock) the liquidation preference per share. However, if upon liquidation, the available funds and assets to be distributed among the holders of our Preferred Stock are insufficient to permit payment in full of the liquidation preference per share, then our entire available funds and assets upon liquidation shall be distributed ratably among the holders on a pro rata basis.

If there are any of our available funds or assets upon liquidation remaining after the payment or distribution to the holders of the Preferred Stock of their full preferential amounts described above, all such remaining available funds and assets shall be distributed as follows: [describe applicable payment priority provisions].

Modification

Without the consent of any holders of the Preferred Stock, we, when authorized by resolution of the Board of Directors may amend or modify these terms of the Preferred Stock to cure any ambiguity, correct or supplement any provision herein which may be inconsistent with any other provision in the Certificate of Designation, make any other provisions with respect to matters or questions arising under these terms of the Preferred Stock that are not inconsistent with the provisions in the Certificate of Designation.

UNDERWRITING

is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of shares set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Shares</u>
Total	_____

The underwriting agreement provides that the obligations of the underwriters to purchase the shares included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the shares to dealers at the public offering price less a concession not to exceed \$ _____ per share. The underwriting discount of \$ _____ per share is equal to _____ % of the initial offering price. If all of the shares are not sold at the initial offering price, the representative may change the public offering price and other selling terms. The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an additional _____ shares at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional shares approximately proportionate to that underwriter's initial purchase commitment.

We, along with each of our directors and officers, have agreed that we will not, without the prior written consent of _____, on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge shares or securities convertible into or exchangeable for shares for a period of _____ days from the date of this prospectus supplement (the "Lock-up Period"). _____ in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Lock-up Period in the preceding paragraph will be extended if (i) during the last 17 days of the Lock-up Period we issue an earnings release or material news or a material event relating to Saratoga occurs or (ii) prior to the expiration of the Lock-up Period, we announce that we will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event.

[The shares of preferred stock will be listed on the _____ under the symbol "_____."]

The following table shows the underwriting discounts to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. This offering will conform with the requirements set forth in Financial Industry Regulatory Authority Rule 2310. The sum of all compensation to the underwriters in connection with this offering of shares, including the underwriting discount, will not exceed 10% of the total public offering price of the shares sold in this offering.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per Common Share	\$	\$
Total	\$	\$

Saratoga and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the shares. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the shares as a result of any market-making activities undertaken by any underwriter. This prospectus supplement is to be used by any underwriter in connection with the offering and, during the period in which a prospectus supplement must be delivered, with offers and sales of the shares in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, _____, on behalf of the underwriters, may purchase and sell shares in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of shares in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of shares made in an amount up to the number of shares represented by the underwriters' over-allotment option. In determining the source of shares to close out the covered syndicate short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the over-allotment option. Transactions to close out the covered syndicate short position involve either purchases of shares in the open market after the distribution has been completed or the exercise of the over-allotment option. The underwriters may also make "naked" short sales of shares in excess of the over-allotment option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of shares in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of shares in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when _____ repurchases shares originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of shares. They may also cause the price of shares to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the [_____], or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering, excluding the underwriting discounts, will be approximately \$ _____.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of shares to underwriters for sale to their online brokerage account holders. The representative will allocate shares to underwriters that may make Internet distributions on the same basis as other allocations. In addition, shares may be sold by the underwriters to securities dealers who resell shares to online brokerage account holders.

Certain underwriters may perform investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they receive customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

[Additional Underwriter Compensation

[to be provided as applicable]]

The principal business address of _____ is _____ .

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by _____ .

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of _____ and _____ and for each of the two years in the period ended included in the accompanying prospectus and this prospectus supplement have been so included in reliance on the report of Ernst & Young LLP, our independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

Saratoga Investment Corp.

Series [] Preferred Stock

Liquidation Preference \$ Share

PRELIMINARY PROSPECTUS SUPPLEMENT

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN
CONJUNCTION WITH FUTURE RIGHTS OFFERINGS] (1)

SUBJECT TO COMPLETION, DATED , 20

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated , 20)

Shares

Saratoga Investment Corp.

Up to Shares of
Common Stock
Issuable Upon
Exercise of Rights

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are issuing [transferable/non-transferable] rights to our stockholders of record, or record date stockholders, as of 5:00 p.m., New York City time, on , 20 , or the record date. The rights entitle holders of rights, or rights holders, to subscribe for an aggregate of up to shares of our common stock. Record date stockholders will receive one right for each share of common stock owned on the record date. The rights entitle the holder to purchase one new share of common stock for every [] rights held, which we refer to as the basic subscription right[, and record date stockholders who fully exercise their rights will be entitled to subscribe, subject to certain limitations and pro-rata allocation, for additional shares that remain unsubscribed as a result of any unexercised rights.] [In addition, any non-record date stockholder who exercises rights will be entitled to subscribe, subject to certain limitations and pro-rata allocation, for any remaining shares that are not otherwise subscribed for by record date stockholders.]

The subscription price per share will be [describe means of computing subscription price]. Because the subscription price will be determined on the expiration date, stockholders who elect to exercise their rights will not know the subscription price per share at the time they exercise such rights. The rights will expire if they are not exercised by 5:00 p.m., New York City time, on , 20 , the expiration date of this offering, unless extended. We, in our sole discretion, may extend the period for exercising the rights. You will have no right to rescind your subscription after receipt of your payment of the estimated subscription price or a notice of guaranteed delivery except as described in this prospectus supplement or accompanying prospectus.

This offering will dilute the ownership interest and voting power of the common stock owned by stockholders who do not fully exercise their subscription rights. Stockholders who do not fully exercise their subscription rights should expect, upon completion of the offering, to own a smaller proportional interest in us than before the offering. Further, if the net proceeds per share from the offering are at a discount to our net asset value per share, this offering will reduce our net asset value per share.

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “SAR.” On , 20 , the last reported sales price on the NYSE for our common stock was \$ per share. Our net asset value per share of our common stock as of was \$.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our securities and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our securities. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page S-17 of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured

first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total (4)
Estimated Subscription Price (1)	\$	\$
Estimated Sales Load (Underwriting Discounts and Commissions) [(2)](3)	\$	\$
Proceeds to the Company (before expenses) (1)(3)	\$	\$

- (1) Estimated on the basis of [describe means of computing subscription price]. See “The Offer—Subscription Price.”
- [(2) In connection with this offering, , the dealer manager for this offering, will receive a fee for its financial advisory, marketing and soliciting services equal to % of the subscription price per share for each share issued pursuant to the exercise of rights[, including pursuant to the over-subscription privilege].]
- (3) We estimate that we will incur offering expenses of approximately \$ in connection with this offering. We estimate that net proceeds to us after expenses will be \$ assuming all of the rights are exercised at the estimated subscription price.
- (4) Assumes all rights are exercised at the estimated subscription price.

Prospectus Supplement dated , 20 .

- (1) In addition to the sections outlined in this form of prospectus supplement, each prospectus supplement actually used in connection with an offering conducted pursuant to the registration statement to which this form of prospectus supplement is attached will be updated to include such other information as may then be required to be disclosed therein pursuant to applicable law or regulation as in effect as of the date of each such prospectus supplement, including, without limitation, information particular to the terms of each security offered thereby and any related risk factors or tax considerations pertaining thereto. This form of prospectus supplement is intended only to provide a rough approximation of the nature and type of disclosure that may appear in any actual prospectus supplement used for the purposes of offering securities pursuant to the registration statement to which this form of prospectus supplement is attached, and is not intended to and does not contain all of the information that would appear in any such actual prospectus supplement, and should not be used or relied upon in connection with any offer or sale of securities.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
About this Prospectus Supplement	S-1
Summary	S-2
The Rights Offering	S-11
Risk Factors	S-17
Fees and Expenses	S-15
Cautionary Statement Regarding Forward-Looking Statements	S-19
Capitalization	S-20
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-21
Use of Proceeds	S-22
Dilution	S-23
The Offer	S-24
Legal Matters	S-35
Independent Registered Public Accounting Firm	S-36
Available Information	S-37
Index to Financial Statements	S-38

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	131
Description of Our Capital Stock	137
Description of Our Subscription Rights	139
Description of Our Debt Securities	153
Description of Our Warrants	155
Plan of Distribution	157
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of [transferable/non-transferable] rights and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information” and “Risk Factors” included in this prospectus supplement and in the accompanying prospectus, respectively, before investing in our securities.

Neither we nor the underwriters have authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

SUMMARY

The following summary contains basic information about the offering pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the securities we are offering. You should carefully read the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements included in the accompanying prospectus.

Except where the context requires otherwise, the terms "we," "us," "our," the "Company," or "Saratoga" refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms "Saratoga Investment Advisors" and "investment adviser" refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters' option to purchase additional shares.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of _____, we had total assets of _____ and investments in _____ portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. ("Saratoga CLO"), which investment had a fair value of _____ as of _____. The overall portfolio composition as of _____ consisted of _____ % of middle market loans, _____ % of first lien term loans, _____ % of second lien term loans, _____ % of senior secured notes, _____ % of unsecured notes, _____ % of subordinated notes of Saratoga CLO and _____ % of common equity. As of _____, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately _____. As of _____, approximately _____ % of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at _____, was composed of \$ _____ in aggregate principal amount of predominantly senior secured first lien term loans. A

first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with , , and years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a -year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of _____, _____ % of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, _____ % of our debt investments at _____ had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors' investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser's investment process generally includes the following steps:

- **Initial screening.** A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed
- **Comprehensive analysis.** A comprehensive analysis includes:
- **Business and Industry analysis**—a review of the company's business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
- **Company analysis**—a review of the company's historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
- **Structural/security analysis**—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- **Approval of the investment committee.** The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company's ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our common stock, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our common stock involves other risks, including those discussed under the caption “Risk Factors” beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in shares of our common stock. Some of these risks include:

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.
- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.

- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.
- Our ability to enter into transactions with our affiliates is restricted.

- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.

- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.
- There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.
- We may terminate the rights offering at any time prior to delivery of the shares of our common stock offered hereby, and neither we nor the subscription agent will have any obligation to you except to return your subscription payments, without interest.
- Your economic and voting interest in us, as well as your proportionate interest in our net asset value, may be diluted as a result of this rights offering.
- The market price of our common stock may decline following this offering and our shares of common stock may trade at discounts from net asset value.
- We may terminate the rights offering at any time prior to delivery of the shares of our common stock offered hereby, and neither we nor the subscription agent will have any obligation to you except to return your subscription payments, without interest.

[Insert summary risk factors applicable to the subscription rights.]

THE RIGHTS OFFERING

The Offer

We are issuing to stockholders of record, or record date stockholders, on _____, _____, or the record date, one [transferable/non-transferable] right for each share of our common stock held on the record date. Each holder of the rights, or rights holder, is entitled to subscribe for one share of our common stock for every rights held [_____, which we refer to as the primary subscription right]. We will not issue fractional shares of our common stock upon the exercise of rights; accordingly, rights may be exercised only in multiples of _____.

[The rights are transferable and will be listed for trading on [the NYSE] under the symbol “_____” during the course of this offer. See “The Offer.”]

Subscription Price

The subscription price per share will be [describe means of computing subscription price]. [Because the subscription price will be determined on the expiration date, rights holders who decide to acquire shares pursuant to the primary subscription right or pursuant to the over-subscription privilege will not know the actual purchase price of those shares when they make that decision.] See “The Offer—Subscription Price.”

[Over-Subscription Privilege

Record date stockholders who fully exercise all rights issued to them (other than those rights which cannot be exercised because they represent the right to acquire less than one share) are entitled to subscribe for additional shares of our common stock which were not subscribed for by other stockholders, which we refer to as the remaining shares. If sufficient remaining shares of our common stock are available, all record date stockholders’ over-subscription requests will be honored in full. In addition, any non-record date stockholder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and pro-rata allocations. See “The Offer—Over-Subscription Privilege.”]

Purpose of the Offer

Our Board of Directors has determined that it would be in the best interest of Saratoga Investment Corp. and its stockholders to increase the capital available for making additional investments, as well as to pay operating expenses, temporarily repay debt and generally enhance our liquidity. We believe that we must have sufficient liquidity available to remain a credible source of capital. This offering will increase the capital available for us to make additional investments. This offering gives existing stockholders the right to purchase additional shares at a price that is expected to be below market without incurring any commission or charge, while providing us access to additional capital resources. In connection with the approval of this rights offering, our board of directors considered, among other things, the following factors:

- the subscription price relative to the market price and to our net asset value per share, including the likelihood that the subscription price will be below our net asset value per share;
- the increased capital to be available upon completion of this rights offering for us to make additional investments consistent with our investment objective;
- the dilution to be experienced by non-exercising stockholders;
- the dilutive effect the offering will have on the dividends per share we distribute subsequent to completion of the offering;
- [the terms and expenses in connection with the offering relative to other alternatives for raising capital, including fees payable to the dealer manager;]
- the size of the offering in relation to the number of shares outstanding;
- [the fact that the rights will be listed on [the NYSE] during the subscription period;]

- the market price of our common stock, both before and after the announcement of the rights offering;
- the general condition of the securities markets; and
- any impact on operating expenses associated with an increase in capital, including an increase in fees payable to Saratoga Investment Advisors.

There can be no assurance of the amount of dilution that a stockholder will experience or that the rights offering will be successful.

[The purpose of setting the determination of the subscription price upon the expiration of the offer is to attract the maximum participation of stockholders in the offer, with minimum dilution to non-participating stockholders.]

[The transferable rights will allow non-participating stockholders the potential of receiving cash payment upon the sale of the rights, receipt of which may be viewed as partial compensation for the dilution of their interests.]

We cannot assure you that this offering will be successful, or that by increasing the amount of our available capital, our aggregate expenses and, correspondingly, our expense ratio will be lowered. In addition, the management fee we pay to Saratoga Investment Advisors is based upon our gross assets, which include any cash or cash equivalents that we have not yet invested in the securities of portfolio companies.

[In determining that this offer is in our best interest and in the best interests of our stockholders, we have retained , the dealer manager for this offer, to provide us with financial advisory, marketing and soliciting services relating to this offer, including advice with respect to the structure, timing and terms of the offer. In this regard, our board of directors considered, among other things, using a fixed pricing versus variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering, the effect on us if this offer is not fully subscribed and the experience of the dealer manager in conducting rights offerings.]

[Although we have no present intention to do so, we may, in the future and in our discretion, choose to make additional rights offerings from time to time for a number of shares and on terms which may or may not be similar to this offer, provided that our Board of Directors must determine that each subsequent rights offering is in the best interest of our stockholders. Any such future rights offering will be made in accordance with the 1940 Act.]

[Sale of Rights

The rights are evidenced by a subscription certificate and are transferable until , (or if the offer is extended, until the extended expiration date). The rights will be listed for trading on [the NYSE] under the symbol “ ”. We and the dealer manager will use our best efforts to ensure that an adequate trading market for the rights will exist. However, no assurance can be given that a market for the rights will develop. Trading in the rights on [the NYSE] may be conducted until close of trading on on , (or, if the offer is extended, until the extended expiration date). See “The Offer—Sale of Rights.”]

Use of Proceeds

We intend to use the net proceeds from the sale of our common stock to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. See “Use of Proceeds.”

Amendments and Termination

We reserve the right to amend the terms and conditions of this offering, whether the amended terms are more or less favorable to you. We will comply with all applicable laws, including the federal securities laws, in connection with any such amendment. In addition, we may, in our sole discretion, terminate the rights offering at

any time prior to delivery of the shares of our common stock offered hereby, if the subscription price is less than []% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC. If this rights offering is terminated, all rights will expire without value and the subscription agent will return as soon as practicable all exercise payments, without interest. [No amounts paid to acquire rights on [insert name of any applicable exchange on which rights are listed] or otherwise will be returned.]

Dilutive Effects

Any stockholder who chooses not to participate in the offering should expect to own a smaller interest in us upon completion of the offering. The offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. Further, because the net proceeds per share from the offering may be lower than our net asset value per share, the offering may reduce our net asset value per share. The amount of dilution that a stockholder will experience could be substantial.

How to Obtain Subscription Information

- Contact your broker-dealer, trust company, bank or other nominee where your rights are held, or
- Contact the information agent, , at . Broker-dealers and nominees may call .

How to Subscribe

- Deliver a completed subscription certificate and payment to the subscription agent by the expiration date of the rights offering, or
- If your shares are held in an account with your broker-dealer, trust company, bank or other nominee, which qualifies as an Eligible Guarantor Institution under Rule 17Ad-15 of the Securities Exchange Act of 1934, as amended (“Exchange Act”), have your Eligible Guarantor Institution deliver a notice of guaranteed delivery to the subscription agent by the expiration date of the rights offering.

Subscription Agent

will act as the subscription agent in connection with this offer.

Information Agent

will act as the information agent in connection with this offer. You may contact toll-free with questions at . Broker-dealers and nominees may call .

[Distribution Arrangements

will act as dealer manager for the offer. Under the terms and subject to the conditions contained in the dealer manager agreement, the dealer manager will provide financial advisory services and marketing assistance in connection with the offer and will solicit the exercise of rights and participation in the over-subscription privilege by our stockholders. The offer is not contingent upon any number of rights being exercised. We have agreed to pay the dealer manager a fee for its financial advisory, marketing and soliciting services equal to % of the subscription price per share for shares issued pursuant to the exercise of rights, including pursuant to the over-subscription privilege. The dealer manager may reallocate a portion of its fees to other broker-dealers that have assisted in soliciting the exercise of rights.]

Important Dates to Remember

Record Date	(1)
Subscription Period	(1)
Measurement Period for Subscription Price(2)	(1)
Expiration Date	(1)
Deadline for Delivery of Subscription Certificates and Payment for Shares(3)	(1)
Deadline for Delivery of Notice of Guaranteed Delivery(3)	(1)
Deadline for Delivery of Subscription Certificates and Payment for Shares pursuant to Notice of Guaranteed Delivery	(1)
Confirmations Mailed to Participants	(1)
Final Payment for Shares	(1)

-
- (1) Unless the offer is extended.
- (2) The subscription price will be [describe means of computing subscription price].
- (3) Participating rights holders must, by the expiration date of the offer (unless the offer is extended), either (a) deliver a subscription certificate and payment for shares or (b) cause to be delivered on their behalf a notice of guaranteed delivery.

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by “us” or “Saratoga,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Saratoga.

Stockholder transaction expenses (as a percentage of offering price):	
Sales load paid	%(1)
Offering expenses borne by us	%(2)
Dividend reinvestment plan expenses	None(3)
Total stockholder transaction expenses (as a percentage of offering price)	%
Annual expenses (as a percentage of average net assets attributable to common stock):	
Management fees	%(4)
Incentive fees payable under the investment advisory and management agreement	%(5)
Interest payments on borrowed funds	%(6)
Other expenses (estimated)	%(7)
Total annual expenses (estimated)	%(8)

EXAMPLE

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we assumed we would maintain the current amount of leverage, that our operating expenses would remain at the levels set forth in the table above, that we pay the transaction expenses set forth in the table above, including a sales load of % paid by you (the commission to be paid by us with respect to common stock sold by us in this offering).

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$	\$	\$	\$

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. Moreover, while the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5% annual return, would either not be payable or have a de minimis effect, is not included in the example. If we achieve sufficient returns on our investments to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See “Dividend Reinvestment Plan” in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

- (1) Represents the commission with respect to this offering. There is no guaranty that there will be any sales pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$ _____, which assumes that the offer is fully subscribed.
- (3) The expenses of the dividend reinvestment plan are included in “other expenses.”
- (4) Assumes gross assets of \$ _____ million and \$ _____ million of leverage, and assumes net assets of \$ _____ million. Our base management fee under the investment advisory and management agreement with Saratoga Investment Advisors is based on our gross assets, which is defined as all of our assets, including those acquired using borrowings for investment purposes, but excluding cash and cash equivalents. See “Investment Advisory and Management Agreement.”

- (5) Assumes that annual incentive fees earned by Saratoga Investment Advisors remain consistent with the incentive fees earned by Saratoga Investment Advisors during the period ended . Incentive fees would increase if, and to the extent that, we earn greater interest income through our investments in portfolio companies and realize additional capital gains upon the sale of warrants or other equity investments in such companies. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our “pre-incentive fee net investment income” for the immediately preceding quarter, subject to a preferred return, or “hurdle,” and a “catch up” feature. For this purpose, “pre-incentive fee net investment income” means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued by us during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee).

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 investment advisory and management agreement) and equals 20% 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. Under the investment advisory and management agreement, 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 Saratoga Investment Advisors will be entitled to 20% of incentive fee capital gains that arise after May 31, 2010. In addition, 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. We estimate this as zero for purposes of this table as these fees are hard to predict, as they are based on capital gains and losses. See “Investment Advisory and Management Agreement.”

- (6) Assumes that we maintain our current level of \$ million of outstanding borrowings as of . Interest payments on borrowed funds represents our annualized interest expense as of . For the months ended , the effective annualized average interest rate, which includes all interest and related costs, was %. We may also issue preferred stock, which may be considered a form of leverage. While we have no present intent to do so, in the event we were to issue preferred stock, our borrowing costs, and correspondingly our total annual expenses, including our base management fee as a percentage of our net assets, would increase.
- (7) Assumes that the amount of our operating expenses remains consistent with the operating expenses incurred by us during the months ended . In addition, our “other expenses” include any fees and expenses, including underwriting discounts, associated with securities we expect to offer during the twelve months following the date of this prospectus supplement. These expenses are presented based on net assets attributable to common shares given that such expenses are borne directly or indirectly by our common shareholders.
- (8) The holders of shares of our common stock (and not the holders of our debt securities or preferred stock, if any) indirectly bear the cost associated with our annual expenses.

RISK FACTORS

Investing in our common stock involves a number of significant risks. Before you invest in our common stock, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in us as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

The market price of our common stock may decline following this offering and our shares of common stock may trade at discounts from net asset value.

Shares of closed-end investment companies frequently trade at a market price that is less than the net asset value that is attributable to those shares. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. It is not possible to predict whether any shares of common stock or rights will trade at, above, or below net asset value. The risk of loss associated with this characteristic of closed-end investment companies may be greater for investors expecting to sell shares of common stock purchased in the offering soon after this offering.

[There is no established trading market for the rights, which could make it more difficult for you to sell rights and could adversely affect their price.

There can be no assurances that an active public market for the rights will develop as a result of the offering of the rights by any selling holder or that, if such a market develops, it will be maintained. [The rights will be listed on under the symbol “.”] Future trading prices of the rights will depend on many factors, including our operating results, the market for similar securities, the performance of our common stock (including the requirement that we suspend the offering under certain circumstances) and our ability to terminate the offering of the rights if the subscription price is less than []% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC.]

We may terminate the rights offering at any time prior to delivery of the shares of our common stock offered hereby, and neither we nor the subscription agent will have any obligation to you except to return your subscription payments, without interest.

We may, in our sole discretion, terminate the rights offering at any time prior to delivery of the shares of our common stock offered hereby, if the subscription price is less than []% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC. If the rights offering is terminated, all rights will expire without value and the subscription agent will return as soon as practicable all exercise payments, without interest. [No amounts paid to acquire rights on [insert name of any applicable exchange on which rights are listed] or otherwise will be returned.]

Your economic and voting interest in us, as well as your proportionate interest in our net asset value, may be diluted as a result of this rights offering.

Stockholders who do not fully exercise their rights should expect that they will, at the completion of the offer, own a smaller proportional interest in us, including with respect to voting rights, than would otherwise be the case if they fully exercised their rights. We cannot state precisely the amount of any such dilution in share ownership because we do not know at this time what proportion of the shares will be purchased as a result of the offer.

In addition, if the subscription price is less than our net asset value per share, then our stockholders would experience an immediate dilution of the aggregate net asset value of their shares as a result of the offer. The amount of any decrease in net asset value is not predictable because it is not known at this time what the subscription price and net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of the offer. Such dilution could be substantial.

This offering will also cause dilution in the dividends per share we are able to distribute subsequent to completion of the offering. In addition, our reported earnings per share will be retroactively adjusted to reflect the dilutive effects of this offering. See “Dilution.”

[Insert any additional relevant risk factors not included in the base prospectus.]

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus 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;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- the risks, uncertainties and other factors we identify in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the respective dates of this prospectus supplement and the accompanying prospectus. However, we will update this prospectus supplement and the accompanying prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

CAPITALIZATION

The following table sets forth:

- the actual capitalization of Saratoga at _____, 20____; and
- the pro forma capitalization of Saratoga to reflect the sale of shares of our common stock in this offering at an assumed public offering price of \$ _____ per share (the last reported closing price of our common stock on _____, 20____) after deducting the underwriting discounts and commissions of approximately \$ _____ and estimated offering expenses of approximately \$ _____ payable by us.

This table should be read in conjunction with “Use of Proceeds” included in this prospectus supplement and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and notes thereto included in the accompanying prospectus.

	As of _____, 20____	
	Actual (in thousands)	Pro Forma (1) (in thousands)
Assets:		
Cash and cash equivalents	\$	\$
Investments at fair value	\$	\$
Other assets	\$	\$
Total assets	\$	\$
Liabilities:		
Notes payable	\$	\$
Other Liabilities	\$	\$
Total Liabilities	\$	\$
Stockholders’ equity:		
Common stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, actual shares issued and outstanding, as adjusted		\$
Capital in excess of par value		\$
Total stockholders’ equity		\$

(1) We may change the size of this offering based on demand and market conditions. A \$0.50 increase (decrease) in the assumed offering price per share would increase (decrease) net proceeds to us from this offering by \$ million, assuming the number of shares offered by us as set forth on the cover page of this prospectus supplement remains the same, after deducting the underwriting discount and estimated expenses payable by us. Any additional proceeds to us resulting from an increase in the public offering price or the number of shares offered pursuant to this prospectus supplement will increase our cash and cash equivalents on an as adjusted basis and will be used as described in “Use of Proceeds.”

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

USE OF PROCEEDS

If shares of our common stock are sold at the estimated subscription price of \$[], the net proceeds of the offer will be approximately \$[], after deducting dealer manager fees of approximately \$[] and other expenses related to this offer payable by us estimated at approximately \$[]. There can be no assurance that all the rights will be exercised in full.

We intend to use the net proceeds from the sale of our common stock to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure—We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results” for additional information regarding this matter.

DILUTION

As of _____, _____, our net assets were \$ _____ million, or approximately \$ _____ per share. After giving effect to the sale of shares of our common stock in this offering, assuming all rights are exercised at the estimated subscription price of \$ _____ per share, and our receipt of the estimated net proceeds from that sale, our pro forma net asset value would have been approximately \$ _____ million, or approximately \$ _____ per share, representing an immediate dilution of approximately \$ _____ per share to our existing stockholders.

The following table illustrates the dilutive effects of this offering on a per share basis, assuming all rights are exercised at the estimated subscription price of \$ _____ per share:

	As of,	
	Actual	As Adjusted
Net asset value per common share	\$ _____	\$ _____

	Months Ended,	
	Actual	As Adjusted
Net increase in net assets resulting from net investment income per common share	\$ (1)	\$ (2)
Net decrease in net assets resulting from operations per common share	\$ (1)	\$ (2)
Distributions per common share	\$ _____	\$ (3)

- (1) Basic and diluted, weighted average number of shares outstanding is _____.
- (2) Assumes that on _____, _____, the beginning of the indicated period, (a) all rights were exercised at the estimated subscription price of \$ _____ per share and (b) shares of our common stock were issued upon exercise of such rights.
- (3) Assumes actual cash distributions divided by adjusted shares, including shares issued upon exercise of rights.

THE OFFER

Purpose of the Offer

Our Board of Directors has determined that it would be in the best interests of the Company and its stockholders to increase the capital available for making additional investments, as well as to pay operating expenses and generally enhance our liquidity. We believe that we must have sufficient liquidity available to remain a credible source of capital. The offering will increase the capital available for us to make additional investments. The current offering gives existing stockholders the right to purchase additional shares at a price that is expected to be below market without incurring any commission or charge, while providing us access to such additional capital resources. In connection with the approval of this rights offering, our Board of Directors considered, among other things, the following factors:

- the subscription price relative to the market price and to our net asset value per share, including the likelihood that the subscription price will be below our net asset value per share;
- the increased capital to be available upon completion of the rights offering for us to make additional investments consistent with our investment objective;
- the dilution to be experienced by non-exercising stockholders;
- the dilutive effect the offering will have on the dividends per share we distribute subsequent to completion of the offering;
- [the terms and expenses in connection with the offering relative to other alternatives for raising capital, including fees payable to the dealer manager;]
- the size of the offering in relation to the number of shares outstanding;
- [the fact that the rights will be listed on [the NYSE] during the subscription period;]
- the market price of our common stock, both before and after the announcement of the rights offering;
- the general condition of the securities markets; and
- any impact on operating expenses associated with an increase in capital, including an increase in fees payable to Saratoga Investment Advisors.

There can be no assurance of the amount of dilution that a stockholder will experience or that the rights offering will be successful.

The purpose of setting the determination of the subscription price upon the expiration of the offer is to attract the maximum participation of stockholders in the offer, with minimum dilution to non-participating stockholders.

[The transferable rights will allow non-participating stockholders the potential of receiving cash payment upon the sale of the rights, receipt of which may be viewed as partial compensation for the dilution of their interests.]

We cannot assure you that the current offering will be successful, or that by increasing the size of our available equity capital, our aggregate expenses and, correspondingly, our expense ratio will be lowered. In addition, the management fee we pay to Saratoga Investment Advisors is based upon our gross assets, which include any cash or cash equivalents that we have not yet invested in the securities of portfolio companies.

[In determining that this offer was in our best interest and in the best interests of our stockholders, we have retained , the dealer manager for this offering, to provide us with financial advisory, marketing and soliciting services relating to this offer, including advice with respect to the structure, timing and terms of the offer. In this regard, our Board of Directors considered, among other things, using a fixed pricing versus variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering, the effect on us if this offer is not fully subscribed and the experience of the dealer manager in conducting rights offerings.]

[Although we have no present intention to do so, we may, in the future and in our discretion, choose to make additional rights offerings from time to time for a number of shares and on terms which may or may not be similar to this offer, provided that our board of directors must determine that each subsequent rights offering is in the best interest of our stockholders. Any such future rights offering will be made in accordance with the 1940 Act.]

Terms of the Offer

We are issuing to record date stockholders [transferable/non-transferable] rights to subscribe for up to approximately shares. Each record date stockholder is being issued one [transferable/non-transferable] right for each whole share owned on the record date. The rights entitle each holder, or rights holder, to acquire at the subscription price one share for every rights held [, which we refer to as the primary subscription right]. Rights may be exercised at any time during the subscription period, which commences on , , the record date, and ends at 5:00 p.m., New York City Time, on , , the expiration date, unless extended by us.

The rights are [transferable and will be listed for trading on [the NYSE] under the symbol “ “ during the course of the offer/non-transferable]. The shares of our common stock issued pursuant to an exercise of rights will be listed on The NYSE under the symbol “SAR.” The rights will be evidenced by subscription certificates which will be mailed to stockholders, except as discussed below under “—Foreign Stockholders.”

We will not issue fractional shares upon the exercise of rights; accordingly, rights may be exercised only in multiples of .

The rights are [transferable/non-transferable]. [Rights holders who are not record date stockholders may purchase shares as described above, which we refer to as the primary subscription, and may be entitled to subscribe for shares pursuant to the over-subscription privilege (as described below).]

[Shares for which there is no subscription during the primary subscription will be offered, by means of the over-subscription privilege, first to record date stockholders who fully exercise the rights issued to them pursuant to this offering (other than those rights that cannot be exercised because they represent in the aggregate the right to acquire less than one share) and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the exercise of their rights. In addition, any non-record date rights holder who exercises rights is entitled to subscribe for remaining shares that are not otherwise subscribed for by record date stockholders. Shares acquired pursuant to the over-subscription privilege are subject to certain limitations and pro-rata allocations. See “—Over-Subscription Privilege” below.]

For purposes of determining the number of shares a record date stockholder may acquire pursuant to the offer, broker-dealers, trust companies, banks or others whose shares are held of record by Cede & Co. (“Cede”) or by any other depository or nominee will be deemed to be the holders of the rights that are issued to Cede or the other depository or nominee on their behalf.

There is no minimum number of rights which must be exercised in order for the offer to close.

[Over-Subscription Privilege

Shares not subscribed for by rights holders, which we refer to as remaining shares, will be offered, by means of the over-subscription privilege, first to record date stockholders who have fully exercised the rights issued to them and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the basic subscription. Rights holders should indicate on the subscription certificate that they submit with respect to the exercise of the rights issued to them how many additional shares they are willing to acquire pursuant to the over-subscription privilege. If there are sufficient remaining shares, all record date stockholders’ over-subscription requests will be honored in full. If record date stockholder requests for shares pursuant to the over-subscription privilege exceed the remaining shares available, the available remaining shares will be allocated pro-rata among record date stockholders who over-subscribe based on the number of shares held on the record date. The percentage of remaining shares each over-subscribing stockholder may acquire will be rounded down to result in delivery of whole shares. The allocation process may involve a series of allocations to assure that the total number of remaining shares available for over-subscriptions is distributed on a pro-rata basis. The formula to be used in allocating the remaining shares is as follows:

$$\frac{\text{Stockholder's Record Date Position}}{\text{Total Record Date Position of All Over-Subscribers}} \times \text{Remaining Shares}$$

Any rights holder, other than a record date stockholder, who exercises rights is entitled to subscribe for remaining shares that are not otherwise over-subscribed for by record date stockholders. These non-record date rights holders should indicate in the subscription certificate submitted with respect to the exercise of any rights how many shares they are willing to acquire pursuant to the over-subscription privilege. We cannot assure non-record date rights holders that they will receive shares pursuant to the over-subscription privilege.

If sufficient remaining shares are available after the over-subscription privileges for the record date stockholders have been allotted, then all over-subscriptions by non-record date rights holders will be honored in full. If the remaining shares are insufficient to permit such allocation, the remaining shares will be allocated pro-rata among the non-record date rights holders who wish to exercise their over-subscription privilege, based on the number of rights held by such rights holders on the expiration date. However, if this pro-rata allocation results in any holder being allocated a greater number of shares than the holder subscribed for pursuant to the exercise of the over-subscription privilege, then such holder will be allocated only such number of shares pursuant to the over-subscription privilege as such holder subscribed for. The formula to be used in allocating the shares available to non-record date rights holders exercising their over-subscription privilege is as follows:

Non-Record Date Rights Holder's Rights
Ownership as of the Expiration Date

Total Rights Ownership as of the Expiration Date of Non-Record

Date Rights Holders Exercising Their Over-Subscription Privilege

× Shares Available for Non-Record Date

Rights Holders Exercising Their Over-Subscription Privilege

Banks, brokers, trustees and other nominee holders of rights will be required to certify to the subscription agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of rights exercised pursuant to the primary subscription and the number of shares subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner's primary subscription was exercised in full. We will not offer or sell in connection with this offer any shares that are not subscribed for pursuant to the primary subscription or the over-subscription privilege.]

Subscription Price

The subscription price for the shares to be issued pursuant to the offer will be [describe means of computing subscription price]. [Since the expiration date will be _____, (unless we extend the subscription period), rights holders will not know the subscription price at the time of exercise and will be required initially to pay for both the shares subscribed for pursuant to the primary subscription right and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of \$ _____ per share.] See "—Payment for Shares" below. Rights holders who exercise their rights will have no right to rescind a purchase after receipt of their completed subscription certificates together with payment for shares by the subscription agent. We do not have the right to withdraw the rights or cancel this offer after the rights have been distributed.

Expiration of the Offer

The offer will expire at 5:00 p.m., New York City time, on _____, 20____, the expiration date, unless extended by us. The rights will expire on the expiration date of the rights offering and may not be exercised thereafter.

Our Board of Directors may determine to extend the subscription period, and thereby postpone the expiration date, to the extent our board of directors determines that doing so is in the best interest of our stockholders. For example, our Board of Directors may elect to extend the subscription period in the event there is substantial instability or volatility in the trading price of our common stock or the rights on [the NYSE] at or near the expiration date, or if any event occurs which causes trading to cease or be suspended on [the NYSE] or the financial markets generally. The foregoing are not the only circumstances under which this offer may be extended, and our Board of Directors is free to extend the subscription period at its discretion, provided it determines that doing so is in the best interests of our stockholders.

Any extension of the offer will be followed as promptly as practicable by announcement thereof, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date. Without limiting the manner in which we may choose to make such announcement, we will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate any such announcement other than by issuing a press release or such other means of announcement as we deem appropriate.

Amendments and Waivers; Termination

We reserve the right to amend the terms and conditions of the offering, whether the amended terms are more or less favorable to you. We will comply with all applicable laws, including the federal securities laws, in connection with any such amendment.

We will decide all questions as to the validity, form and eligibility (including times of receipt, beneficial ownership and compliance with other procedural matters) in our sole discretion, and our determination shall be final and binding. The acceptance of subscription certificates and the subscription price also will be determined by us. Alternative, conditional or contingent subscriptions will not be accepted. We reserve the right to reject any exercise if such exercise is not in accordance with the terms of the offering or not in proper form or if the acceptance thereof or the issuance of shares of our common stock thereto could be deemed unlawful. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

We may, in our sole discretion, terminate the rights offering at any time prior to delivery of the shares of our common stock offered hereby if the subscription price is less than []% of the net asset value attributable to a share of common stock disclosed in the most recent periodic report we filed with the SEC by giving oral or written notice thereof to the subscription agent and making a public announcement thereof. If the offering is terminated, all rights will expire without value and we will promptly arrange for the refund, without interest, of all funds received from holders of rights. All monies received by the subscription agent in connection with the offering will be held by the subscription agent, on our behalf, in a segregated interest-bearing account at a negotiated rate. All such interest shall be payable to us even if we determine to terminate the offering and return your subscription payment. [In addition, no amounts paid to acquire rights on [insert name of any applicable exchange on which rights are listed] or otherwise will be returned.]

Dilutive Effects

Any stockholder who chooses not to participate in the offering should expect to own a smaller interest in us upon completion of the offering. The offering will dilute the ownership interest and voting power of stockholders who do not fully exercise their basic subscription rights. Further, because the net proceeds per share from the offering may be lower than our net asset value per share, the offering may reduce our net asset value per share. The amount of dilution that a stockholder will experience could be substantial.

Shares of closed-end investment companies have in the past frequently traded at discounts to their net asset values. This characteristic of closed-end investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below our net asset value.

[The transferable feature of the rights will afford non-participating stockholders the potential of receiving cash payment upon the sale of rights, receipt of which may be viewed as partial compensation for the dilution of their interests.]

Information Agent

will act as the information agent in connection with the offering. The information agent will receive for its services a fee estimated to be approximately \$ plus reimbursement of all out-of-pocket expenses related to the offering. can be contacted at the below address:

Subscription Agent

will act as the subscription agent in connection with this offer. The subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately \$, plus reimbursement for all out-of-pocket expenses related to the offer.

Completed subscription certificates must be sent together with full payment of the subscription price for all shares subscribed for in the primary subscription and pursuant to over-subscription privilege to the subscription agent by one of the methods described below. Alternatively, an Eligible Guarantor Institution may send notices of guaranteed delivery by facsimile to which must be received by the subscription agent at or prior to 5:00 p.m., New York City time, on the expiration date of the rights offering. Facsimiles should be confirmed by telephone at . We will accept only properly completed and duly executed subscription certificates actually received at any of the addresses listed below, at or prior to 5:00 p.m., New York City time, on the expiration date of the rights offering or by the close of business on the third business day after the expiration date of the rights offering following timely receipt of a notice of guaranteed delivery. See “—Payment for Shares” below. In this prospectus, close of business means 5:00 p.m., New York City time, on the relevant date.

Subscription Certificate Delivery Method

Address/Number

By Notice of Guaranteed Delivery:

Contact an Eligible Guarantor Institution, which may include a commercial bank or trust company, a member firm of a domestic stock exchange or a savings bank or credit union, to notify us of your intent to exercise the rights.

By First Class Mail Only (Not Overnight /Express Mail):

By Overnight Delivery:

Delivery to an address other than one of the addresses listed above will not constitute valid delivery.

Any questions or requests for assistance concerning the method of subscribing for shares or for additional copies of this prospectus or subscription certificates or notices of guaranteed delivery may be directed to the information agent at its telephone number and address listed below:

Stockholders may also contact their broker-dealers or nominees for information with respect to the offer.

[Sale of Rights

The Rights are Transferable

The rights will be listed for trading on [the NYSE] under the symbol “ “ subject to notice of issuance. We and the dealer manager will use our best efforts to ensure that an adequate trading market for the rights will exist, although no assurance can be given that a market for the rights will develop. Trading in the rights on [the NYSE] is expected to be conducted beginning on or about , , and continuing until , (or if the offer is extended, until the extended expiration date). Rights holders are encouraged to contact their broker-dealer, bank, trustee or other nominees for more information about trading of the rights.

Sales Through Subscription Agent and Dealer Manager

Stockholders who do not wish to exercise any or all of their rights may instruct the subscription agent to sell any rights they do not intend to exercise themselves through or to the dealer manager. Subscription certificates representing the rights to be sold through or to the dealer manager must be received by the subscription agent on or before _____, _____ (or if the offer is extended, on or before two business days prior to the extended expiration date). Upon the timely receipt by the subscription agent of appropriate instructions to sell rights, the subscription agent will ask the dealer manager either to purchase or to use its best efforts to complete the sale and the subscription agent will remit the proceeds of the sale to the selling stockholders. If the rights can be sold, sales of such rights will be deemed to have been effected at the weighted-average price received by the dealer manager on the day such rights are sold. The sale price of any rights sold to the dealer manager will be based upon the then current market price for the rights. The dealer manager will also attempt to sell all rights which remain unclaimed as a result of subscription certificates being returned by the postal authorities to the subscription agent as undeliverable as of the fourth business day prior to the expiration date of the rights offering. The subscription agent will hold the proceeds from those sales for the benefit of such non-claiming stockholders until such proceeds are either claimed or revert to the state pursuant to applicable state law. There can be no assurance that the dealer manager will purchase or be able to complete the sale of any such rights, and neither we nor the dealer manager has guaranteed any minimum sales price for the rights. If a stockholder does not utilize the services of the subscription agent and chooses to use another broker-dealer or other financial institution to sell rights, then the other broker-dealer or financial institution may charge a fee to sell the rights.

Other Transfers

The rights evidenced by a subscription certificate may be transferred in whole by endorsing the subscription certificate for transfer in accordance with the accompanying instructions. A portion of the rights evidenced by a single subscription certificate (but not fractional rights) may be transferred by delivering to the subscription agent a subscription certificate properly endorsed for transfer, with instructions to register such portion of the rights evidenced thereby in the name of the transferee and to issue a new subscription certificate to the transferee evidencing such transferred rights. In such event, a new subscription certificate evidencing the balance of the rights, if any, will be issued to the stockholder or, if the stockholder so instructs, to an additional transferee. The signature on the subscription certificate must correspond to the name as written upon the face of the subscription certificate in every particular, without alteration or enlargement, or any change. A signature guarantee must be provided by an Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Exchange Act, subject to the standards and procedures adopted by us.

Stockholders wishing to transfer all or a portion of their rights should allow at least five business days prior to the expiration date of the rights offering for (1) the transfer instructions to be received and processed by the subscription agent, (2) a new subscription certificate to be issued and transmitted to the transferee or transferees with respect to transferred rights, and to the transferor with respect to retained rights, if any, and (3) the rights evidenced by such new subscription certificate to be exercised or sold by the recipients thereof. Neither we nor the subscription agent nor the dealer manager shall have any liability to a transferee or transferor of rights if subscription certificates are not received in time for exercise or sale prior to the expiration date (or if the offer is extended, on or before two business days prior to the extended expiration date) of the rights offering.

Except for the fees charged by the subscription agent [and dealer manager], which will be paid by us, all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred or charged in connection with the purchase, sale or exercise of rights will be for the account of the transferor of the rights, and none of those commissions, fees or expenses will be paid by us, the subscription agent or the dealer manager.

We anticipate that the rights will be eligible for transfer through, and that the exercise of the primary subscription and the over-subscription privilege may be effected through, the facilities of the Depository Trust Company (“DTC”). Holders of DTC exercised rights may exercise the over-subscription privilege in respect of such DTC exercised rights by properly completing and duly executing and delivering to the subscription agent, at or prior to 5:00 p.m., New York City time, on the day prior to the expiration date of the rights offering, a nominee holder over-subscription certificate or a substantially similar form satisfactory to the subscription agent, together with payment of the subscription price for the number of shares for which the over-subscription privilege is to be exercised.]

Methods for Exercising Rights

Rights are evidenced by subscription certificates that, except as described below under “—Foreign Stockholders,” will be mailed to record date stockholders or, if a record date stockholder’s shares are held by Cede or any other depository or nominee on their behalf, to Cede or such depository or nominee. Rights may be exercised by completing and signing the subscription certificate that accompanies this prospectus and mailing it in the envelope provided, or otherwise delivering the completed and duly executed subscription certificate to the subscription agent, together with payment in full for the shares at the estimated subscription price by the expiration date of the rights offering. Rights may also be exercised by contacting your broker, trustee or other nominee, who can arrange, on your behalf, to guarantee delivery of payment and delivery of a properly completed and duly executed subscription certificate pursuant to a notice of guaranteed delivery by the close of business on the third business day after the expiration date. A fee may be charged for this service. Completed subscription certificates and related payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on or before the expiration date (unless payment is effected by means of a notice of guaranteed delivery as described below under “—Payment for Shares”) at the offices of the subscription agent at the address set forth above. Fractional shares will not be issued upon the exercise of rights.

[Exercise of the Over-Subscription Privilege

Record date stockholders who fully exercise all rights issued to them and rights holders other than record date stockholders, may both participate in the over-subscription privilege by indicating on their subscription certificate the number of shares they are willing to acquire. If sufficient remaining shares are available after the primary subscription, all over-subscriptions will be honored in full; otherwise remaining shares will be allocated first to record date stockholders and then (if any remaining shares are still available) to non-record date rights holders, and the number of remaining shares issued to some or all rights holders participating in the over-subscription privilege may be reduced as described under “—Over-Subscription Privilege” above.]

Record Date Stockholders Whose Shares Are Held By a Nominee

Record date stockholders whose shares are held by a nominee, such as a bank, broker-dealer or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription certificate on behalf of the record date stockholder and arrange for proper payment by one of the methods set forth under “—Payment for Shares” below.

Nominees

Nominees, such as brokers, trustees or depositories for securities, who hold shares for the account of others, should notify the respective beneficial owners of the shares as soon as possible to ascertain the beneficial owners’ intentions and to obtain instructions with respect to the rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the subscription agent with the proper payment as described under “—Payment for Shares” below.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the subscription price will be determined by us, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

We reserve the right to reject any exercise if such exercise is not in accordance with the terms of this rights offering or not in proper form or if the acceptance thereof or the issuance of shares of our common stock thereto could be deemed unlawful. We reserve the right to waive any deficiency or irregularity with respect to any subscription certificate. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

Foreign Stockholders

Subscription certificates will not be mailed to foreign stockholders. Foreign stockholders will receive written notice of this offer. The subscription agent will hold the rights to which those subscription certificates relate for these stockholders' accounts until instructions are received to exercise the rights, subject to applicable law. If no instructions have been received by the expiration date, such rights will expire.

Payment for Shares

Participating rights holders may choose between the following methods of payment:

- (1) A participating rights holder may send the subscription certificate together with payment for the shares acquired in the primary subscription and any additional shares subscribed for pursuant to the over-subscription privilege to the subscription agent based on the estimated subscription price of \$ per share [(% of \$, the last reported sale price of a share on [the NYSE] on ,)]. To be accepted, the payment, together with a properly completed and executed subscription certificate, must be received by the subscription agent at one of the subscription agent's offices set forth above, at or prior to 5:00 p.m., New York City time, on the expiration date.
- (2) A participating rights holder may request an Eligible Guarantor Institution as that term is defined in Rule 17Ad-15 under the Exchange Act to send a notice of guaranteed delivery by facsimile or otherwise guaranteeing delivery of (a) payment of the full subscription price for the shares subscribed for in the primary subscription and any additional shares subscribed for pursuant to the over-subscription privilege and (b) a properly completed and duly executed subscription certificate. The subscription agent will not honor a notice of guaranteed delivery unless a properly completed and duly executed subscription certificate and full payment for the shares is received by the subscription agent at or prior to 5:00 p.m., New York City time, on , (or, if the offer is extended, by the close of business on the third business day after the extended expiration date).

All payments by a participating rights holder must be in U.S. dollars by money order or check or bank draft drawn on a bank or branch located in the U.S. and payable to Saratoga Investment Corp. The subscription agent will deposit all funds received by it prior to the final payment date into a segregated account pending pro-ration and distribution of the shares.

The method of delivery of subscription certificates and payment of the subscription price to us will be at the election and risk of the participating rights holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment prior to 5:00 p.m., New York City time, on the expiration date or the date guaranteed payments are due under a notice of guaranteed delivery (as applicable). Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check or money order.

On a date within business days following the expiration date, the subscription agent will send to each participating rights holder (or, if rights are held by Cede or any other depository or nominee, to Cede or such other depository or nominee) a confirmation showing (1) the number of shares purchased pursuant to the primary subscription, (2) the number of shares, if any, acquired pursuant to the over-subscription privilege, (3) the per share and total purchase price for the shares, and (4) any additional amount payable to us by the participating rights holder or any excess to be refunded by us to the participating rights holder, in each case based on the subscription price as determined on the expiration date. Any additional payment required from a participating rights holder must be received by the subscription agent within ten business days after the confirmation date. Any excess payment to be refunded by us to a participating rights holder will be mailed by the subscription agent to the rights holder as promptly as practicable. No interest will be paid on any amounts refunded.

Whichever of the two methods described above is used, issuance of the shares purchased is subject to collection of checks and actual payment.

If a participating rights holder who subscribes for shares pursuant to the primary subscription or over-subscription privilege does not make payment of any amounts due by the expiration date, the date guaranteed payments are due under a notice of guaranteed delivery or within ten business days of the confirmation date, as applicable, the subscription agent reserves the right to take any or all of the following actions: (1) reallocate the shares to other participating rights holders in accordance with the over-subscription privilege; (2) apply any payment actually received by it from the participating rights holder toward the purchase of the greatest whole number of shares which could be acquired by such participating rights holder upon exercise of the primary subscription and/or the over-subscription privilege; and/or (3) exercise any and all other rights or remedies to which it may be entitled, including the right to set off against payments actually received by it with respect to such subscribed for shares.

All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us, whose determinations will be final and binding. We in our sole discretion may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. The subscription agent will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

Participating rights holders will have no right to rescind their subscription after receipt of their payment for shares by the subscription agent, except as provided below under “—Notice of Net Asset Value Decline.”

Notice of Net Asset Value Decline

We will suspend the offer until we amend this prospectus if, subsequent to the effective date of this prospectus, our net asset value declines more than 10% from our net asset value as of that date. Accordingly, the expiration date would be extended and we would notify record date stockholders of the decline and permit participating rights holders to cancel their exercise of rights.

Delivery of Stock Certificates

Participants in our dividend reinvestment plan will have any shares that they acquire pursuant to the offer credited to their stockholder dividend reinvestment accounts in the plan. Stockholders whose shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have any shares that they acquire credited to the account of Cede or the other depository or nominee. With respect to all other stockholders, stock certificates for all shares acquired will be mailed after payment for all the shares subscribed for has cleared, which may take up to 15 days from the date of receipt of the payment.

Federal Income Tax Consequences of the Offer

For federal income tax purposes, neither the receipt nor the exercise of the rights by record date stockholders will result in taxable income to such stockholders, and no loss will be realized if the rights expire without exercise.

A record date stockholder's basis in a right will be zero unless either (1) the fair market value of the right on the date of distribution is 15% or more of the fair market value of the shares with respect to which the right was distributed or (2) the record date stockholder elects, in his or her federal income tax return for the taxable year in which the right is received, to allocate part of the basis of the shares to the right. If either of clauses (1) or (2) is applicable, then if the right is exercised, the record date stockholder will allocate his or her basis in the shares with respect to which the right was distributed between the shares and the right in proportion to the fair market values of each on the date of distribution.

The holding period of a right received by a record date stockholder includes the holding period of the shares with regard to which the right is issued. If the right is exercised, the holding period of the shares acquired begins on the date the right is exercised.

[If a right is sold, a gain or loss will be realized by the rights holder in an amount equal to the difference between the basis of the right sold and the amount realized on its disposition.]

A record date stockholder's basis for determining gain or loss upon the sale of a share acquired upon the exercise of a right will be equal to the sum of the record date stockholder's basis in the right, if any, and the subscription price per share. A record date stockholder's gain or loss recognized upon a sale of a share acquired upon the exercise of a right will be capital gain or loss (assuming the share was held as a capital asset at the time of sale) and will be long-term capital gain or loss if the share is held for more than one year.

The foregoing is a general summary of the material U.S. federal income tax consequences of the offer under the provisions of the Code and Treasury regulations in effect as of the date of the prospectus that are generally applicable to record date stockholders who are U.S. persons within the meaning of the Code, and does not address any foreign, state or local tax consequences. The Code and Treasury regulations are subject to change or differing interpretations by legislative or administrative action, which may be retroactive. Participating rights holders should consult their tax advisors regarding specific questions as to foreign, federal, state or local taxes.

ERISA Considerations

Stockholders who are employee benefit plans subject to the Employee Retirement Income Security Act of 1974, or ERISA (including corporate savings and 401(k) plans), Keogh or H.R. 10 plans of self-employed individuals and individual retirement accounts should be aware that additional contributions of cash to a retirement plan (other than rollover contributions or trustee-to-trustee transfers from other retirement plans) in order to exercise rights would be treated as contributions to the retirement plan and, when taken together with contributions previously made, may result in, among other things, excise taxes for excess or nondeductible contributions. In the case of retirement plans qualified under Section 401(a) of the Code and certain other retirement plans, additional cash contributions could cause the maximum contribution limitations of Section 415 of the Code or other qualification rules to be violated. It may also be a reportable distribution and there may be other adverse tax and ERISA consequences if rights are sold or transferred by a retirement plan.

Retirement plans and other tax exempt entities, including governmental plans, should also be aware that if they borrow in order to finance their exercise of rights, they may become subject to the tax on unrelated business taxable income under Section 511 of the Code. If any portion of an individual retirement account is used as security for a loan, the portion so used is also treated as distributed to the IRA depositor. ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules that may impact the exercise of rights. Due to the complexity of these rules and the penalties for noncompliance, retirement plans should consult with their counsel and other advisers regarding the consequences of their exercise of rights under ERISA and the Code.

[Distribution Arrangements

, which is a broker-dealer and member of the Financial Industry Regulatory Authority, will act as dealer manager for this offer. Under the terms and subject to the conditions contained in the dealer management agreement, the dealer manager will provide financial advisory and marketing services in connection with this offer and will solicit the exercise of rights and participation in the over-subscription privilege. This offer is not contingent upon any number of rights being exercised. We have agreed to pay the dealer manager a fee for its financial advisory, marketing and soliciting services equal to % of the aggregate subscription price for shares issued pursuant to this offer. In addition, we have agreed to reimburse the dealer manager an aggregate amount up to \$ for its expenses incurred in connection with this offer.

The dealer manager will reallocate to other broker-dealers that have executed and delivered a soliciting dealer agreement and have solicited the exercise of rights, solicitation fees equal to % of the subscription price per share for each share issued pursuant to the exercise of rights as a result of their soliciting efforts, subject to a maximum fee based on the number of shares held by each broker-dealer through DTC on the record date. Fees will be paid by us to the broker-dealer designated on the applicable portion of the subscription certificates or, in the absence of such designation, to the dealer manager.

We have agreed to indemnify the dealer manager for, or contribute to losses arising out of, certain liabilities, including liabilities under the Securities Act. The dealer manager agreement also provides that the dealer manager will not be subject to any liability to us in rendering the services contemplated by the dealer manager agreement except for any act of bad faith, willful misfeasance, or gross negligence of the dealer manager or reckless disregard by the dealer manager of its obligations and duties under the dealer manager agreement. We have also agreed not to directly or indirectly sell, offer to sell, enter into any agreement to sell, or otherwise dispose of, any of our equity or equity related securities or securities convertible into such securities, other than the rights, the shares and the common stock issued in connection with the reinvestment of dividends or distributions, for a period of days from the date hereof without the prior consent of the dealer manager.

The principal business address of the dealer manager is .

Prior to the expiration of this offer, the dealer manager may independently offer for sale shares, including shares acquired through purchasing and exercising the rights, at prices it sets. The dealer manager may realize profits or losses independent of any fees described in this prospectus.

This offering is being conducted in compliance with Rule 5110 of the Conduct Rules of the Financial Industry Regulatory Authority.]

Additional Dealer Manager Compensation

The dealer manager and/or its affiliates have from time to time performed and may in the future perform various commercial banking, financial advisory and investment banking services for us and our affiliates for which they have received or will receive customary compensation. [Describe any specific transactions and compensation related thereto required to be disclosed by applicable law or regulation.]

Certain Effects of this Offer

As a result of the terms of this offer, stockholders who do not fully exercise their rights will own, upon completion of this offer, a smaller proportional interest in us than they owned prior to the offer, including with respect to voting rights. [In addition, because the subscription price per share will likely be less than the net asset value per share, based on our current market price, the offer will likely result in an immediate dilution of net asset value per share for all of our stockholders. If the subscription price per share is substantially less than the current net asset value per share, such dilution could be substantial. Any such dilution will disproportionately affect non-exercising stockholders. If the subscription price is less than our net asset value per share, then all stockholders will experience a decrease in the net asset value per share held by them, irrespective of whether they exercise all or any portion of their rights. This offering will also cause dilution in the dividends per share we are able to distribute subsequent to completion of the offering. See "Dilution."]

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by .

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of and and for each of the two years in the period ended included in the accompanying prospectus and this prospectus supplement have been so included in reliance on the report of Ernst & Young LLP, our independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

\$[]

Saratoga Investment Corp.

Subscription Rights

PRELIMINARY PROSPECTUS SUPPLEMENT

, 20

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN
CONJUNCTION WITH FUTURE WARRANT OFFERINGS] (1)

SUBJECT TO COMPLETION, DATED _____, 20__

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated _____, 20__)

Saratoga Investment Corp.

Warrants to Purchase Up to [Type of Security]

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are offering for sale warrants to purchase up to [type of security]. Each warrant entitles the holder to purchase [type of security].

The exercise price will be \$ _____ per warrant. The warrants will be exercisable beginning on _____, 20__, and will expire on _____, 20__, or earlier upon redemption.

Our common stock is traded on the New York Stock Exchange (“NYSE”) under the symbol “SAR.” On _____, 20__, the last reported sales price on the NYSE for our common stock was \$ _____ per share. Our net asset value per share of our common stock as of was \$ _____.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our warrants and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our warrants. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page S-14 of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Warrant	Total
Public Offering Price	\$ _____	\$ _____
Sales Load (Underwriting Discounts and Commissions)	\$ _____	\$ _____
Proceeds to the Company (before expenses)	\$ _____	\$ _____

[In addition, the underwriters may purchase up to an additional warrants from us at the public offering price, less the underwriting discount, within days of the date of this prospectus supplement to cover overallocments. If the underwriters exercise this option in full, the total public offering price will be \$ _____, the total underwriting discount (sales load) paid by us will be \$ _____, and total proceeds, before expenses, will be \$ _____.]

The underwriters expect to deliver the warrants on or about _____, 20__.

- (1) In addition to the sections outlined in this form of prospectus supplement, each prospectus supplement actually used in connection with an offering conducted pursuant to the registration statement to which this form of prospectus supplement is attached will be updated to include such other information as may then be required to be disclosed therein pursuant to applicable law or regulation as in effect as of the date of each such prospectus supplement, including, without limitation, information particular to the terms of each security offered thereby and any related risk factors or tax considerations pertaining thereto. This form of prospectus supplement is intended only to provide a rough approximation of the nature and type of disclosure that may appear in any actual prospectus supplement used for the purposes of offering securities pursuant to the registration statement to which this form of prospectus supplement is attached, and is not intended to and does not contain all of the information that would appear in any such actual prospectus supplement, and should not be used or relied upon in connection with any offer or sale of securities.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
About this Prospectus Supplement	S-1
Summary	S-2
The Offering	S-11
Fees and Expenses	S-12
Risk Factors	S-14
Cautionary Statement Regarding Forward-Looking Statements	S-15
Description of Our Warrants	S-16
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-18
Use of Proceeds	S-19
Underwriting	S-20
Legal Matters	S-23
Independent Registered Public Accounting Firm	S-24
Available Information	S-25
Index to Financial Statements	S-26

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	
Description of Our Capital Stock	131
Description of Our Subscription Rights	137
Description of Our Debt Securities	139
Description of Our Warrants	153
Plan of Distribution	155
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of warrants and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information” and “Risk Factors” included in this prospectus supplement and in the accompanying prospectus, respectively, before investing in our warrants.

Neither we nor the underwriters have authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

SUMMARY

The following summary contains basic information about the offering of our warrants pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering of our warrants pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the warrants we are offering. You should carefully read the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in the accompanying prospectus.

Except where the context requires otherwise, the terms “we,” “us,” “our,” the “Company,” or “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters’ option to purchase additional warrants.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of _____, we had total assets of _____ and investments in _____ portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of _____ as of _____. The overall portfolio composition as of _____ consisted of _____ % of middle market loans, _____ % of first lien term loans, _____ % of second lien term loans, _____ % of senior secured notes, _____ % of unsecured notes, _____ % of subordinated notes of Saratoga CLO and _____ % of common equity. As of _____, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately _____. As of _____, approximately _____ % of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at

, was composed of \$ _____ in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with _____, _____, and _____ years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a _____-year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of _____, _____% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, _____% of our debt investments at _____ had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors' investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser's investment process generally includes the following steps:

- **Initial screening.** A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed
- **Comprehensive analysis.** A comprehensive analysis includes:
- **Business and Industry analysis**—a review of the company's business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
- **Company analysis**—a review of the company's historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
- **Structural/security analysis**—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- **Approval of the investment committee.** The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company's ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our securities involves other risks, including those discussed under the caption "Risk Factors" beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in our securities. Some of these risks include:

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.

- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.
- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.

- Our ability to enter into transactions with our affiliates is restricted.
- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.

- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.
- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.
- If you exercise your warrants, you may be unable to sell any [type of security] you purchase at a profit; and
- The exercise price is not necessarily an indication of our value.

[Insert other risk factors applicable to the warrants.]

THE OFFERING

This prospectus supplement sets forth certain terms of our warrants that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of our warrants. You should read this section together with the more general description of our warrants in this prospectus supplement under the heading “Description of Our Warrants” and in the accompanying prospectus under the heading “Description of Our Warrants” before investing in our warrants. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus.

Warrants Offered by Us	, excluding warrants issuable pursuant to the over-allotment option granted to the underwriters.
Warrants Outstanding After this Offering	, excluding warrants issuable pursuant to the over-allotment option granted to the underwriters.
Exercisability	Each warrant is exercisable for [number] [type of security].
Exercise Price	[\$]
Exercise Period	The warrants will be exercisable beginning on , and will expire on , or earlier upon redemption. However, the warrants will only be exercisable if a registration statement relating to the [type of security] issuable upon exercise of the warrants is effective and current. We have agreed to use our best efforts to have an effective registration statement cover the [type of security] issuable upon exercise of the warrants from the date the warrants become exercisable and to maintain a current prospectus relating to such [type of security] until the warrants expire or are redeemed.
Redemption	<p>At any time while the warrants are exercisable, we may redeem the outstanding warrants:</p> <ul style="list-style-type: none">• in whole and not in part;• at a price of \$ per warrant;• upon a minimum of days’ prior written notice of redemption; and• if, and only if, the last sales price of our common stock equals or exceeds \$ per share for any trading days within a trading day period ending business days before we send the notice of redemption; provided that we have an effective registration statement under the Securities Act of 1933, as amended, or the Securities Act, covering the [type of security] issuable upon exercise of the warrants and a current prospectus relating to them is available on the date we give notice of redemption and during the entire period thereafter until the time we redeem the warrants.
Use of Proceeds	We intend to use the net proceeds from the sale of our warrants to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. “Use of Proceeds.”

FEES AND EXPENSES

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by “us” or “Saratoga,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Saratoga.

Stockholder transaction expenses (as a percentage of offering price):	
Sales load paid	%(1)
Offering expenses borne by us	%(2)
Dividend reinvestment plan expenses	None(3)
Total stockholder transaction expenses (as a percentage of offering price)	%
Annual expenses (as a percentage of average net assets attributable to common stock):	
Management fees	%(4)
Incentive fees payable under the investment advisory and management agreement	%(5)
Interest payments on borrowed funds	%(6)
Other expenses (estimated)	%(7)
Total annual expenses (estimated)	%(8)

EXAMPLE

The following example, required by the SEC, demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in us. In calculating the following expense amounts, we assumed we would maintain the current amount of leverage, that our operating expenses would remain at the levels set forth in the table above, that we pay the transaction expenses set forth in the table above, including a sales load of % paid by you (the commission to be paid by us with respect to the warrants sold by us in this offering).

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$	\$	\$	\$

The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown. Moreover, while the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory Agreement, which, assuming a 5% annual return, would either not be payable or have a de minimis effect, is not included in the example. If we achieve sufficient returns on our investments to trigger an incentive fee of a material amount, our expenses, and returns to our investors, would be higher. In addition, while the example assumes reinvestment of all dividends and distributions at net asset value, participants in our dividend reinvestment plan may receive shares valued at the market price in effect at that time. This price may be at, above or below net asset value. See “Dividend Reinvestment Plan” in the accompanying prospectus for additional information regarding our dividend reinvestment plan.

- (1) Represents the commission with respect to our warrants being sold in this offering, which we will pay to in connection with sales of our warrants effected by in this offering. There is no guaranty that there will be any sales of our warrants pursuant to this prospectus supplement and the accompanying prospectus.
- (2) The offering expenses of this offering are estimated to be approximately \$.
- (3) The expenses of the dividend reinvestment plan are included in “other expenses.” The participants in the dividend reinvestment plan will pay a pro rata share of brokerage commissions incurred with respect to open market purchases, if any, made by the administrator under the plan. For more details about the plan, see “Dividend Reinvestment Plan.”

- (4) Assumes gross assets of \$ million and \$ million of leverage, and assumes net assets of \$ million. Our base management fee under the investment advisory and management agreement with Saratoga Investment Advisors is based on our gross assets, which is defined as all of our assets, including those acquired using borrowings for investment purposes, but excluding cash and cash equivalents. See “Investment Advisory and Management Agreement.”
- (5) Assumes that annual incentive fees earned by Saratoga Investment Advisors remain consistent with the incentive fees earned by Saratoga Investment Advisors during the period ended . Incentive fees would increase if, and to the extent that, we earn greater interest income through our investments in portfolio companies and realize additional capital gains upon the sale of warrants or other equity investments in such companies. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our “pre-incentive fee net investment income” for the immediately preceding quarter, subject to a preferred return, or “hurdle,” and a “catch up” feature. For this purpose, “pre-incentive fee net investment income” means interest income, dividend income and any other income (including any other fees, such as commitment, origination, structuring, diligence, managerial and consulting fees or other fees that we receive from portfolio companies) accrued by us during the fiscal quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the administration agreement described below, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee).
- 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 investment advisory and management agreement) and equals 20% 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. Under the investment advisory and management agreement, 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 Saratoga Investment Advisors will be entitled to 20% of incentive fee capital gains that arise after May 31, 2010. In addition, 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. We estimate this as zero for purposes of this table as these fees are hard to predict, as they are based on capital gains and losses. See “Investment Advisory and Management Agreement.”
- (6) Assumes that we maintain our current level of \$ million of outstanding borrowings as of . Interest payments on borrowed funds represents our annualized interest expense based on the months ended . For the months ended , the effective annualized average interest rate, which includes all interest and related costs, was %. We may also issue preferred stock, which may be considered a form of leverage. While we have no present intent to do so, in the event we were to issue preferred stock, our borrowing costs, and correspondingly our total annual expenses, including our base management fee as a percentage of our net assets, would increase.
- (7) Assumes that the amount of our operating expenses remains consistent with the operating expenses incurred by us during the months ended . In addition, our “other expenses” include any fees and expenses, including underwriting discounts, associated with debt securities we expect to offer during the twelve months following the date of this prospectus supplement. These expenses are presented based on net assets attributable to common shares given that such expenses are borne directly or indirectly by our common shareholders.
- (8) The holders of shares of our common stock (and not the holders of our debt securities, if any) indirectly bear the cost associated with our annual expenses.

RISK FACTORS

Investing in our securities involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in us as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

[If you exercise your warrants, you may be unable to sell any [type of security] you purchase at a profit.

The public trading market price of our [type of security] may decline after you elect to exercise your warrants. If that occurs, you will have committed to buy [type of security] at a price above the prevailing market price and you will have an immediate unrealized loss. Moreover, we cannot assure you that following the exercise of warrants you will be able to sell your [type of security] at a price equal to or greater than the exercise price.

The exercise price is not necessarily an indication of our value.

The exercise price of the warrants does not necessarily bear any relationship to any established criteria for valuation of business development companies. You should not consider the exercise price an indication of our value or any assurance of future value. After the date of this prospectus supplement, our [type of security] may trade at prices above or below the subscription price.]

[Insert any additional relevant risk factors not included in the base prospectus to the extent required to be disclosed by applicable law or regulation.]

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus 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;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- the risks, uncertainties and other factors we identify in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the respective dates of this prospectus supplement and the accompanying prospectus. However, we will update this prospectus supplement and the accompanying prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

DESCRIPTION OF OUR WARRANTS

[No] warrants are currently outstanding. Once issued, each warrant will entitle the registered holder to purchase [one] share of [type of security] at a price of \$ [] per [security], subject to adjustment as discussed below, at any time commencing [].

The warrants will be exercisable beginning on [], and will expire on [], or earlier upon redemption. However, the warrants will be exercisable only if a registration statement relating to the [type of security] issuable upon exercise of the warrants is effective and current. We have agreed to use our best efforts to have an effective registration statement covering [type of security] issuable upon exercise of the warrants from the date the warrants become exercisable and to maintain a current prospectus relating to such [type of security] until the warrants expire or are redeemed.

At any time while the warrants are exercisable, we may redeem the outstanding warrants:

- in whole and not in part;
- at a price of \$ [] per warrant;
- upon not less than [] days' prior written notice of redemption to each warrant holder; and
- if, and only if, the reported last sale price of the [type of security] equals or exceeds \$ [] per [type of security], for any trading days within a trading day period ending on the business day prior to the notice of redemption to warrant holders,

provided that we have an effective registration statement under the Securities Act covering the [type of security] issuable upon exercise of the warrants and a current prospectus relating to them is available on the date we give notice of redemption and during the entire period thereafter until the time we redeem the warrants.

We have established the above conditions to our exercise of redemption rights with the intent of:

- providing warrant holders with adequate notice of redemption, and allowing them to exercise their warrants prior to redemption at a time when there is a reasonable premium to the warrant exercise price; and
- providing a sufficient differential between the then prevailing [type of security] price and the warrant exercise price so there is a buffer to absorb any negative market reaction to our redemption of the warrants.

The right to exercise will be forfeited unless they are exercised prior to the date specified in the notice of redemption. On and after the redemption date, a record holder of a warrant will have no further rights except to receive the redemption price for such holder's warrant upon surrender of such warrant.

The warrants will be issued in registered form under a warrant agreement between [], as warrant agent, and us.

[You should review a copy of the warrant agreement for a complete description of the terms and conditions applicable to the warrants.]

The exercise price and number of [type of security] issuable upon exercise of the warrants may be adjusted in certain circumstances, including in the event of a stock dividend, or our recapitalization, reorganization, merger or consolidation. [However, the exercise price and number of [type of security] issuable upon exercise of the warrants will not be adjusted for issuances of [type of security] at a price below the warrant exercise price.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price, by certified or official bank check payable to us, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of [type of security] or any voting rights until they exercise their warrants and receive [type of security]. After the issuance of [type of security] upon exercise of the warrants, each holder will be entitled to one vote for each [type of security] held of record on all matters to be voted on by [security holder].

No warrants will be exercisable and we will not be obligated to issue [type of security] unless at the time a holder seeks to exercise such warrant, a registration statement relating to the [type of security] issuable upon exercise of the warrants is effective and current and the [type of security] has been registered or qualified or deemed to be exempt under the securities laws of the state of residence of the holder of the warrants. Under the terms of the warrant agreement, we have agreed to use our best efforts to meet these conditions and to maintain a current prospectus relating to the [type of security] issuable upon exercise of the warrants until the expiration of the warrants. However, we cannot assure you that we will be able to do so and, if we do not maintain a current prospectus relating to the common stock issuable upon exercise of the warrants, holders will be unable to exercise their warrants and we will not be required to settle any such warrant exercise. If the prospectus relating to the [type of security] issuable upon the exercise of the warrants is not current or if the [type of security] is not qualified or exempt from qualification in the jurisdictions in which the holders of the warrants reside, we will not be required to net cash settle or cash settle the warrant exercise, the warrants may have no value, the market for the warrants may be limited and the warrants may expire worthless.

No fractional [type of security] will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a [type of security], we will, upon exercise, round up or down to the nearest whole number the number of [type of security] to be issued to the warrant holder.

We are not generally able to issue and sell our common stock, or warrants to purchase common stock, at a price below our net asset value per share unless we have stockholder approval.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

USE OF PROCEEDS

The net proceeds from our sale of our warrants in this offering are estimated to be approximately \$ _____, or \$ _____ if the underwriters' option to purchase additional warrants is exercised in full, after deducting underwriting discounts and/or commissions and estimated offering expenses payable by us. Any additional proceeds to us resulting from an increase in the number of warrants offered pursuant to this prospectus supplement will be used by us as described below.

We intend to use the net proceeds from the sale of our warrants to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See "Regulation—Business Development Company Regulations—Temporary Investments." Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See "Risk Factors—Risks Relating to Our Business and Structure—We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results" for additional information regarding this matter.

UNDERWRITING

is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the number of warrants set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Number of Warrants</u>
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the warrants included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the warrants (other than those covered by the overallotment option described below) if they purchase any of the warrants.

The underwriters propose to offer some of the warrants directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the warrants to dealers at the public offering price less a concession not to exceed \$ per share. The underwriting discount of \$ per warrant is equal to % of the initial offering price. If all of the warrants are not sold at the initial offering price, the representative may change the public offering price and other selling terms. The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an additional warrants at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional warrants approximately proportionate to that underwriter's initial purchase commitment.

We, along with each of our directors and officers, have agreed that we will not, without the prior written consent of , on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge [type of security] or securities convertible into or exchangeable for [type of security] for a period of days from the date of this prospectus supplement (the "Lock-up Period"), [provided, however, that we may issue and sell shares pursuant to our dividend reinvestment plan.] in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The Lock-up Period in the preceding paragraph will be extended if (i) during the last 17 days of the Lock-up Period we issue an earnings release or material news or a material event relating to Saratoga Investment Corp. occurs or (ii) prior to the expiration of the Lock-up Period, we announce that we will release earnings results during the 16-day period beginning on the last day of the Lock-up Period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event.

The following table shows the underwriting discounts to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional warrants. This offering will conform with the requirements set forth in Financial Industry Regulatory Authority Rule 2310. The sum of all compensation to the underwriters in connection with this offering of warrants, including the underwriting discount, will not exceed 10% of the total public offering price of the warrants sold in this offering.

	<u>No Exercise</u>	<u>Full Exercise</u>
Per Common Share	\$	\$
Total	\$	\$

Saratoga Investment Corp and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the warrants. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the warrants as a result of any market-making activities undertaken by any underwriter. This prospectus supplement is to be used by any underwriter in connection with the offering and, during the period in which a prospectus supplement must be delivered, with offers and sales of the warrants in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, _____, on behalf of the underwriters, may purchase and sell warrants in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of warrants in excess of the number of warrants to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of warrants made in an amount up to the number of warrants represented by the underwriters' overallocation option. In determining the source of warrants to close out the covered syndicate short position, the underwriters will consider, among other things, the price of warrants available for purchase in the open market as compared to the price at which they may purchase warrants through the overallocation option. Transactions to close out the covered syndicate short position involve either purchases of warrants in the open market after the distribution has been completed or the exercise of the overallocation option. The underwriters may also make "naked" short sales of warrants in excess of the overallocation option. The underwriters must close out any naked short position by purchasing warrants in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of warrants in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of warrants in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when repurchases warrants originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of warrants. They may also cause the price of warrants to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the _____, or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering, excluding the underwriting discounts, will be approximately \$ _____.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of warrants to underwriters for sale to their online brokerage account holders. The representative will allocate warrants to underwriters that may make Internet distributions on the same basis as other allocations. In addition, warrants may be sold by the underwriters to securities dealers who resell warrants to online brokerage account holders.

Certain underwriters may perform investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they receive customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

[Additional Underwriter Compensation

[to be provided as applicable]]

The principal business address of _____ is _____.

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by .

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of _____ and _____ and for each of the two years in the period ended included in the accompanying prospectus and this prospectus supplement have been so included in reliance on the report of Ernst & Young LLP, our independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

Saratoga Investment Corp.

Warrants to Purchase Up to [Type of Security]

PRELIMINARY PROSPECTUS SUPPLEMENT

, 20

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, as amended, but the information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting an offer to buy these securities in any jurisdiction where the offer and sale is not permitted.

**[FORM OF PROSPECTUS SUPPLEMENT TO BE USED IN
CONJUNCTION WITH FUTURE RETAIL NOTE OFFERINGS] (1)**

SUBJECT TO COMPLETION, DATED , 20

**PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated , 20)**

\$()

Saratoga Investment Corp.

% [Insert ranking/conversion information] Notes due []

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are offering \$ in aggregate principal amount of % [Insert ranking/conversion information] notes due , which we refer to as the Notes. [Insert relevant information regarding interest payments, redemption, etc.] [We are not required to make any principal payments on the Notes until the maturity date of the Notes.]

The Notes will be our direct unsecured obligations and rank pari passu, or equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by us. We currently do not have any indebtedness outstanding that is subordinated to the Notes and have no intention of issuing any such subordinated indebtedness. The Notes will be effectively subordinated, or junior in right of payment, to our future secured indebtedness and structurally subordinated, or junior in right of payment, to all existing and future indebtedness and other obligations of any of our subsidiaries. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and any indebtedness of any future subsidiaries may assert rights of payment prior to the holders of the Notes. See the related disclosure in “Risk Factors” beginning on page S-15 of this prospectus supplement.

[The Notes will not be rated by a rating agency and, as a result, the lack of a rating on the Notes may subject the Notes to greater price volatility.]

[Because the Company does not intend to have the Notes listed for trading on any securities exchange or otherwise, your ability to resell the Notes may be limited and the price obtained in connection with any such resale may be negatively impacted as a result thereof.]

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk debt”) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our Notes and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our Notes. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page S-15 of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<u>Per Note</u>	<u>Total</u>
Public Offering Price	%	\$
Sales Load (Underwriting Discounts and Commissions)	%	\$
Proceeds to the Company (before expenses)	%	\$

[The underwriters may also purchase up to an additional \$ _____ total aggregate principal amount of Notes offered hereby, to cover overallotments, if any, within _____ days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total public offering price will be \$ _____, the total underwriting discount (sales load) paid by us will be \$ _____, and total proceeds, before expenses, will be \$ _____.]

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about _____, 20 ____.

Prospectus Supplement dated _____, 20 ____.

-
- (1) In addition to the sections outlined in this form of prospectus supplement, each prospectus supplement actually used in connection with an offering conducted pursuant to the registration statement to which this form of prospectus supplement is attached will be updated to include such other information as may then be required to be disclosed therein pursuant to applicable law or regulation as in effect as of the date of each such prospectus supplement, including, without limitation, information particular to the terms of each security offered thereby and any related risk factors or tax considerations pertaining thereto. This form of prospectus supplement is intended only to provide a rough approximation of the nature and type of disclosure that may appear in any actual prospectus supplement used for the purposes of offering securities pursuant to the registration statement to which this form of prospectus supplement is attached, and is not intended to and does not contain all of the information that would appear in any such actual prospectus supplement, and should not be used or relied upon in connection with any offer or sale of securities.

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
About this Prospectus Supplement	S-1
Summary	S-2
Specific Terms of Our Notes and The Offering	S-11
Risk Factors	S-15
Cautionary Statement Regarding Forward-Looking Statements	S-17
Capitalization	S-18
Use of Proceeds	S-19
Ratio of Earnings to Fixed Charges	S-20
Management's Discussion and Analysis of Financial Condition and Results of Operations	S-21
Senior Securities	S-22
Material U.S. Federal Income Tax Consequences	S-23
Underwriting	S-23
Legal Matters	S-25
Independent Registered Public Accounting Firm	S-26
Available Information	S-27
Index to Financial Statements	S-28

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	
Description of Our Capital Stock	131
Description of Our Subscription Rights	137
Description of Our Debt Securities	139
Description of Our Warrants	153
Plan of Distribution	155
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is the prospectus supplement, which describes the terms of this offering of Notes and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. Please carefully read this prospectus supplement and the accompanying prospectus together with the additional information described under the headings “Available Information” and “Risk Factors” included in this prospectus supplement and in the accompanying prospectus, respectively, before investing in the Notes.

Neither we nor the underwriters have authorized any dealer, salesman or other person to give any information or to make any representation other than those contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or a solicitation of any offer to buy any security other than the registered securities to which they relate, nor do they constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction or to any person to whom it is unlawful to make such an offer or solicitation in such jurisdiction. The information contained in this prospectus supplement and the accompanying prospectus is accurate as of the dates on their respective covers. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

SUMMARY

The following summary contains basic information about the offering of our Notes pursuant to this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all the information that is important to you. For a more complete understanding of the offering of our Notes pursuant to this prospectus supplement, we encourage you to read this entire prospectus supplement and the accompanying prospectus, and the documents to which we have referred in this prospectus supplement and the accompanying prospectus. Together, these documents describe the specific terms of the Notes we are offering. You should carefully read the sections entitled “Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements included in the accompanying prospectus.

Except where the context requires otherwise, the terms “we,” “us,” “our,” the “Company,” or “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters’ option to purchase additional Notes.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of _____, we had total assets of _____ and investments in _____ portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of _____ as of _____. The overall portfolio composition as of _____ consisted of _____ % of middle market loans, _____ % of first lien term loans, _____ % of second lien term loans, _____ % of senior secured notes, _____ % of unsecured notes, _____ % of subordinated notes of Saratoga CLO and _____ % of common equity. As of _____, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately _____. As of _____, approximately _____ % of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at _____, was composed of \$ _____ in aggregate principal amount of predominantly senior secured first lien term loans. A

first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with , , and years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a -year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of _____, _____ % of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, _____ % of our debt investments at _____ had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors' investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser's investment process generally includes the following steps:

- **Initial screening.** A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed
- **Comprehensive analysis.** A comprehensive analysis includes:
- **Business and Industry analysis**—a review of the company's business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
- **Company analysis**—a review of the company's historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
- **Structural/security analysis**—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- **Approval of the investment committee.** The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company's ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our securities involves other risks, including those discussed under the caption "Risk Factors" beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in our securities. Some of these risks include:

- The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur.
- The Notes will be subordinated structurally to the indebtedness and other liabilities of our subsidiaries.
- The indenture governing the Notes will contain limited protection for holders of the Notes.
- An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.
- The optional redemption provision may materially adversely affect your return on the Notes.
- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.
- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.
- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.

- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.
- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.
- Our ability to enter into transactions with our affiliates is restricted.
- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.

- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.
- We may expose ourselves to risks if we engage in hedging transactions.

- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.

[Insert other Risk Factors applicable to debt securities.]

SPECIFIC TERMS OF OUR NOTES AND THE OFFERING

This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. This section outlines the specific legal and financial terms of the Notes. You should read this section together with the more general description of the Notes in the accompanying prospectus under the heading "Description of Our Debt Securities" before investing in the Notes. Capitalized terms used in this prospectus supplement and not otherwise defined shall have the meanings ascribed to them in the accompanying prospectus.

Issuer	Saratoga Investment Corp.
Title of the securities	% [Insert ranking/conversion information] Notes due
Initial aggregate principal amount being offered	\$
Overallotment option	The underwriters may also purchase from us up to an additional \$ aggregate principal amount of Notes to cover overallotments, if any, within days of the date of this prospectus supplement.
Initial public offering price	% of the aggregate principal amount
Principal payable at maturity	% of the aggregate principal amount; the principal amount of each Note will be payable on its stated maturity date at the office of the Paying Agent, Registrar and Transfer Agent for the Notes or at such other office in [] as we may designate.
Type of Note	[Fixed/Floating] rate note
Interest rate	% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	
Stated maturity date	
Date interest starts accruing	
Interest payment dates	Each , , and , commencing , . If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including , to , but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

Record dates for interest	Each , , and , commencing ,
[Additional Amounts Payable]	List any additional amounts payable in respect of any tax, assessment or governmental charge.]
[Conversion/Exchange]	List any provisions for convertibility or exchangeability of the debt securities into or for any other securities.]
Specified currency	U.S. Dollars
Place of payment	New York City
Ranking of Notes	The Notes will be our direct [un] secured obligations and will rank: <ul style="list-style-type: none"> • <i>pari passu</i> (equally in right of payment) with our other outstanding and future senior [un] secured indebtedness, including []; • senior to any of our future indebtedness that expressly provides it is subordinated to the Notes; structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, financing vehicles or similar facilities[, including].[We currently do not have any indebtedness outstanding that is subordinated to the Notes and have no intention of issuing any such subordinated indebtedness.] • effectively subordinated to all of our existing and future secured indebtedness (including indebtedness that is initially unsecured to which we subsequently grant security), to the extent of the value of the assets securing such indebtedness. Effective subordination means that any right you have to participate in any distribution of our assets upon our liquidation or insolvency will be subject to the prior claims of our secured creditors; and • structurally subordinated to all existing and future indebtedness and other obligations of any of our subsidiaries, including without limitation, \$[—] million of borrowings under our senior secured revolving credit facility with Madison Capital Funding LLC and \$[—] million of borrowings by Saratoga Investment Corp SBIC LP. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets.
[Collateral]	Our obligations with respect to the Notes and the performance of all of our other obligations under the indenture governing the Notes will be secured equally issued by us and ratably with our obligations under any other <i>pari passu</i> debt by a [first/second] priority security interest over [describe assets over which security is being granted].
Denominations	We will issue the Notes in denominations of \$ and integral multiples of \$ in excess thereof.
Business day	Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.
Optional redemption	The Notes may be redeemed in whole or in part at any time or from time to time at our option on or after , , upon not less than days nor more than days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of \$ per Note plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to but not including the date fixed for redemption. You may be prevented from exchanging or transferring the Notes when they are subject to a written notice of redemption issued by us [and even though the Notes are listed for trading the [name of securities exchange]]. In case any Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such Note, you will receive, without a charge, a new Note or Notes of authorized denominations representing the principal amount of your remaining unredeemed Notes.

Any exercise of our option to redeem the Notes will be done in compliance with the 1940 Act, to the extent applicable.

If we redeem only some of the Notes, the Trustee will determine the method for selection of the particular Notes to be redeemed, in accordance with the 1940 Act, to the extent applicable, and any unredeemed Notes will have the same rights and be entitled to the same benefits that the Notes had prior to any such redemption. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the Notes called for redemption.

Sinking fund

The Notes will not be subject to any sinking fund (i.e., no amounts will be set aside by us to ensure repayment of the Notes at maturity). As a result, our ability to repay the Notes at maturity will depend on our financial condition on the date that we are required to repay the Notes.

Repayment at option of Holders

Holder will not have the option to have the Notes repaid prior to the stated maturity date.

Defeasance

The Notes are subject to defeasance by us. "Defeasance" means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the Notes when due and satisfying any additional conditions noted below, we will be deemed to have been discharged from our obligations under the Notes.

Covenant defeasance

The Notes are subject to covenant defeasance by us. In the event of a "covenant defeasance," upon depositing such funds and satisfying similar conditions discussed below we would be released from the restrictive covenants under the indenture relating to the Notes. The consequences to the holders of the Notes is that, while they no longer benefit from the restrictive covenants under the indenture, and while the Notes may not be accelerated for any reason, the holders of Notes nonetheless are guaranteed to receive the principal and interest owed to them.

Form of Notes

The Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company, or DTC, or its nominee. Except in limited circumstances, you will not receive certificates for the Notes. Beneficial interests in the Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the Notes through either DTC, if they are a participant, or indirectly through organizations which are participants in DTC.

Trustee, Paying Agent, Registrar and Transfer Agent

[]

[Other limited covenants

In addition to the other limited covenants described in the prospectus attached to this prospectus supplement, the following additional limited covenants shall apply to the Notes:]

However, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries or that would be senior to our equity interests in those entities and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, [in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act];
- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, [in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act];

- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to use from our subsidiaries.

See “Risk Factors—The indenture governing the Notes will contain limited protection for holders of the Notes.”

[Listing

We intend to list the Notes on _____ within _____ days of the original issue date.]

Use of Proceeds

We intend to use substantially all of the net proceeds from the sale of our Notes to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. Pending such use, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Use of Proceeds.”

Global Clearance and Settlement Procedures

Interests in the Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the issuer, the Trustee or the paying agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

RISK FACTORS

Investing in our securities involves a number of significant risks. Before you invest in our securities, you should be aware of various risks, including those described below and those set forth in the accompanying prospectus. You should carefully consider these risk factors, together with all of the other information included in this prospectus supplement and the accompanying prospectus, before you decide whether to make an investment in our securities. The risks set out below are not the only risks we face. Additional risks and uncertainties not presently known to us or not presently deemed material by us may also impair our operations and performance. If any of the following events occur, our business, financial condition, results of operations and cash flows could be materially and adversely affected. In such case, our net asset value and the trading price of our securities could decline, and you may lose all or part of your investment. The risk factors described below, together with those set forth in the accompanying prospectus, are the principal risk factors associated with an investment in us as well as those factors generally associated with an investment company with investment objectives, investment policies, capital structure or trading markets similar to ours.

[The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we may incur.

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement or that they may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of [], we had \$[] million in outstanding indebtedness that is senior to the Notes. Certain amounts of this indebtedness are secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.]

The Notes will be subordinated structurally to the indebtedness and other liabilities of our subsidiaries.

The Notes are obligations exclusively of Saratoga Investment Corp and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors, including trade creditors, and holders of preferred stock, if any, of our subsidiaries will have priority over our claims (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be subordinated structurally to all indebtedness and other liabilities, including trade payables, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. All of the existing indebtedness of our subsidiaries would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture governing the Notes will contain limited protection for holders of the Notes.

The indenture governing the Notes offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have an adverse impact on your investment in the Notes. In particular, the terms of the indenture and the Notes will not place any restrictions on our or our subsidiaries' ability to:

- [issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and [therefore] rank [effectively] senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of

ours that is guaranteed by one or more of our subsidiaries and [which therefore] is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries;

- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes;
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.]

In addition, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity except as required by the 1940 Act.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.

The Notes are a new issue of debt securities for which there currently is no trading market. [Although we expect the Notes to be listed on ,] we cannot provide any assurances that an active trading market will develop for the Notes or that you will be able to sell your Notes. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to sell your Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

[Insert any additional relevant risk factors not included in base prospectus.]

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about our company, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as “anticipates,” “expects,” “intends,” “plans,” “will,” “may,” “continue,” “believes,” “seeks,” “estimates,” “would,” “could,” “should,” “targets,” “projects,” and variations of these words and similar expressions are intended to identify forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus 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;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

- an economic downturn could impair our portfolio companies’ ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;
- a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;
- interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;
- risks associated with possible disruption in our operations or the economy generally due to terrorism or natural disasters; and
- the risks, uncertainties and other factors we identify in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus supplement or the accompanying prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in “Risk Factors” in the accompanying prospectus and elsewhere in this prospectus supplement and the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the respective dates of this prospectus supplement and the accompanying prospectus. However, we will update this prospectus supplement and the accompanying prospectus to reflect any material changes to the information contained herein. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the “Securities Act.”

CAPITALIZATION

The following table sets forth:

- the actual capitalization of Saratoga at _____, 20____; and
- the pro forma capitalization of Saratoga to reflect the sale of \$ _____ aggregate principal amount of Notes in this offering at an assumed public offering price of 100% of par, after deducting the underwriting discounts and commissions of approximately \$ _____ payable by us.

This table should be read in conjunction with “Use of Proceeds” included in this prospectus supplement and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and notes thereto included in the accompanying prospectus.

	As of _____, 20____	
	Actual (in thousands)	Pro Forma (in thousands)
Assets:		
Cash and cash equivalents	\$ _____	\$ _____
Investments at fair value	\$ _____	\$ _____
Other assets	\$ _____	\$ _____
Total assets	\$ _____	\$ _____
Liabilities:		
Notes payable	\$ _____	\$ _____
Other Liabilities	\$ _____	\$ _____
Total Liabilities	\$ _____	\$ _____
Stockholders’ equity:		
Common stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, actual shares issued and outstanding, as adjusted		\$ _____
Capital in excess of par value		\$ _____
Total stockholders’ equity		\$ _____

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the \$ million aggregate principal amount of Notes in this offering will be approximately \$ million (or approximately \$ million if the underwriters fully exercise their overallotment option), in each case assuming a public offering price of 100% of par, after deducting the underwriting discounts and commissions of \$ million (or approximately \$ million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$ million payable by us.

We intend to use the net proceeds from the sale of our securities to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure— We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results” for additional information regarding this matter.

RATIO OF EARNINGS TO FIXED CHARGES

[Insert information required by Item 503(d) of Regulation S-K at time of offering.]

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

SENIOR SECURITIES

(dollar amounts in thousands, except per share data)

Information about our senior securities is shown in the following tables as of the end of each fiscal year since our formation and for the period ended []. The reports of our independent registered public accounting firm covering the total amount of senior securities outstanding as of and are attached as exhibits to the registration statement of which this prospectus is a part.

[Insert senior securities table.]

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

[Insert disclosure regarding material federal income tax consequences of an investment in the Notes to the extent required to be disclosed by applicable law or regulation.]

UNDERWRITING

is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the aggregate principal amount of Notes set forth opposite the underwriter’s name.

<u>Underwriter</u>	<u>Notes</u>
Total	

The underwriting agreement provides that the obligations of the underwriters to purchase the Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the Notes (other than those covered by the overallotment option described below) if they purchase any of the Notes.

The underwriters propose to offer some of the Notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to dealers at the public offering price less a concession not to exceed \$ per Note. The underwriting discount of \$ per Note is equal to % of the initial offering price. If all of the Notes are not sold at the initial offering price, the representative may change the public offering price and other selling terms.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus supplement, to purchase up to an additional \$ aggregate principal amount of the Notes offered hereby at the public offering price. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional Notes approximately proportionate to that underwriter’s initial purchase commitment.

The following table shows the underwriting discounts to be paid to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters’ option to purchase additional Notes. This offering will conform with the requirements set forth in Financial Industry Regulatory Authority Rule 2310. The sum of all compensation to the underwriters in connection with this offering of Notes, including the underwriting discount, will not exceed 10% of the total public offering price of the Notes sold in this offering.

	<u>Per Note</u>	<u>[Without Option]</u>	<u>With Option]</u>
Public offering price			
Underwriting discount			
Proceeds, before expenses, to us			

Saratoga and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on . We expect trading in the Notes on to begin within days after the original issue date. Currently there is no public market for the Notes.

Certain underwriters may make a market in the Notes. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the Notes as a result of any market-making activities undertaken by any underwriter. This prospectus supplement is to be used by any underwriter in connection with the offering and, during the period in which a prospectus supplement must be delivered, with offers and sales of the Notes in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, , on behalf of the underwriters, may purchase and sell Notes in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of Notes in excess of the number of Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of Notes made in an amount up to the number of Notes represented by the underwriters' overallocation option. In determining the source of Notes to close out the covered syndicate short position, the underwriters will consider, among other things, the price of Notes available for purchase in the open market as compared to the price at which they may purchase Notes through the overallocation option. Transactions to close out the covered syndicate short position involve either purchases of Notes in the open market after the distribution has been completed or the exercise of the overallocation option. The underwriters may also make "naked" short sales of Notes in excess of the overallocation option. The underwriters must close out any naked short position by purchasing Notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of Notes in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when repurchases Notes originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

Any of these activities may have the effect of preventing or retarding a decline in the market price of Notes. They may also cause the price of Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the , or in the over-the-counter market, or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our portion of the total expenses of this offering, excluding the underwriting discounts, will be approximately \$.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of Notes to underwriters for sale to their online brokerage account holders. The representative will allocate Notes to underwriters that may make Internet distributions on the same basis as other allocations. In addition, Notes may be sold by the underwriters to securities dealers who resell Notes to online brokerage account holders.

Certain underwriters may perform investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they receive customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

[Additional Underwriter Compensation

[to be provided as applicable]]

The principal business address of is .

LEGAL MATTERS

Certain legal matters in connection with the securities offered hereby will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, DC. Certain legal matters in connection with the offering will be passed upon for the underwriters by _____ .

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of and and for each of the two years in the period ended included in the accompanying prospectus and this prospectus supplement have been so included in reliance on the report of Ernst & Young LLP, our independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2 together with all amendments and related exhibits under the Securities Act. The registration statement contains additional information about us and the securities being offered by this prospectus supplement and the accompanying prospectus.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

\$[]

Saratoga Investment Corp.

% [Insert ranking/conversion information] Notes Due []

PRELIMINARY PROSPECTUS SUPPLEMENT

This preliminary prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell and are not soliciting offers to buy these securities in any jurisdiction where such offer or sale is not permitted.

[FORM OF PRELIMINARY PROSPECTUS SUPPLEMENT — INSTITUTIONAL NOTES OFFERINGS]

Subject To Completion, Dated []

PRELIMINARY PROSPECTUS SUPPLEMENT
(to Prospectus dated [])

\$

SARATOGA INVESTMENT CORP.

% Notes Due

We are an externally managed non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the “1940 Act.” Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

We are offering \$ in aggregate principal amount of % notes due , or the “Notes.” The Notes will mature on . We will pay interest on the Notes on and of each year, beginning on , []. In our sole discretion, we may redeem the Notes in whole or in part at any time or from time to time on or after , at the redemption price set forth under “Description of Notes—Optional Redemption” in this prospectus supplement. In addition, holders of the Notes can require us to repurchase the Notes at 100% of their principal amount upon the occurrence of a Change of Control Repurchase Event (as defined herein). The Notes will be issued in minimum denominations of \$[] and integral multiples of \$[] in excess thereof.

The Notes will be our direct senior unsecured obligations and rank pari passu, or equal in right of payment, with all outstanding and future unsecured unsubordinated indebtedness issued by Saratoga Investment Corp.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

Please read this prospectus supplement and the accompanying prospectus before investing in our Notes and keep each for future reference. This prospectus supplement and the accompanying prospectus contain important information about us that a prospective investor ought to know before investing in our Notes. We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. Information contained on our website is not incorporated by referenced into this prospectus supplement or the accompanying prospectus, and you should not consider information contained on our website to be part of this prospectus supplement or the accompanying prospectus. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains information about us.

Investing in our securities involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Supplementary Risk Factors” on page S-12 of this prospectus supplement and “Risk Factors” on page 21 of the accompanying prospectus. For example, our investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd., represents a first loss position in a portfolio that is composed predominantly of senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the collateralized loan obligation fund or losses are otherwise incurred by the collateralized loan obligation fund, including its incurrence of operating expenses in excess of its operating income.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Note	Total
Initial offering price	%	\$
Sales load (underwriting discount)	%	\$
Proceeds, before expenses, to us (1)	%	\$

(1) We estimate that we will incur approximately \$[] of expenses relating to this offering, resulting in net proceeds to us of approximately \$ million, after sales load (underwriting discount) and expenses.

The public offering price set forth above does not include accrued interest, if any. Interest on the Notes will accrue from [] and must be paid by the purchaser if the Notes are delivered after [].

THE NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.

Delivery of the Notes in book-entry form only through The Depository Trust Company will be made on or about [].

[Underwriters]

Prospectus Supplement dated []

TABLE OF CONTENTS
PROSPECTUS SUPPLEMENT

	<u>Page</u>
ABOUT THIS PROSPECTUS SUPPLEMENT	S-1
SUMMARY	S-2
THE OFFERING	S-10
RISK FACTORS	S-12
USE OF PROCEEDS	S-15
CAPITALIZATION	S-16
SELECTED FINANCIAL AND OTHER DATA	S-17
RATIOS OF EARNINGS TO FIXED CHARGES	S-18
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION	S-19
SENIOR SECURITIES	S-20
DESCRIPTION OF NOTES	S-21
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	S-31
UNDERWRITING	S-32
LEGAL MATTERS	S-35
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	S-35
AVAILABLE INFORMATION	S-35
INDEX TO FINANCIAL STATEMENTS	S-36

PROSPECTUS

	<u>Page</u>
Prospectus Summary	1
The Offering	12
Fees and Expenses	16
Selected Financial and Other Data	19
Risk Factors	21
Use of Proceeds	42
Ratio of Earnings to Fixed Charges	42
Notice About Forward-Looking Statements	43
Price Range of Common Stock and Distributions	44
Dividend Reinvestment Plan	48
Management's Discussion and Analysis of Financial Condition and Results of Operations	50
Senior Securities	76
Business	77
Our Portfolio Companies	89
Management Agreements	94
Management	101
Portfolio Management	109
Certain Relationships and Transactions	110
Control Persons and Principal Stockholders	110
Regulation	112
Material U.S. Federal Income Tax Considerations	118
Determination of Net Asset Value	123
Sales of Common Stock Below NAV	126
Description of Our Securities	
Description of Our Capital Stock	131
Description of Our Subscription Rights	137
Description of Our Debt Securities	139
Description of Our Warrants	153
Plan of Distribution	155
Brokerage Allocation and Other Practices	157
Custodian, Transfer and Dividend Paying Agent and Registrar	157
Legal Matters	157
Independent Registered Public Accounting Firm	157
Available Information	157
Privacy Notice	158
Index to Consolidated Financial Statements	F-1

ABOUT THIS PROSPECTUS SUPPLEMENT

You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. Neither we nor the underwriters have authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. Neither this prospectus supplement nor the accompanying prospectus constitutes an offer to sell, or a solicitation of an offer to buy, any Notes by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of the Notes. Our financial condition, results of operations and prospects may have changed since those dates. To the extent required by law, we will amend or supplement the information contained in this prospectus supplement and the accompanying prospectus to reflect any material changes to such information subsequent to the date of this prospectus supplement and the accompanying prospectus and prior to the completion of any offering pursuant to this prospectus supplement and the accompanying prospectus.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of Notes and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from or is additional to the information contained in the accompanying prospectus, you should rely only on the information contained in this prospectus supplement. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading “Available Information” before investing in our Notes.

Forward-Looking Statements

Information contained in this prospectus supplement and the accompanying prospectus may contain forward-looking statements. In addition, forward-looking statements can generally be identified by the use of forward-looking terminology such as “may,” “will,” “expect,” “intend,” “anticipate,” “estimate,” or “continue” or the negative thereof or other variations thereon or comparable terminology. The matters described in “Supplementary Risk Factors” in this prospectus supplement, and in “Risk Factors” in the accompanying prospectus, and certain other factors noted throughout this prospectus supplement and the accompanying prospectus constitute cautionary statements identifying important factors with respect to any such forward-looking statements, including certain risks and uncertainties that could cause actual results to differ materially from those in such forward-looking statements. The forward-looking statements contained in this prospectus supplement and the accompanying prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, or the Securities Act. For a list of factors that could affect these forward-looking statements, see “Supplementary Risk Factors” in this prospectus supplement, and “Risk Factors” and “Special Note Regarding Forward-Looking Statements” in the accompanying prospectus.

Suitability

Investing in the Notes involves a high degree of risk, including the risk of loss of principal. In addition, there is no assurance that an active trading market will develop for the Notes. See “Supplementary Risk Factors” in this prospectus supplement and “Risk Factors” in the accompanying prospectus. Investors should not purchase the Notes unless they are able to bear the risk of loss of their principal. The Notes should only be purchased as part of a carefully considered investment program.

SUMMARY

This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that is important to you. To understand the terms of the Notes offered pursuant to this prospectus supplement and the accompanying prospectus, you should read the entire prospectus supplement and the accompanying prospectus carefully. Together, these documents describe the specific terms of the Notes we are offering.

Except where the context requires otherwise, the terms “we,” “us,” “our,” the “Company,” or “Saratoga” refer to Saratoga Investment Corp. and its wholly owned subsidiaries; Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP, and does not refer to Saratoga Investment Corp. CLO 2013-1 Ltd. In addition, the terms “Saratoga Investment Advisors” and “investment adviser” refer to Saratoga Investment Advisors, LLC, our external investment adviser. Except as otherwise noted, all information in this prospectus supplement and the accompanying prospectus assumes no exercise of the underwriters’ option to purchase additional Notes.

Overview

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of between \$5 million and \$50 million, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are externally managed and advised by Saratoga Investment Advisors, LLC, a New York-based investment firm affiliated with Saratoga Partners, a middle market private equity investment firm.

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including 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.

As of [REDACTED], we had total assets of [REDACTED] and investments in [REDACTED] portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”), which investment had a fair value of [REDACTED] as of [REDACTED]. The overall portfolio composition as of [REDACTED] consisted of [REDACTED] % of middle market loans, [REDACTED] % of first lien term loans, [REDACTED] % of second lien term loans, [REDACTED] % of senior secured notes, [REDACTED] % of unsecured notes, [REDACTED] % of subordinated notes of Saratoga CLO and [REDACTED] % of common equity. As of [REDACTED], the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately [REDACTED]%. As of [REDACTED], approximately [REDACTED] % of our first lien debt investments were fully collateralized in the sense that the portfolio companies in which we held such investments had an enterprise value or our investment had an asset coverage equal to or greater than the principal amount of the related debt investment. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at [REDACTED], was composed of \$ [REDACTED] in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.”

We are an externally managed, closed-end, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowing.

We have elected to be treated for U.S. federal income tax purposes as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986 (the “Code”). As a RIC, we generally will not have to pay corporate-level federal income taxes on any net ordinary income or capital gains that we distribute to our stockholders if we meet certain source-of-income, distribution and asset diversification requirements.

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. 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.

The Investment Adviser

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with _____, _____, and _____ years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a _____-year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

We utilize the personnel, infrastructure, relationships and experience of Saratoga Investment Advisors to enhance the growth of our business. We currently have no employees and each of our executive officers is also an officer of Saratoga Investment Advisors.

We have entered into an investment advisory and management agreement with Saratoga Investment Advisors. Pursuant to the investment advisory and management agreement, Saratoga Investment Advisors implements our business strategy on a day-to-day basis and performs certain services for us under the direction of our board of directors. Saratoga Investment Advisors is responsible for, among other duties, performing all of our day-to-day investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

Saratoga Investment Advisors has formed an investment committee to advise and consult with its senior management team with respect to our investment policies, investment portfolio holdings, financing and leveraging strategies and investment guidelines. We believe that the collective experience of the investment committee members across a variety of fixed income asset classes will benefit us. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by three out of four investment committee members. The current members of the investment committee are Messrs. Oberbeck, Grisius, Inglesby, and Phillips.

Investments

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a network of relationships with commercial and investment banks, commercial finance companies and financial sponsors. The leveraged loans that we purchase are generally used to finance buyouts, acquisitions, growth, recapitalizations and other types of transactions. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion risks pertaining to our secured investments, see “Risk Factors—Our investments may be risky, and you could lose all or part of our investment.”

As part of our long-term strategy, we also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. See “Risk Factors—If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies defaults on their indebtedness.”

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. As of , % of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, % of our debt investments at had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

Prospective portfolio company characteristics

Our investment adviser generally selects portfolio companies with one or more of the following characteristics:

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, including an established tangible liquidation value;
- reasonable debt-to-cash flow multiples;
- industry leadership with competitive advantages and sustainable market shares in attractive sectors; and
- capital structures that provide appropriate terms and reasonable covenants.

Investment selection

In managing us, Saratoga Investment Advisors employs the same investment philosophy and portfolio management methodologies used by Saratoga Partners. Through this investment selection process, based on quantitative and qualitative analysis, Saratoga Investment Advisors seeks to identify portfolio companies with superior fundamental risk-reward profiles and strong, defensible business franchises with the goal of minimizing principal losses while maximizing risk-adjusted returns. Saratoga Investment Advisors’ investment process emphasizes the following:

- bottoms-up, company-specific research and analysis;
- capital preservation, low volatility and minimization of downside risk; and
- investing with experienced management teams that hold meaningful equity ownership in their businesses.

Our investment adviser’s investment process generally includes the following steps:

- Initial screening. A brief analysis identifies the investment opportunity and reviews the merits of the transaction. The initial screening memorandum provides a brief description of the company, its industry, competitive position, capital structure, financials, equity sponsor and deal economics. If the deal is determined to be attractive by the senior members of the deal team, the opportunity is fully analyzed

- Comprehensive analysis. A comprehensive analysis includes:
- Business and Industry analysis—a review of the company’s business position, competitive dynamics within its industry, cost and growth drivers and technological and geographic factors. Business and industry research often includes meetings with industry experts, consultants, other investors, customers and competitors.
- Company analysis—a review of the company’s historical financial performance, future projections, cash flow characteristics, balance sheet strength, liquidation value, legal, financial and accounting risks, contingent liabilities, market share analysis and growth prospects.
- Structural/security analysis—a thorough legal document analysis including but not limited to an assessment of financial and negative covenants, events of default, enforceability of liens and voting rights.
- Approval of the investment committee. The investment is then presented to the investment committee for approval. The investment committee must unanimously approve all investments in excess of \$1 million made by us. In addition, all sales of our investments must be approved by four out of five investment committee members.

Investment structure

In general, our investment adviser intends to select investments with financial covenants and terms that reduce leverage over time, thereby enhancing credit quality. These methods include:

- maintenance leverage covenants requiring a decreasing ratio of debt to cash flow;
- maintenance cash flow covenants requiring an increasing ratio of cash flow to the sum of interest expense and capital expenditures; and
- debt incurrence prohibitions, limiting a company’s ability to re-lever.

In addition, limitations on asset sales and capital expenditures should prevent a company from changing the nature of its business or capitalization without our consent.

Our investment adviser seeks, where appropriate, to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential equity appreciation) that compensates us for credit risk;
- requiring companies to use a portion of their excess cash flow to repay debt;
- selecting investments with covenants that incorporate call protection as part of the investment structure; and
- selecting investments with affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Valuation process

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors. Investments for which market quotations are readily available are recorded in our financial statements at such market quotations 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 Advisors, our audit committee and, on a selected basis, 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, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

Our investment in the subordinated notes of 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 similar collateralized loan obligation fund subordinated notes or equity, when available. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for Saratoga CLO's valuation. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated cash flows. 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 from our investment in Saratoga CLO) to perform a discounted cash flows analysis on expected future cash flows from our investment in Saratoga CLO to determine a valuation for the subordinated notes of Saratoga CLO held by us.

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 independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an 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 investment adviser 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 our investment adviser, independent valuation firm (if applicable) and audit committee.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value 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.

Ongoing relationships with and monitoring of portfolio companies

Saratoga Investment Advisors closely monitors each investment we make and, when appropriate, conducts a regular dialogue with both the management team and other debtholders and seeks specifically tailored financial reporting. In addition, in certain circumstances, senior investment professionals of Saratoga Investment Advisors may take board seats or board observation seats.

Recent Developments

Our Corporate Information

Our headquarters are located at 535 Madison Avenue, New York, New York 10022 and our telephone number is (212) 906-7800.

Summary Risk Factors

The value of our assets, as well as the market price of our securities, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in our securities involves other risks, including those discussed under the caption "Risk Factors" beginning on page [] of the accompanying prospectus. In addition, the other information included in this prospectus supplement and the accompanying prospectus contains a discussion of factors you should carefully consider before deciding to invest in our securities. Some of these risks include:

- The current state of the economy and financial markets increases the likelihood of adverse effects on our financial position and results of operations.

- Saratoga Investment Advisors has a limited history of managing a BDC or a RIC.
- We may be obligated to pay Saratoga Investment Advisors incentive fees even if we incur a net loss or there is a decline in the value of our portfolio.
- Under the terms of the investment advisory and management agreement, we may have to pay incentive fees to Saratoga Investment Advisors in connection with the sale of an investment that is sold at a price higher than the fair value of such investment on May 31, 2010, even if we incur a loss on the sale of such investment.
- The way in which the base management and incentive fees under the investment advisory and management agreement is determined may encourage Saratoga Investment Advisors to take actions that may not be in the best interests of the holders of the Notes.
- The base management fee we pay to Saratoga Investment Advisors may cause it to increase our leverage contrary to our interest.
- We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in the Notes.
- Saratoga Investment Advisors' liability is limited under the investment advisory and management agreement and we will indemnify Saratoga Investments Advisors against certain liabilities, which may lead it to act in a riskier manner on our behalf than it would when acting for its own account.
- Substantially all of our assets are subject to security interests under the Credit Facility, or claims of the SBA with respect to SBA-guaranteed debentures we may issue and if we default on our obligations thereunder, we may suffer adverse consequences, including Madison Capital Funding and/or the SBA foreclosing on our assets.
- We are exposed to risks associated with changes in interest rates, including potential effects on our cost of capital and net investment income.
- There are significant potential conflicts of interest which could adversely impact our investment returns.
- Changes in laws or regulations governing our operations, or changes in the interpretation thereof, and any failure by us to comply with laws or regulations governing our operations may adversely affect our business.
- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.
- Pending legislation may allow us to incur additional leverage.
- The agreement governing the Credit Facility contains various covenants that, among other things, limits our discretion in operating our business and provides for certain minimum financial covenants.
- A failure on our part to maintain our qualification as a BDC would significantly reduce our operating flexibility.
- We will be subject to corporate-level income tax if we fail to continue to qualify as a RIC.
- Because we intend to distribute between 90% and 100% of our income to our stockholders in connection with our election to be treated as a RIC, we will continue to need additional capital to finance our growth. If additional funds are unavailable or not available on favorable terms, our ability to grow will be impaired.

- We may have difficulty paying our required distributions if we recognize income before or without receiving cash in respect of such income.
- Our ability to enter into transactions with our affiliates is restricted.
- We operate in a highly competitive market for investment opportunities.
- Economic recessions or downturns could impair our portfolio companies and harm our operating results.
- We are a non-diversified investment company within the meaning of the 1940 Act, and therefore we are not limited with respect to the proportion of our assets that may be invested in securities of a single issuer.
- Our financial condition and results of operation depend on our ability to manage future investments effectively.
- We may experience fluctuations in our quarterly results.
- Substantially all of our portfolio investments are recorded at fair value as approved in good faith by our board of directors; such valuations are inherently uncertain and may be materially higher or lower than the values that we ultimately realize upon the disposal of such investments.
- If we make unsecured debt investments, we may lack adequate protection in the event our portfolio companies become distressed or insolvent and will likely experience a lower recovery than more senior debtholders in the event our portfolio companies default on their indebtedness.
- If we invest in the securities and other obligations of distressed or bankrupt companies, such investments may be subject to significant risks, including lack of income, extraordinary expenses, uncertainty with respect to satisfaction of debt, lower-than expected investment values or income potentials and resale restrictions.
- Second priority liens on collateral securing loans that we make to our portfolio companies may be subject to control by senior creditors with first priority liens. If there is a default, the value of the collateral may not be sufficient to repay in full both the first priority creditors and us.
- The lack of liquidity in our investments may adversely affect our business.
- The debt securities in which we invest are subject to credit risk and prepayment risk.
- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.

- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- 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.
- Investing in our common stock may involve an above average degree of risk.
- We may continue to choose to pay dividends in our own stock, in which case you may be required to pay tax in excess of the cash you receive.
- The market price of our common stock may fluctuate significantly.
- There is a risk that you may not receive distributions or that our distributions may not grow over time.
- Provisions of our governing documents and the Maryland General Corporation Law could deter future takeover attempts and have an adverse impact on the price of our common stock.
- Our common stock may trade at a discount to our net asset value per share.
- Stockholders may incur dilution if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.
- The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.
- The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.
- The indenture s under which the Notes will be issued will contain limited protection for holders of the Notes.
- An active trading market for the Notes may not develop, which could limit the market price of the Notes or your ability to sell them.
- If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.
- We may not be able to repurchase the Notes upon a Change of Control Repurchase Event.

THE OFFERING

This prospectus supplement sets forth certain terms of the Notes that we are offering pursuant to this prospectus supplement and supplements the accompanying prospectus that is attached to the back of this prospectus supplement. You should read this section together with the more general description of the Notes under the heading “Description of Notes” in this prospectus supplement and in the accompanying prospectus under the heading “Description of Our Debt Securities” before investing in the Notes.

Issuer	Saratoga Investment Corp.
Notes	% Notes due .
Initial aggregate principal amount being offered	\$
Initial public offering price Maturity Date	[]% of the aggregate principal amount.
Interest Payment Dates	and , commencing , []. Interest will accrue from , [].
Ranking of Notes	<p>The Notes will be our general unsecured obligations that rank senior in right of payment to all of our existing and future indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will rank equally in right of payment with all of our existing and future senior liabilities that are not so subordinated, effectively junior to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness, and structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities.</p> <p>As of [], our total consolidated indebtedness was approximately \$[] million principal amount. After giving effect to the issuance of the Notes our total consolidated indebtedness would have been approximately \$ principal amount as of []. See “Capitalization.”</p>
Use of Proceeds	We intend to use the net proceeds from the sale of our securities to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings. See “Use of Proceeds”
Denominations	We will issue the Notes in denominations of \$[] and integral multiples of \$[] in excess thereof.
Optional Redemption	We may redeem some or all of the Notes at any time, or from time to time, at a redemption price described in this prospectus supplement. See “Description of Notes—Optional Redemption.” [Before redeeming any Notes, we may have to comply with certain requirements under any credit facility that we may establish in the future, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.]
Sinking Fund	The Notes will not be subject to any sinking fund.
Defeasance and covenant defeasance	The Notes are subject to defeasance by us. The Notes are subject to covenant defeasance by us.
Offer to Purchase upon a Change of Control Repurchase Event	If a Change of Control Repurchase Event, as defined in the indenture that governs the Notes, occurs prior to maturity, holders will have the right, at their option, to require us to repurchase for cash some or all of the Notes at a repurchase price equal to 100% of the principal amount of the Notes being repurchased, plus accrued and unpaid interest to, but not including, the repurchase date. [Before making any such repurchase of Notes, we may have to comply with certain requirements under any credit facility that we may establish in the future, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.]
Trustee, Paying Agent, Registrar and Transfer Agent	[]

No Established Trading Market

The Notes are a new issue of securities with no established trading market. The Notes will not be listed on any securities exchange or quoted on any automated dealer quotation system. Although certain of the underwriters have informed us that they intend to make a market in the Notes, they are not obligated to do so, and may discontinue any such market making at any time without notice. Accordingly, we cannot assure you that a liquid market for the Notes will develop or be maintained.

Other Covenants

- We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the U.S. Securities and Exchange Commission (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. See “Risk Factors—Risks Relating to Our Business and Structure—Pending legislation may allow us to incur additional leverage,” in the accompanying prospectus.
- We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to any exemptive relief granted to us by the SEC. 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.
- If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the Trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

RISK FACTORS

Investing in the Notes involves a high degree of risk. In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the following supplementary risk factors together with the risk factors set forth in the accompanying prospectus before making an investment in the Notes. The risks set out below and in the accompanying prospectus are not the only risks we face. Additional risks and uncertainties not presently known to us might also impair our operations and performance. If any of the events described herein or in the accompanying prospectus occur, our business, financial condition and results of operations could be materially and adversely affected. In such case, our net asset value and the market price of the Notes could decline, and there is a possibility that you could lose part or all of your investment.

Risks Relating to the Notes

The Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have currently incurred or may incur in the future.

The Notes will not be secured by any of our assets or any of the assets of our subsidiaries. As a result, the Notes are effectively subordinated to any secured indebtedness we or our subsidiaries have outstanding as of the date of this prospectus supplement or that they may incur in the future (or any indebtedness that is initially unsecured to which we subsequently grant security) to the extent of the value of the assets securing such indebtedness. In any liquidation, dissolution, bankruptcy or other similar proceeding, the holders of any of our existing or future secured indebtedness and the secured indebtedness of our subsidiaries may assert rights against the assets pledged to secure that indebtedness in order to receive full payment of their indebtedness before the assets may be used to pay other creditors, including the holders of the Notes. As of [], we had \$[] million in outstanding indebtedness that is senior to the Notes. Certain amounts of this indebtedness are secured by certain of our assets and the indebtedness thereunder is therefore effectively senior to the Notes to the extent of the value of such assets.

The Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The Notes are obligations exclusively of Saratoga Investment Corp. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the Notes and the Notes are not required to be guaranteed by any subsidiaries we may acquire or create in the future. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors, including trade creditors, and holders of preferred stock, if any, of our subsidiaries will have priority over our equity interests in such subsidiaries (and therefore the claims of our creditors, including holders of the Notes) with respect to the assets of such subsidiaries. Even if we were recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the Notes will be structurally subordinated structurally to all indebtedness and other liabilities, including trade payables, of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish as financing vehicles or otherwise. All of the existing indebtedness of our subsidiaries would be structurally senior to the Notes. In addition, our subsidiaries may incur substantial additional indebtedness in the future, all of which would be structurally senior to the Notes.

The indenture under which the Notes will be issued will contain limited protection for holders of the Notes.

The indenture under which the Notes will be issued offers limited protection to holders of the Notes. The terms of the indenture and the Notes do not restrict our or any of our subsidiaries' ability to engage in, or otherwise be a party to, a variety of corporate transactions, circumstances or events that could have a material adverse impact on your investment in the Notes. In particular, the terms of the indenture relating to the Notes and the Notes themselves will not place any restrictions on our or our subsidiaries' ability to:

- issue securities or otherwise incur additional indebtedness or other obligations, including (1) any indebtedness or other obligations that would be equal in right of payment to the Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the Notes to the extent of the values of the assets securing such debt, (3) indebtedness of ours that is guaranteed by one or more of our subsidiaries and which therefore is structurally senior to the Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries that would be senior to our equity interests in our subsidiaries and therefore rank structurally senior to the Notes with respect to the assets of our subsidiaries, in each case other than an incurrence of indebtedness or other obligation that would cause a violation of Section 18(a)(1)(A), as modified by Section 61(a)(1), of the 1940 Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, 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);
- pay dividends on, or purchase or redeem or make any payments in respect of, capital stock or other securities ranking junior in right of payment to the Notes, including subordinated indebtedness, in each case other than dividends, purchases, redemptions or payments that would cause a violation of Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions giving effect to any exemptive relief granted to us by the SEC (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);
- sell assets (other than certain limited restrictions on our ability to consolidate, merge or sell all or substantially all of our assets);
- enter into transactions with affiliates;
- create liens (including liens on the shares of our subsidiaries) or enter into sale and leaseback transactions;
- make investments; or
- create restrictions on the payment of dividends or other amounts to us from our subsidiaries.

Furthermore, the terms of the indenture and the Notes do not protect holders of the Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, as they do not require that we or our subsidiaries adhere to any financial tests or ratios or specified levels of net worth, revenues, income, cash flow or liquidity.

Our ability to recapitalize, incur additional debt and take a number of other actions that are not limited by the terms of the Notes may have important consequences for you as a holder of the Notes, including making it more difficult for us to satisfy our obligations with respect to the Notes or negatively affecting the trading value of the Notes.

Certain of our current debt instruments include more protections for their holders than the indenture and the Notes. In addition, other debt we issue or incur in the future could contain more protections for its holders than the indenture and the Notes, including additional covenants and events of default. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the Notes.

If an active trading market for the Notes does not develop, you may not be able to resell them.

The Notes will be a new issue of debt securities for which there currently is no trading market. [We do not intend to apply to list the Notes on any securities exchange or for quotation of the Notes on any automated dealer quotation system.] If no active trading market develops, you may not be able to resell your Notes at their fair market value or at all. If the Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. Certain of the underwriters have advised us that they may make a market in the Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the Notes at any time at their sole discretion. Accordingly, we cannot assure you that a liquid trading market will develop for the Notes, that you will be able to resell your Notes at a particular time or that the price you receive when you resell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the Notes for an indefinite period of time.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the Notes.

Any default under the agreements governing our indebtedness and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the Notes and substantially decrease the market value of the Notes. If we are unable to generate sufficient cash flow and are otherwise unable to obtain funds necessary to meet required payments of principal, premium, if any, and interest on our indebtedness, or if we otherwise fail to comply with the various covenants, including financial and operating covenants, in the instruments governing our indebtedness, we could be in default under the terms of the agreements governing such indebtedness. In the event of such default, the holders of such indebtedness could elect to declare all the funds borrowed thereunder to be due and payable, together with accrued and unpaid interest, the lenders under other debt we may incur in the future could elect to terminate their commitments, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. If our operating performance declines, we may in the future need to seek to obtain waivers from the required holders of our other debt or debt that we may incur in the future to avoid being in default. If we breach our covenants under our debt and seek a waiver, we may not be able to obtain a waiver from the required lenders or holders. If this occurs, we would be in default and our lenders or debt holders could exercise their rights as described above, and we could be forced into bankruptcy or liquidation. If we are unable to repay debt, lenders having secured obligations, could proceed against the collateral securing the debt.

We may not be able to repurchase the Notes upon a Change of Control Repurchase Event.

Upon the occurrence of a Change of Control Repurchase Event, as defined in the indenture that governs the Notes, as supplemented, subject to certain conditions, we will be required to offer to repurchase all outstanding Notes at 100% of their principal amount, plus accrued and unpaid interest. The source of funds for that purchase of Notes will be our available cash or cash generated from our operations or other potential sources, including borrowings, investment repayments, sales of assets or sales of equity. We cannot assure you that sufficient funds from such sources will be available at the time of any Change of Control Repurchase Event to make required repurchases of Notes tendered. If we do not satisfy our obligation to the holders of the Notes to repurchase Notes in connection with a Change of Control Repurchase Event, the failure to repurchase Notes could cause a default under our future debt instruments, even if the Change of Control Repurchase Event itself would not cause a default. It is possible that we will not have sufficient funds at the time of the Change of Control Repurchase Event to make the required repurchase of the Notes and/or our other debt.

USE OF PROCEEDS

We estimate that the net proceeds we will receive from the sale of the \$ million aggregate principal amount of Notes in this offering will be approximately \$ million (or approximately \$ million if the underwriters fully exercise their overallotment option), in each case assuming a public offering price of 100% of par, after deducting the underwriting discounts and commissions of \$ million (or approximately \$ million if the underwriters fully exercise their overallotment option) payable by us and estimated offering expenses of approximately \$ million payable by us.

We intend to use the net proceeds from the sale of our securities to make investments in middle-market companies in accordance with our investment objective and strategies described in this prospectus supplement, and for general corporate purposes. We may also use a portion of the net proceeds to reduce any of our outstanding borrowings.

We anticipate that substantially all of the net proceeds from this offering will be used as described above within six to twelve months, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest the net proceeds primarily in high quality, short-term debt securities consistent with our business development company election and our election to be taxed as a RIC. See “Regulation—Business Development Company Regulations—Temporary Investments.” Our ability to achieve our investment objective may be limited to the extent that the net proceeds from an offering, pending full investment, are held in interest-bearing deposits or other short-term instruments. See “Risk Factors—Risks Relating to Our Business and Structure— We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results” for additional information regarding this matter.

CAPITALIZATION

The following table set forth:

- the actual capitalization of Saratoga Investment Corp. at , 20 ; and
- the pro forma capitalization of Saratoga Investment Corp. to give effect to the sale of \$ aggregate principal amount of Notes assuming a public offering price of 100% of par, after deducting the underwriting discounts and commissions of \$ million payable by us and estimated offering expenses of approximately \$ payable by us.

This table should be read in conjunction with “Use of Proceeds” included in this prospectus supplement and our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and financial statements and notes thereto included in the accompanying prospectus.

	As of , 20	
	Saratoga Investment Corp. <u>Actual</u> (in thousands)	Saratoga Investment Corp. <u>Pro Forma</u> (in thousands)
Assets:		
Cash and cash equivalents	\$	\$
Investments at fair value	\$	\$
Other assets	\$	\$
Total assets	\$	\$
Liabilities:		
Notes payable net of discount	\$	\$
Other Liabilities	\$	\$
Total Liabilities	\$	\$
Stockholders’ equity:		
Common stock, par value \$0.01 per share; shares authorized, shares issued and outstanding, shares issued and outstanding, as adjusted, respectively		\$
Capital in excess of par value		\$
Total stockholders’ equity		\$

SELECTED FINANCIAL AND OTHER DATA

The following selected financial data should be read together with our Consolidated Financial Statements and the related notes and the discussion under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” which are included elsewhere in this prospectus supplement and the accompanying prospectus. The financial information as of and for the fiscal years ended February 28, [], [], [], [] and [], set forth below was derived from our audited Consolidated Financial Statements and related notes. The financial information as of and for the three months ended [] and [] was derived from our unaudited financial statements and related notes. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The historical financial information below may not be indicative of our future performance. Our results for the interim period may not be indicative of our results for the full year.

[Insert selected financial data table.]

RATIOS OF EARNINGS TO FIXED CHARGES

The following table contains our ratio of earnings to fixed charges for the periods indicated, computed as set forth below. You should read these ratios of earnings to fixed charges in connection with our Consolidated Financial Statements, including the notes to those statements, included in the accompanying prospectus.

	For The Year Ended February 28, 2013	For The Year Ended February 28, 2012	For The Year Ended February 28, 2011	For The Year Ended February 28, 2010	For The Year Ended February 28, 2009
Earnings to Fixed Charges(1)	[]	[]	[]	[]	[]

(1) Earnings include net realized and unrealized gains or losses. Net realized and unrealized gains or losses can vary substantially from period to period.

For purposes of computing the ratios of earnings to fixed charges, earnings represent net increase in net assets resulting from operations plus (or minus) income tax expense (benefit) including excise tax expense plus fixed charges. Fixed charges include interest and other financing fees and amortization of debt issuance costs.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement and the accompanying prospectus. In addition to historical information, the following discussion and other parts of this prospectus supplement and the accompanying prospectus 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 "Risk Factors" and "Cautionary Statement Regarding Forward-Looking Statements" appearing elsewhere in this prospectus supplement and the accompanying prospectus.

[Insert from most recent periodic filing]

SENIOR SECURITIES

(dollar amounts in thousands, except per share data)

Information about our senior securities is shown in the following tables as of the end of each fiscal year since our formation and for the period ended []. The reports of our independent registered public accounting firm covering the total amount of senior securities outstanding as of and are attached as exhibits to the registration statement of which this prospectus is a part.

[Insert senior securities table.]

DESCRIPTION OF NOTES

The following description of the particular terms of the % Notes due supplements and, to the extent inconsistent with, replaces the description of the general terms and provisions of the debt securities set forth in the accompanying prospectus.

We will issue the Notes under a base indenture dated as of [], 20[], between us and [], as trustee (the “trustee”), as supplemented by a separate supplemental indenture to be dated as of the settlement date for the Notes. As used in this section, all references to the indenture mean the base indenture as supplemented by the supplemental indenture. The terms of the Notes include those expressly set forth in the indenture and those made part of the indenture by reference to the Trust Indenture Act of 1939, or the TIA.

This section includes a description of the material terms of the Notes and the indenture. Because this section is a summary, however, it does not describe every aspect of the Notes and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the Notes.

For purposes of this description, references to “we,” “our” and “us” refer only to Saratoga Investment Corp. and not to any of its current or future subsidiaries and references to “subsidiaries” refer only to our consolidated subsidiaries and exclude any investments held by Saratoga Investment Corp. in the ordinary course of business which are not, under GAAP, consolidated on the financial statements of Saratoga Investment Corp. and its subsidiaries.

General

The Notes:

- will be our general unsecured, senior obligations;
- will initially be issued in an aggregate principal amount of \$ million;
- will mature on , , unless earlier redeemed or repurchased, as discussed below;
- will bear cash interest from , [] at an annual rate of % payable semi-annually on and of each year, beginning on [];
- will be subject to redemption at our option as described under “- Optional Redemption;”
- will be subject to repurchase by us at the option of the holders following a Change of Control Repurchase Event (as defined below under “- Offer to Repurchase Upon a Change of Control Repurchase Event”), at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the date of repurchase;
- will be issued in denominations of \$[] and integral multiples of \$[] thereof; and
- will be represented by one or more registered Notes in global form, but in certain limited circumstances may be represented by Notes in definitive form. See “- Book-Entry, Settlement and Clearance.”

The indenture does not limit the amount of debt that may be issued by us or our subsidiaries under the indenture or otherwise, but does contain a covenant regarding our asset coverage that would have to be satisfied at the time of our incurrence of additional indebtedness. See “Covenants—Other Covenants.” Other than the foregoing, the indenture does not contain any financial covenants and does not restrict us from paying dividends or issuing or repurchasing our other securities. Other than restrictions described under “- Offer to Repurchase Upon a Change of Control Repurchase Event” and “- Merger, Consolidation or Sale of Assets” below, the indenture does not contain any covenants or other provisions designed to afford holders of the Notes protection in the event of a highly leveraged transaction involving us or in the event of a decline in our credit rating as the result of a takeover, recapitalization, highly leveraged transaction or similar restructuring involving us that could adversely affect such holders.

We may, without the consent of the holders, issue additional Notes under the indenture with the same terms as the Notes offered hereby in an unlimited aggregate principal amount; *provided* that, if such additional Notes are not fungible with the Notes offered hereby (or any other tranche of additional Notes) for U.S. federal income tax purposes, then such additional Notes will have different CUSIP numbers from the Notes offered hereby (and any such other tranche of additional Notes).

We do not intend to list the Notes on any securities exchange or any automated dealer quotation system.

Payments on the Notes; Paying Agent and Registrar; Transfer and Exchange

We will pay the principal of, and interest on, the Notes in global form registered in the name of or held by DTC or its nominee in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of such Global Note (as defined below).

Payment of principal of (and premium, if any) and any such interest on the Notes will be made at the corporate trust office of the trustee in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at our option payment of interest may be made by check mailed to the address of the person entitled thereto as such address shall appear in the security register.

A holder of the Notes may transfer or exchange Notes at the office of the registrar in accordance with the indenture. The registrar and the trustee may require a holder, among other things, to furnish appropriate endorsements and transfer documents. No service charge will be imposed by us, the trustee or the registrar for any registration of transfer or exchange of Notes, but we may require a holder to pay a sum sufficient to cover any transfer tax or other similar governmental charge required by law or permitted by the indenture.

The registered holder of a Note will be treated as its owner for all purposes.

Interest

The Notes will bear cash interest at a rate of _____ % per year until maturity. Interest on the Notes will accrue from _____, [_____] or from the most recent date on which interest has been paid or duly provided for. Interest will be payable semiannually in arrears on and of each year, beginning on _____, [_____].

Interest will be paid to the person in whose name a Note is registered at 5:00 p.m. New York City time (the “close of business”) on _____ or _____, as the case may be, immediately preceding the relevant interest payment date (each, a “regular record date”). Interest on the Notes will be computed on the basis of a 360-day year composed of twelve 30-day months.

If any interest payment date, the maturity date or any earlier required repurchase date upon a Change of Control Repurchase Event (defined below) of a Note falls on a day that is not a business day, the required payment will be made on the next succeeding business day and no interest on such payment will accrue in respect of the delay. The term “business day” means, with respect to any Note, each Monday, Tuesday, Wednesday, Thursday, and Friday which is not a day on which banking institutions in New York are authorized or obligated by law or executive order to close.

Ranking

The Notes will be our general unsecured obligations that rank senior in right of payment to all of our existing and future indebtedness that is expressly subordinated in right of payment to the Notes. The Notes will rank equally in right of payment with all of our existing and future liabilities that are not so subordinated. The Notes will effectively rank junior to any of our secured indebtedness (including unsecured indebtedness that we later secure) to the extent of the value of the assets securing such indebtedness. The Notes will rank structurally junior to all existing and future indebtedness (including trade payables) incurred by our subsidiaries, financing vehicles or similar facilities. In the event of our bankruptcy, liquidation, reorganization or other winding up, our assets that secure secured debt will be available to pay obligations on the Notes only after all indebtedness under such secured debt has been repaid in full from such assets. We advise you that there may not be sufficient assets remaining to pay amounts due on any or all the Notes then outstanding.

As of [_____], our total consolidated indebtedness was approximately \$[_____] million principal amount. After giving effect to the issuance of the Notes our total consolidated indebtedness would have been approximately \$ principal amount as of [_____]. See “Capitalization.”

Optional Redemption

We may redeem some or all of the Notes at any time, or from time to time. If we choose to redeem any Notes prior to maturity, we will pay a redemption price equal to the greater of the following amounts, plus, in each case, accrued and unpaid interest to the redemption date:

- 100% of the principal amount of the Notes to be redeemed, or
- the sum of the present values of the remaining scheduled payments of principal and interest (exclusive of accrued and unpaid interest to the date of redemption) on the Notes to be redeemed, discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) using the applicable Treasury Rate plus basis points.

If we choose to redeem any Notes, we will deliver a notice of redemption to holders of Notes not less than 30 nor more than 60 days before the redemption date. If we are redeeming less than all of the Notes, the particular Notes to be redeemed will be selected in accordance with the applicable procedures of the trustee and, so long as the Notes are registered to DTC or its nominee, DTC; *provided, however*, that no such partial redemption shall reduce the portion of the principal amount of a Note not redeemed to less than \$[]. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portions of the Notes called for redemption.

Before redeeming any Notes, we may have to comply with certain requirements under any credit facility we may establish in the future, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders.

For purposes of calculating the redemption price in connection with the redemption of the Notes, on any redemption date, the following terms have the meanings set forth below:

“Treasury Rate” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield-to-maturity of the Comparable Treasury Issue (computed as of the third business day immediately preceding the redemption), assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date. The redemption price and the Treasury Rate will be determined by us.

“Comparable Treasury Issue” means the United States Treasury security selected by the Reference Treasury Dealer as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financing practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes being redeemed.

“Comparable Treasury Price” means (1) the average of the remaining Reference Treasury Dealer Quotations for the redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Quotation Agent obtains fewer than four such reference treasury dealer quotations, the average of all such quotations.

“Quotation Agent” means a Reference Treasury Dealer selected by us.

“Reference Treasury Dealer” means each of (1) [], (2) [] and (3) [], or their respective affiliates which are primary U.S. government securities dealers and their respective successors; *provided, however*, that if any of the foregoing or their affiliates shall cease to be a primary U.S. government securities dealer in the United States (a “Primary Treasury Dealer”), we shall select another Primary Treasury Dealer.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Quotation Agent, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Quotation Agent by such Reference Treasury Dealer at 3:30 p.m. New York time on the third business day preceding such redemption date.

All determinations made by any Reference Treasury Dealer, including the Quotation Agent, with respect to determining the redemption price will be final and binding absent manifest error.

Offer to Repurchase Upon a Change of Control Repurchase Event

If a Change of Control Repurchase Event occurs, unless we have exercised our right to redeem the Notes in full, we will make an offer to each holder of Notes to repurchase all or any part (in minimum denominations of \$[] and integral multiples of \$[] principal amount) of that holder's Notes at a repurchase price in cash equal to 100% of the aggregate principal amount of Notes repurchased plus any accrued and unpaid interest on the Notes repurchased to the date of purchase. Within 30 days following any Change of Control Repurchase Event or, at our option, prior to any Change of Control, but after the public announcement of the Change of Control, we will mail a notice to each holder describing the transaction or transactions that constitute or may constitute the Change of Control Repurchase Event and offering to repurchase Notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed. The notice shall, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Repurchase Event occurring on or prior to the payment date specified in the notice. We will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the Change of Control Repurchase Event provisions of the Notes, we will comply with the applicable securities laws and regulations and will not be deemed to have breached our obligations under the Change of Control Repurchase Event provisions of the Notes by virtue of such conflict.

On the Change of Control Repurchase Event payment date, subject to extension if necessary to comply with the provisions of the 1940 Act, and the rules and regulations promulgated thereunder, we will, to the extent lawful:

- (1) accept for payment all Notes or portions of Notes properly tendered pursuant to our offer;
- (2) deposit with the paying agent an amount equal to the aggregate purchase price in respect of all Notes or portions of Notes properly tendered; and
- (3) deliver or cause to be delivered to the trustee the Notes properly accepted, together with an officers' certificate stating the aggregate principal amount of Notes being purchased by us.

The paying agent will promptly remit to each holder of Notes properly tendered the purchase price for the Notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new Note equal in principal amount to any unpurchased portion of any Notes surrendered; *provided* that each new Note will be in a minimum principal amount of \$[] or an integral multiple of \$[] in excess thereof.

We will not be required to make an offer to repurchase the Notes upon a Change of Control Repurchase Event if a third party makes an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all Notes properly tendered and not withdrawn under its offer.

The source of funds that will be required to repurchase Notes in the event of a Change of Control Repurchase Event will be our available cash or cash generated from our operations or other potential sources, including funds provided by a purchaser in the Change of Control transaction, borrowings, sales of assets or sales of equity. Before redeeming any Notes, we may have to comply with certain requirements under any credit facility we may establish in the future, to the extent such requirements remain in effect at such time, or otherwise obtain consent from the lenders. The terms of our Credit Facilities also provide that certain change of control events will constitute an event of default thereunder entitling the lenders to accelerate any indebtedness outstanding under the Credit Facilities at that time and to terminate the Credit Facilities. If we do not satisfy our obligation to the holders of the Notes to repurchase Notes in connection with a Change of Control Repurchase Event, the failure to repurchase Notes could cause a default under our future debt instruments, even if the Change of Control Repurchase Event itself would not cause a default. It is possible that we will not have sufficient funds at the time of the Change of Control Repurchase Event to make the required repurchase of the Notes and/or our other debt. See "Risk Factors—We may not be able to repurchase the Notes upon a Change of Control Repurchase Event" in this prospectus supplement. The definition of "Change of Control" includes a phrase relating to the direct or indirect sale, transfer, conveyance or other disposition of "all or substantially all" of our properties or assets and those of our subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise, established definition of the phrase under applicable law. Accordingly, the ability of a holder of Notes to require us to repurchase the Notes as a result of a sale, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries taken as a whole to another person or group may be uncertain.

For purposes of the Notes:

“Below Investment Grade Rating Event” means the Notes are downgraded below Investment Grade by both Rating Agencies on any date from the date of the public notice of an arrangement that results in a Change of Control until the end of the 60-day period following public notice of the occurrence of a Change of Control (which period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by either of the Rating Agencies); *provided* that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of Change of Control Repurchase Event hereunder) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event).

“Change of Control” means the occurrence of any of the following:

- (1) the direct or indirect sale, lease, transfer, conveyance or other disposition (other than by way of merger or consolidation) in one or a series of related transactions, of all or substantially all of the assets of Saratoga Investment Corp. and its Controlled Subsidiaries taken as a whole to any “person” or “group” (as those terms are used in Section 13(d)(3) of the Exchange Act), other than to any Permitted Holders; *provided* that, for the avoidance of doubt, a pledge of assets pursuant to any secured debt instrument of Saratoga Investment Corp. or its Controlled Subsidiaries shall not be deemed to be any such sale, lease, transfer, conveyance or disposition;
- (2) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any “person” or “group” (as those terms are used in Section 13(d)(3) of the Exchange Act) (other than any Permitted Holders) becomes the “beneficial owner” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the outstanding Voting Stock of Saratoga Investment Corp., measured by voting power rather than number of shares;
- (3) the approval by the stockholders of Saratoga Investment Corp. of any plan or proposal relating to the liquidation or dissolution of Saratoga Investment Corp.

“Change of Control Repurchase Event” means the occurrence of a Change of Control and a Below Investment Grade Rating Event.

“Controlled Subsidiary” means any subsidiary of Saratoga Investment Corp., 50% or more of the outstanding equity interests of which are owned by Saratoga Investment Corp. and its direct or indirect subsidiaries and of which Saratoga Investment Corp. possesses, directly or indirectly, the power to direct or cause the direction of the management or policies, whether through the ownership of voting equity interests, by agreement or otherwise.

“Fitch” means Fitch, Inc., also known as Fitch Ratings, or any successor thereto.

“Investment Grade” means a rating of BBB- or better by Fitch (or its equivalent under any successor rating categories of Fitch) and BBB- or better by S&P (or its equivalent under any successor rating categories of S&P) (or, in each case, if such Rating Agency ceases to rate the Notes for reasons outside of our control, the equivalent investment grade credit rating from any Rating Agency selected by us as a replacement Rating Agency).

“Permitted Holders” means (i) us, (ii) one or more of our Controlled Subsidiaries and (iii) Saratoga Investment Advisors, LLC or any affiliate of Saratoga Investment Advisors, LLC that is organized under the laws of a jurisdiction located in the United States of America and in the business of managing or advising clients.

“Rating Agency” means:

- (1) each of Fitch and S&P; and
- (2) if either of Fitch or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of our control, a “nationally recognized statistical rating organization” as defined in Section (3)(a)(62) of the Exchange Act selected by us as a replacement agency for Fitch or S&P, or both, as the case may be.

“S&P” means Standard & Poor’s Ratings Services, a division of McGraw-Hill, Inc., or any successor thereto.

“Voting Stock” as applied to stock of any person, means shares, interests, participations or other equivalents in the equity interest (however designated) in such person having ordinary voting power for the election of a majority of the directors (or the equivalent) of such person, other than shares, interests, participations or other equivalents having such power only by reason of the occurrence of a contingency.

Covenants

In addition to the covenants described in the base indenture, additional covenants as set forth in the supplemental indenture shall apply to the Notes. To the extent of any conflict or inconsistency between the base indenture and the covenants in the supplemental indenture, the covenants in the supplemental indenture shall govern. The following are certain of the covenants:

Merger, Consolidation or Sale of Assets

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

- We are the continuing corporation or, if we merge out of existence or sell our assets, the resulting or transferee corporation must agree to be legally responsible for our obligations under the Notes;
- The merger or sale of assets must not cause a default on the Notes and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under “Events of Default” below. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded; and
- We must deliver certain certificates and documents to the trustee.

Although there is a limited body of case law interpreting the phrase “substantially all,” there is no precise, established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve “all or substantially all” of the properties or assets of a person. As a result, it may be unclear as to whether the merger, consolidation or sale of assets covenant would apply to a particular transaction as described above absent a decision by a court of competent jurisdiction. Although these types of transactions are permitted under the indenture, certain of the foregoing transactions could constitute a Change of Control that results in a Change of Control Repurchase Event permitting each holder to require us to repurchase the Notes of such holder as described above.

An assumption by any person of obligations under the Notes and the indenture might be deemed for U.S. federal income tax purposes to be an exchange of the Notes for new Notes by the holders thereof, resulting in recognition of gain or loss for such purposes and possibly other adverse tax consequences to the holders. Holders should consult their own tax advisors regarding the tax consequences of such an assumption.

Other Covenants

- We agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act or any successor provisions, whether or not we continue to be subject to such provisions of the 1940 Act, but giving effect, in either case, to any exemptive relief granted to us by the U.S. Securities and Exchange Commission (the “SEC”) or any successor provisions. 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 agree that for the period of time during which the Notes are outstanding, we will not violate Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, giving effect to any exemptive relief granted to us by the SEC. 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.

- If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934 to file any periodic reports with the SEC, we agree to furnish to holders of the Notes and the trustee, for the period of time during which the Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

Events of Default

The term “Event of Default” in respect of the Notes means any of the following:

- (1) default in the payment of any interest upon any Note when due and payable and the default continues for a period of 30 days;
- (2) default in the payment of the principal of (or premium, if any, on) any Note when it becomes due and payable at its maturity including upon any redemption date or required repurchase date;
- (3) we remain in breach of a covenant in respect of the Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the Notes);
- (4) default by us or any of our significant subsidiaries, as defined in Article 1, Rule 1-02 of Regulation S-X under the Exchange Act (but excluding any subsidiary which is (a) a non-recourse or limited recourse subsidiary, (b) a bankruptcy remote special purpose vehicle or (c) is not consolidated with Saratoga Investment Corp. for purposes of GAAP), with respect to any mortgage, agreement or other instrument under which there may be outstanding, or by which there may be secured or evidenced, any indebtedness for money borrowed in excess of \$50 million in the aggregate of us and/or any such subsidiary, whether such indebtedness now exists or shall hereafter be created (i) resulting in such indebtedness becoming or being declared due and payable or (ii) constituting a failure to pay the principal or interest of any such debt when due and payable at its stated maturity, upon required repurchase, upon declaration of acceleration or otherwise, unless, in either case, such indebtedness is discharged, or such acceleration is rescinded, stayed or annulled, within a period of 30 calendar days after written notice of such failure is given to us by the trustee or to us and the trustee by the holders of at least 25% in aggregate principal amount of the Notes then outstanding; or
- (5) certain events of bankruptcy, insolvency, or reorganization involving us occur and remain undischarged or unstayed for a period of 90 days.

If an event of default occurs and is continuing, then and in every such case (other than an event of default specified in item (5) above) the trustee or the holders of at least 25% in principal amount of the outstanding Notes may declare the entire principal amount of Notes to be due and immediately payable, by a notice in writing to us (and to the trustee if given by the holders), and upon any such declaration such principal or specified portion thereof shall become immediately due and payable. Notwithstanding the foregoing, in the case of the events of bankruptcy, insolvency or reorganization described in item (5) above, 100% of the principal of, and accrued and unpaid interest on, the Notes will automatically become due and payable.

At any time after a declaration of acceleration with respect to the Notes has been made and before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of a majority in principal amount of the outstanding Notes, by written notice to us and the trustee, may rescind and annul such declaration and its consequences if (i) we have paid or deposited with the trustee a sum sufficient to pay all overdue installments of interest, if any, on all outstanding Notes, the principal of (and premium, if any, on) all outstanding Notes that have become due otherwise than by such declaration of acceleration and interest thereon at the rate or rates borne by or provided for in such Notes, to the extent that payment of such interest is lawful interest upon overdue installments of interest at the rate or rates borne by or provided for in such Notes, and all sums paid or advanced by the trustee and the reasonable compensation, expenses, disbursements and advances of the trustee, its agents and counsel, and (ii) all events of default with respect to the Notes, other than the nonpayment of the principal of (or premium, if any, on) or interest on such Notes that have become due solely by such declaration of acceleration, have been cured or waived. No such rescission will affect any subsequent default or impair any right consequent thereon.

No holder of Notes will have any right to institute any proceeding, judicial or otherwise, with respect to the indenture, or for the appointment of a receiver or trustee, or for any other remedy under the indenture, unless

- (i) such holder has previously given written notice to the trustee of a continuing event of default with respect to the Notes,
- (ii) the holders of not less than 25% in principal amount of the outstanding Notes shall have made written request to the trustee to institute proceedings in respect of such event of default;
- (iii) such holder or holders have offered to the trustee reasonable indemnity, security or both against the costs, expenses and liabilities to be incurred in compliance with such request;
- (iv) the trustee for 60 days after its receipt of such notice, request and offer of indemnity and/or security has failed to institute any such proceeding; and
- (v) no direction inconsistent with such written request has been given to the trustee during such 60-day period by the holders of a majority in principal amount of the outstanding Notes.

Notwithstanding any other provision in the indenture, the holder of any Note shall have the right, which is absolute and unconditional, to receive payment of the principal of (and premium, if any, on) and interest, if any, on such Note on the stated maturity or maturities expressed in such Note (or, in the case of redemption, on the redemption date or, in the case of repayment at the option of the holders, on the repayment date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such holder.

The trustee shall be under no obligation to exercise any of the rights or powers vested in it by the indenture at the request or direction of any of the holders of the Notes unless such holders shall have offered to the trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction. Subject to the foregoing, the holders of a majority in principal amount of the outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee with respect to the Notes, provided that (i) such direction shall not be in conflict with any rule of law or with this indenture, (ii) the trustee may take any other action deemed proper by the trustee that is not inconsistent with such direction and (iii) the trustee need not take any action which might involve it in personal liability or be unjustly prejudicial to the holders of the Notes not consenting.

The holders of not less than a majority in principal amount of the outstanding Notes may on behalf of the holders of all of the Notes waive any past default under the indenture with respect to the Notes and its consequences, except a default (i) in the payment of (or premium, if any, on) or interest, if any, on any Note, or (ii) in respect of a covenant or provision of the indenture which cannot be modified or amended without the consent of the holder of each outstanding Note affected. Upon any such waiver, such default shall cease to exist, and any event of default arising therefrom shall be deemed to have been cured, for every purpose, but no such waiver shall extend to any subsequent or other default or event of default or impair any right consequent thereto.

We are required to deliver to the trustee, within 120 days after the end of each fiscal year, a certificate from the principal executive officer, principal financial officer or principal accounting officer as to his or her the knowledge of the Company's compliance with all conditions and covenants under the indenture.

Within 90 days after the occurrence of any default under the indenture with respect to the Notes, the trustee shall transmit notice of such default known to the trustee, unless such default shall have been cured or waived; provided, however, that, except in the case of a default in the payment of the principal of (or premium, if any, on) or interest, if any, on any Note, the trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors of the trustee in good faith determines that withholding of such notice is in the interest of the holders of the Notes; and provided further that in the case of any default or breach specified in (3) above with respect to the Notes, no such notice shall be given until at least 60 days after the occurrence thereof.

Satisfaction and Discharge; Defeasance

We may satisfy and discharge our obligations under the indenture by delivering to the securities registrar for cancellation all outstanding Notes or by depositing with the trustee or delivering to the holders, as applicable, after the Notes have become due and payable, or otherwise, moneys sufficient to pay all of the outstanding Notes and paying all other sums payable under the indenture by us. Such discharge is subject to terms contained in the indenture.

In addition, the Notes are subject to defeasance and covenant defeasance, in each case, in accordance with the terms of the indenture.

Trustee

Bank of New York Mellon is the trustee, security registrar and paying agent. Bank of New York Mellon, in each of its capacities, including without limitation as trustee, security registrar and paying agent, assumes no responsibility for the accuracy or completeness of the information concerning us or our affiliates or any other party contained in this document or the related documents or for any failure by us or any other party to disclose events that may have occurred and may affect the significance or accuracy of such information, or for any information provided to it by us, including but not limited to settlement amounts and any other information.

Governing Law

The indenture provides that it and the Notes shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws that would cause the application of laws of another jurisdiction.

Book-Entry, Settlement and Clearance

Global Notes

The Notes will be initially issued in the form of one or more registered Notes in global form, without interest coupons (the “Global Notes”). Upon issuance, each of the Global Notes will be deposited with the trustee as custodian for DTC and registered in the name of Cede & Co., as nominee of DTC.

Ownership of beneficial interests in a Global Note will be limited to persons who have accounts with DTC (“DTC participants”) or persons who hold interests through DTC participants. We expect that under procedures established by DTC:

- upon deposit of a Global Note with DTC’s custodian, DTC will credit portions of the principal amount of the Global Note to the accounts of the DTC participants designated by the underwriters; and
- ownership of beneficial interests in a Global Note will be shown on, and transfer of ownership of those interests will be effected only through, records maintained by DTC (with respect to interests of DTC participants) and the records of DTC participants (with respect to other owners of beneficial interests in the Global Note).

Beneficial interests in Global Notes may not be exchanged for Notes in physical, certificated form except in the limited circumstances described below.

Book-Entry Procedures for Global Notes

All interests in the Global Notes will be subject to the operations and procedures of DTC. We provide the following summary of those operations and procedures solely for the convenience of investors. The operations and procedures of DTC are controlled by that settlement system and may be changed at any time. Neither we nor the underwriters are responsible for those operations or procedures.

DTC has advised us that it is:

- a limited purpose trust company organized under the laws of the State of New York;
- a “banking organization” within the meaning of the New York State Banking Law;

- a member of the Federal Reserve System;
- a “clearing corporation” within the meaning of the Uniform Commercial Code; and
- a “clearing agency” registered under Section 17A of the Exchange Act.

DTC was created to hold securities for its participants and to facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes to the accounts of its participants. DTC’s participants include securities brokers and dealers, including the underwriters; banks and trust companies; clearing corporations and other organizations. Indirect access to DTC’s system is also available to others such as banks, brokers, dealers and trust companies; these indirect participants clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly. Investors who are not DTC participants may beneficially own securities held by or on behalf of DTC only through DTC participants or indirect participants in DTC.

So long as DTC’s nominee is the registered owner of a Global Note, that nominee will be considered the sole owner or holder of the Notes represented by that Global Note for all purposes under the indenture. Except as provided below, owners of beneficial interests in a Global Note:

- will not be entitled to have Notes represented by the Global Note registered in their names;
- will not receive or be entitled to receive physical, certificated Notes; and
- will not be considered the owners or holders of the Notes under the indenture for any purpose, including with respect to the giving of any direction, instruction or approval to the trustee under the indenture.

As a result, each investor who owns a beneficial interest in a Global Note must rely on the procedures of DTC to exercise any rights of a holder of Notes under the indenture (and, if the investor is not a participant or an indirect participant in DTC, on the procedures of the DTC participant through which the investor owns its interest).

Payments of principal and interest with respect to the Notes represented by a Global Note will be made by the trustee to DTC’s nominee as the registered holder of the Global Note. Neither we nor the Trustee will have any responsibility or liability for the payment of amounts to owners of beneficial interests in a Global Note, for any aspect of the records relating to or payments made on account of those interests by DTC, or for maintaining, supervising or reviewing any records of DTC relating to those interests.

Payments by participants and indirect participants in DTC to the owners of beneficial interests in a Global Note will be governed by standing instructions and customary industry practice and will be the responsibility of those participants or indirect participants and DTC.

Transfers between participants in DTC will be effected under DTC’s procedures and will be settled in same-day funds.

Certificated Notes

Notes in physical, certificated form will be issued and delivered to each person that DTC identifies as a beneficial owner of the related Notes only if:

- DTC notifies us at any time that it is unwilling or unable to continue as depository for the Global Notes and a successor depository is not appointed within 90 days;
- DTC ceases to be registered as a clearing agency under the Exchange Act and a successor depository is not appointed within 90 days; or
- an event of default with respect to the Notes has occurred and is continuing and such beneficial owner requests that its Notes be issued in physical, certificated form.

MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

[Insert disclosure regarding material federal income tax consequences of an investment in the Notes to the extent required to be disclosed by applicable law or regulation.]

UNDERWRITING

[] are acting as book-running managers of the offering and as representative of the underwriters named below. Subject to the terms and conditions stated in the purchase agreement dated [], each underwriter named below severally agrees to purchase the aggregate principal amount of Notes indicated in the following table:

<u>Underwriter</u>	<u>Principal Amount</u>
Total	

Subject to the terms and conditions set forth in the purchase agreement, the underwriters have agreed, severally and not jointly, to purchase all of the Notes sold under the purchase agreement if any of these Notes are purchased. If an underwriter defaults, the purchase agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or the purchase agreement may be terminated.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the Notes, subject to prior sale, when, as and if issued to and accepted by them, subject to approval of legal matters by their counsel, including the validity of the Notes, and other conditions contained in the purchase agreement, such as the receipt by the underwriters of officer's certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

[Overallotment Option

We have granted an option to the underwriters to purchase up to an additional \$ aggregate principal amount of the Notes offered hereby at the public offering price within days from the date of this prospectus supplement solely to cover any overallotments. If the underwriters exercise this option, each will be obligated, subject to conditions contained in the purchase agreement, to purchase a number of additional Notes proportionate to that underwriter's initial principal amount reflected in the above table.]

Commissions and Discounts

An underwriting discount of % per Note will be paid by us. [This underwriting discount will also apply to any Notes purchased pursuant to the overallotment option.]

The following table shows the total underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering. [The information assumes either no exercise or full exercise by the underwriters of their overallotment option.]

	<u>Per Note</u>	<u>[Without Option</u>	<u>With Option]</u>
Public offering price			
Underwriting discount			
Proceeds, before expenses, to us			

[The underwriters propose to offer some of the Notes to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the Notes to certain other Financial Industry Regulatory Authority (FINRA) members at the public offering price less a concession not in excess of % of the aggregate principal amount of the Notes. The underwriters may allow, and the dealers may reallow, a discount not in excess of % of the aggregate principal amount of the Notes. After the initial offering of the Notes to the public, the public offering price and such concessions may be changed. No such change shall change the amount of proceeds to be received by us as set forth on the cover page of this prospectus supplement.]

[No Sales of Similar Securities

Subject to certain exceptions, we have agreed not to directly or indirectly, offer, pledge, sell, contract to sell, grant any option for the sale of, or otherwise transfer or dispose of any debt securities issued or guaranteed by us or any securities convertible into or exercisable or exchangeable for debt securities issued or guaranteed by us or file any registration statement under the Securities Act with respect to any of the foregoing for a period of days after the date of this prospectus supplement without first obtaining the written consent of []. This consent may be given at any time without public notice.]

[Listing

The Notes are a new issue of securities with no established trading market. We intend to list the Notes on . We expect trading in the Notes to begin within days after the original issue date. Currently there is no public market for the Notes.

We have been advised by the underwriters that they presently intend to make a market in the Notes after completion of the offering as permitted by applicable laws and regulations. The underwriters are not obligated, however, to make a market in the Notes and any such market-making may be discontinued at any time in the sole discretion of the underwriters without any notice. Accordingly, no assurance can be given as to the liquidity of, or development of a public trading market for, the Notes. If an active public trading market for the Notes does not develop, the market price and liquidity of the Notes may be adversely affected.]

Price Stabilizations and Short Positions

In connection with the offering, the underwriters may purchase and sell Notes in the open market. These transactions may include overallotment, covering transactions and stabilizing transactions. Overallotment involves sales of securities in excess of the aggregate principal amount of securities to be purchased by the underwriters in the offering, which creates a short position for the underwriters. Covering transactions involve purchases of the securities in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of securities made for the purpose of preventing or retarding a decline in the market price of the securities while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased Notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

Any of these activities may cause the price of the Notes to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected in the over-the-counter market or otherwise and, if commenced, may be discontinued at any time without any notice relating thereto.

Potential Conflicts of Interest

The underwriters and their affiliates have provided, or may in the future provide, various investment banking, commercial banking, financial advisory, brokerage and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees and expense reimbursement. The underwriters and their affiliates may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business for which they may receive customary fees and reimbursement of expenses. In the ordinary course of their various business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of our company. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Sales Outside the U.S.

No action has been taken in any jurisdiction (except in the U.S.) that would permit a public offering of the securities, or the possession, circulation or distribution of this prospectus supplement, the accompanying prospectus or any other material relating to us or the securities in any jurisdiction where action for that purpose is required. Accordingly, the securities may not be offered or sold, directly or indirectly, and none of this prospectus supplement, the accompanying prospectus or any other offering material or advertisements in connection with the securities may be distributed or published, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of any such country or jurisdiction.

Each of the underwriters may arrange to sell securities offered hereby in certain jurisdictions outside the United States, either directly or through affiliates, where they are permitted to do so. In that regard, [] may arrange to sell securities in certain jurisdictions through an affiliate, [], or []. [] is a wholly-owned indirect subsidiary of [] and an affiliate of []. [] is a U.K. incorporated investment firm regulated by the Financial Services Authority. [] is the trade name for certain corporate and investment banking services of [] and its affiliates, including [] and [].

[Describe any other specific transactions and compensation related thereto to the extent required to be disclosed by applicable law or regulation.]

[Describe if underwriters receiving proceeds of offering, if required by FINRA.]

[Insert principal business addresses of underwriters.]

[Insert applicable legends for jurisdictions in which offers and sales may be made.]

LEGAL MATTERS

The validity of the Notes offered by this prospectus supplement and certain other legal matters will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington D.C. Certain legal matters related to the offering will be passed upon for the underwriters by [].

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The financial statements as of [] and [] and for each of the three years in the period ended [] included in this prospectus supplement have been so included in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

AVAILABLE INFORMATION

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to the Notes offered by this prospectus supplement. The registration statement contains additional information about us and the Notes being offered by this prospectus supplement.

We file annual, quarterly and current reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended. You can inspect any materials we file with the SEC, without charge, at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The information we file with the SEC is available free of charge by contacting us at Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The SEC also maintains a website that contains reports, proxy statements and other information regarding registrants, including us, that file such information electronically with the SEC. The address of the SEC's web site is <http://www.sec.gov>. Information contained on our website or on the SEC's web site about us is not incorporated into this prospectus supplement or the accompanying prospectus and you should not consider information contained on our website or on the SEC's website to be part of this prospectus supplement or the accompanying prospectus.

INDEX TO FINANCIAL STATEMENTS

[Insert financial statements.]

\$ []
Saratoga Investment Corp.

% [Insert ranking/conversion information] Notes Due []

PRELIMINARY PROSPECTUS SUPPLEMENT

, 20__
