
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended February 28, 2018

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 001-33376

SARATOGA INVESTMENT CORP.

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

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

**535 Madison Avenue New
York, New York 10022**
(Address of principal executive offices)

(212) 906-7800
(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, par value \$0.001 per share	The New York Stock Exchange
6.75% Notes due 2023	The New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of August 31, 2017 was approximately \$81.3 million based upon a closing price of \$21.95 reported for such date by the New York Stock Exchange.

The number of outstanding common shares of the registrant as of May 14, 2018 was 6,282,384.

DOCUMENTS INCORPORATED BY REFERENCE

None.

NOTE ABOUT REFERENCES

In this Annual Report on Form 10-K (the “Annual Report”), the “Company,” “we,” “us” and “our” refer to Saratoga Investment Corp. and its wholly owned subsidiaries, Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC, L.P., unless the context otherwise requires. We refer to Saratoga Investment Advisors, LLC, our investment adviser, as “Saratoga Investment Advisors,” the “Investment Adviser” or the “Manager.”

NOTE ABOUT FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In some cases, you can identify forward-looking statements by terms such as “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “project,” “should,” “will” and “would” or the negative of these terms or other comparable terminology.

We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The forward-looking statements contained in this Annual Report involve risks and uncertainties, including statements as to:

- our future operating results;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our Investment Adviser;
- the impact of increased competition;
- our ability to turn potential investment opportunities into transactions and thereafter into completed and successful investments;
- the unfavorable resolution of any future legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make and future acquisitions and divestitures;
- 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 status, including our ability to operate as a business development company (“BDC”), or to operate our small business investment company (“SBIC”) subsidiary, and to continue to qualify to be taxed as a regulated investment company (“RIC”);
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly because we use leverage as part of our investment strategy;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our investment adviser;
- the impact of changes to tax legislation and, generally, our tax position;

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- our ability to access capital and any future financings by us;
- the ability of our investment adviser to attract and retain highly talented professionals; and
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and effectively administer our investments.

For a discussion of factors that could cause our actual results to differ from forward-looking statements contained in this Annual Report, please see the discussion under Part I, Item 1A, “Risk Factors”. You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this Annual Report relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this Annual Report.

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PART I

ITEM 1. 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 earnings before interest, taxes, depreciation and amortization (“EBITDA”) of between \$2 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. Our investment activities 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 issued by middle market companies. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are invested 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.

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. Although we have no current intention to do so, to the extent we invest in private equity funds, we will limit our investments in entities that are excluded from the definition of “investment company” under Section 3(c)(1) or Section 3(c)(7) of Investment Company Act of 1940 (“1940 Act”), which includes private equity funds, to no more than 15% of its net assets.

As of February 28, 2018, we had total assets of \$360.3 million and investments in 31 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 had a fair value of \$11.9 million as of February 28, 2018. The overall portfolio composition as of February 28, 2018 consisted of 57.6% of first lien term loans, 27.7% of second lien term loans, 1.2% of syndicated loans, 4.8% of structured finance securities and 8.7% of equity interests. As of February 28, 2018 the weighted average yield on all of our investments, including our investment in the subordinated notes of Saratoga CLO and Class F notes tranche of the Saratoga CLO, was approximately 11.1%. The weighted average yield of our 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 February 28, 2018, our total return based on net asset value per share was 14.45% and our total return based on market value was 5.28%. As of February 28, 2017, our total return based on net asset value was 12.62% and our total return based on market value was 80.83%. Total return based on NAV is the change in ending NAV per share plus dividends (distributed from net investment income) per share paid during the period assuming participation in the Company’s dividend reinvestment plan divided by the beginning NAV per share. Total return based on market value is the change in the ending market value of the Company’s common stock plus dividends (distributed from net investment income) paid during the period assuming participation in the Company’s dividend reinvestment plan divided by the beginning market value of the Company’s common stock. While total return based on NAV and total return based on market value reflect fund expenses, they do not reflect any sales load that may be paid by investors. As of February 28, 2018, approximately 100.0% 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. The Company uses enterprise value to assess the level of collateralization of its portfolio companies. The enterprise value of a portfolio company is determined by analyzing various factors, including EBITDA, cash flows from operations less capital expenditures and other pertinent factors, such as recent offers to purchase a portfolio company’s securities or other liquidation events. As a result, while we consider a portfolio company to be collateralized if its enterprise value exceeds the amount of our loan, we do not hold tangible assets as collateral in our portfolio companies that we would obtain in the event of a default. Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at February 28, 2018, was composed of \$310.4 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.”

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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 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, or, if we obtain the required approvals from our independent directors and/or stockholders, 150.0%. Pursuant to the 200.0% asset coverage ratio limitation, we are currently 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. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

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—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. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

The Company has established wholly-owned subsidiaries, SIA Avionte, Inc., SIA Easy Ice, LLC, SIA GH, Inc., SIA MAC, Inc., SIA TT, Inc., and SIA Vector, Inc., which are structured as Delaware entities, or tax blockers, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass through entities). Tax blockers are consolidated for accounting purposes, but are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of portfolio companies.

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 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 (“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 Annual Report, and you should not consider that information to be part of this Annual Report.

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 30, 28, 31 and 21 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 and its successor entity, SBC Warburg Dillon Read, since 1998. Saratoga Partners has a 30-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 11, 2017, 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 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; 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 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 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 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).

There is no accumulation of amounts from quarter to quarter on either the hurdle rate or the parameters set by the “catch-up” mechanism or any clawback of amounts previously paid to Saratoga Investment Advisors if subsequent quarters are below the quarterly hurdle or the “catch-up” parameters. Furthermore, there is no delay of payment to Saratoga Investment Advisors if prior quarters are below the quarterly hurdle or “catch-up.”

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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. Pre-incentive fee net investment income does not include any realized capital gains, realized capital losses, unrealized capital appreciation or depreciation, or realized gains or losses resulting from the extinguishment of our own debt.

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 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.

We have also entered into a separate Administration Agreement (the “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 8, 2015, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to increase the cap on the payment or reimbursement of expenses by us thereunder to \$1.3 million. On October 5, 2016, our board of directors determined to increase the cap on the payment or reimbursement of expenses by the Company under the Administration Agreement, from \$1.3 million to \$1.5 million, effective November 1, 2016. On July 11, 2017, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to increase the cap on the payment or reimbursement of expenses by the Company from \$1.5 million to \$1.75 million, effective August 1, 2017. Under the 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 invested 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 default 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 or, if not rated, would be rated below investment grade if rated, which are often referred to as “junk.” As of February 28, 2018, 79.9% 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. Such “interest-only” loans are structured such that the borrower makes only interest payments throughout the life of the loan and makes a large, “balloon payment” at the end of the loan term. The ability of a borrower to make or refinance a balloon payment

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may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions, higher interest rates, and collateral values. If the interest-only loan borrower is unable to make or refinance a balloon payment, we may experience greater losses than if the loan were structured as amortizing. As of February 28, 2018, 38.5% of our interest-only loans provided for contractual PIK interest, which represents contractual interest added to a loan balance and due at the end of such loan's term, and 71.5% of such investments elected to pay a portion of interest due in PIK. In addition, 78.5% of our debt investments at February 28, 2018, 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.

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 (the "NYSE"), 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. Although we have no current intention to do so, to the extent we invest in private equity funds, we will limit our investments in entities that are excluded from the definition of "investment company" under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, which includes private equity funds, to no more than 15% of its net assets.

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 borrowers' 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 payment-in-kind interest ("PIK"). To the extent interest is PIK, 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 at times may also have PIK interest payable. 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.

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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 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 initially refinanced in October 2013 and its reinvestment period ended in October 2016. On November 15, 2016, we completed the second refinancing of the Saratoga CLO. The Saratoga CLO refinancing, among other things, extended its reinvestment period to October 2018, and extended its legal maturity date to October 2025. Following the refinancing, the Saratoga CLO portfolio remained at the same size and with a similar capital structure of approximately \$300.0 million in aggregate principal amount of predominantly senior secured first lien term loans. In addition to refinancing its liabilities, we also purchased \$4.5 million in aggregate principal amount of the Class F notes tranche of the Saratoga CLO at par, with a coupon of LIBOR plus 8.5%. The Class F tranche is the eighth tranche in the capital structure of Saratoga CLO and is subordinated to the other debt classes of Saratoga CLO. The Class F tranche is only senior to the subordinated notes, which is effectively the equity position in Saratoga CLO. As a result, the other tranches of debt in Saratoga CLO rank ahead of the \$4.5 million Class F tranche and ahead of the aggregate principal amount of our position in the subordinated notes, which as of February 28, 2018 had a fair value of \$11.9 million, with respect to priority of payments in the event of a default or a liquidation. After the reinvestment period ends in October 2018, 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 2018, 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 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

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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 base management fee of 0.10% and a subordinated management fee of 0.40% of the outstanding principal amount of Saratoga CLO's assets, paid quarterly to the extent of available proceeds. Prior to the second refinancing and the issuance of the 2013-1 Amended CLO Notes, we received a base management fee of 0.25% and a subordinated 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 paid in cash 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 losses of approximately \$3.4 million in October 2013 and \$6.1 million in November 2016 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, 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 February 28, 2018, the Saratoga CLO portfolio consisted of \$310.4 million in aggregate principal amount of primarily senior secured first lien term loans. 99.1% of the Saratoga CLO portfolio consisted of such loans at February 28, 2018, to 209 borrowers with an average exposure to each borrower of \$1.5 million. The weighted average maturity of the portfolio is 4.93 years. In addition, Saratoga CLO held \$5.8 million in cash at February 28, 2018. 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 \$9.3 million, which is net of all principal payments made by Saratoga CLO on the Company's initial \$30.0 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 with the ability to withstand industry cycles, supported by sustainable enterprise values;
- reasonable debt-to-cash flow multiples;
- exceptional management with meaningful stake;
- industry leadership with competitive advantages and sustainable market shares and growth prospects in attractive and healthy 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.

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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.
- 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 account for 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 consolidated 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 an independent valuation firm engaged by

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our board of directors. 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 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 flow analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO.

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 the senior management; and
- An independent valuation firm engaged by our board of directors independently reviews a selection 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 once each fiscal year.

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

- The audit committee of our board of directors reviews and approves 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 (to the extent applicable) and the audit committee of our board of directors.

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 thereafter paid five annual dividend distributions (December 2013, 2012, 2011, 2010 and 2009) to our stockholders since such time, 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, we announced the recommencement of quarterly dividends to our stockholders, and have subsequently made distributions under this new policy. 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 the DRIP by the dividend record date will have their cash dividends automatically reinvested into 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.

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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 2016 calendar year, our distributions were insufficient such that we incurred estimated federal excise taxes of \$44,770, followed by an excise tax refund of \$14,738 received in calendar year 2017. For the 2017 calendar year, our distributions were sufficient requiring no excise taxes. We may elect to withhold from distribution a portion of our ordinary income for the 2018 calendar year and/or portion of the capital gains in excess of capital losses realized during the one year period ending October 31, 2018, if any, and, if we do so, we would expect to incur federal excise taxes as a result.

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 (“IRS”) 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 United States 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 he or she 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. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense, and in the past couple of years we believe there has been an increase in the amount of debt capital available on average. This has resulted in a somewhat more competitive environment for making new investments. Many middle-market companies are still unable to raise senior debt financing through traditional large financial institutions, and we believe this approach to financing remains difficult as implementation of U.S. and international financial reforms, such as Basel 3, limits the capacity of large financial institutions to hold non-investment grade leveraged loans on their balance sheets. We believe that many of these financial institutions have de-emphasized their service and product offerings to middle-market companies in particular.

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 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 or that the Code imposes on us as a RIC. We use the industry information available to the investment professionals of Saratoga Investment Advisors to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the investment professionals of our Investment Adviser enable us to learn about, and compete effectively for, financing opportunities with attractive leveraged companies in the industries in which we seek to invest.

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.

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 the 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.

Saratoga Investment Advisors services under the Management Agreement are not exclusive, and it is free to furnish similar services to other entities.

Management Fee and Incentive Fee

Pursuant to the 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:

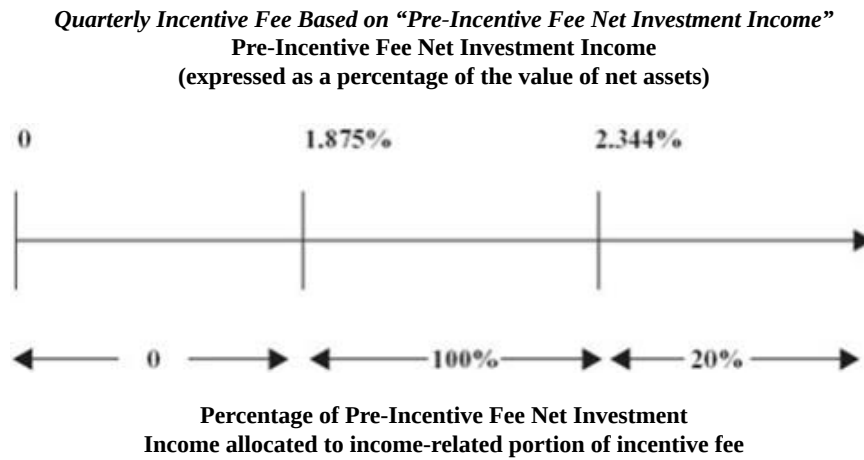
The first part is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding fiscal quarter. Pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees such as commitment, 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 PIK interest, preferred stock with PIK 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, unrealized capital appreciation or depreciation or realized gains or losses resulting from the extinguishment of our own debt. 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, 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 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. 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

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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 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:



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 Management Agreement), and is calculated at the end of each applicable fiscal 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 20.0% 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 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 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

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- 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%.

$$\begin{aligned}\text{Incentive Fee} &= (100.0\% \times (\text{pre-incentive fee net investment income} - 1.875\%)) \\ &= 100.0\%(2.2325\% - 1.875\%) \\ &= 100.0\%(0.3575\%) \\ &= 0.3575\%\end{aligned}$$

- (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% 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 20.0% 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%

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%.

$$\begin{aligned}\text{Incentive fee} &= 100.0\% \times \text{pre-incentive fee net investment income (subject to “catch-up”)}(4) \\ \text{Incentive fee} &= 100.0\% \times \text{“catch-up”} + (20.0\% \times (\text{Pre-incentive fee net investment income} - 2.344\%)) \\ \text{Catch up} &= 2.344\% - 1.875\% \\ &= 0.469\% \\ \text{Incentive fee} &= (100.0\% \times 0.469\%) + (20.0\% \times (2.7325\% - 2.344\%)) \\ &= 0.469\% + (20.0\% \times 0.3885\%) \\ &= 0.469\% + 0.0777\% \\ &= 0.5467\%\end{aligned}$$

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1

Assumptions(1)

- Year 1: \$20.0 million investment made in Company A (“Investment A”), and \$30.0 million investment made in Company B (“Investment B”)
- Year 2: Investment A is sold for \$50.0 million and fair market value (“FMV”) of Investment B determined to be \$32.0 million
- Year 3: FMV of Investment B determined to be \$25.0 million
- Year 4: Investment B sold for \$31.0 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 (20.0% multiplied by \$30.0 million realized capital gains on sale of Investment A)
- Year 3: None; \$5 million (20.0% multiplied by (\$30.0 million realized cumulative capital gains less \$5.0 million cumulative capital depreciation)) less \$6.0 million (capital gains incentive fee paid in Year 2)
- Year 4: \$200,000; \$6.2 million (20.0% multiplied by \$31.0 million cumulative realized capital gains) less \$6.0 million (capital gains incentive fee paid in Year 2)

Alternative 2

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: \$20.0 million investment made in Company A (“Investment A”), \$30.0 million investment made in Company B (“Investment B”) and \$25.0 million investment made in Company C (“Investment C”)
- Year 2: Investment A sold for \$50.0 million, FMV of Investment B determined to be \$25.0 million and FMV of Investment C determined to be \$25.0 million
- Year 3: FMV of Investment B determined to be \$27.0 million and Investment C sold for \$30.0 million
- Year 4: FMV of Investment B determined to be \$35.0 million
- Year 5: Investment B sold for \$20.0 million

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

- Year 1: None
- Year 2: \$5.0 million (20.0% multiplied by \$25.0 million (\$30.0 million realized capital gains on Investment A less \$5.0 million unrealized capital depreciation on Investment B))
- Year 3: \$1.4 million (\$6.4 million (20.0% multiplied by \$32.0 million (\$35.0 million cumulative realized capital gains less \$3.0 million unrealized capital depreciation)) less \$5.0 million (capital gains incentive fee paid in Year 2))
- Year 4: None
- Year 5: None (\$5.0 million (20.0% multiplied by \$25.0 million (cumulative realized capital gains of \$35.0 million less realized capital losses of \$10.0 million)) less \$6.4 million (cumulative capital gains incentive fee paid in Year 2 and Year 3))

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The Management Agreement with Saratoga Investment Advisors was 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. On July 11, 2017, our board of directors approved the renewal of the Management Agreement for an additional one-year term at an in-person meeting.

In approving this Management 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) as compared to other companies within the industry, 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.

Payment of our expenses

The 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:

- 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 financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- expenses incurred by our Investment Adviser payable for travel and 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 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 Management Agreement will remain in effect continuously, unless terminated under the termination provisions of the agreement. The Management Agreement provides that it may be terminated at any time, without the payment of any penalty, upon 60 days written notice, by the vote of stockholders holding a majority of our outstanding voting securities, or by the vote of our directors or by Saratoga Investment Advisors.

The Management Agreement will, unless terminated as described above, continue in effect from year to year so long as it is approved at least annually by (i) the vote of the board of directors, or by the vote of stockholders holding a majority of our outstanding voting securities, and (ii) the vote of a majority of our directors who are not parties to the Management Agreement or “interested persons” (as such term is defined in Section 2(a)(19) of the 1940 Act) of any party to such agreement, in accordance with the requirements of the 1940 Act.

Indemnification

Under the 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.

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 Administration Agreement may be terminated by either party without penalty upon 60 days written notice to the other party. Our board of directors, including a majority of independent directors, will annually review the compensation we pay to the Adviser to determine that the provisions of the Administrative Agreement are carried out satisfactorily and to determine, among other things, whether the fees payable under such agreement are reasonable in light of the services provided. Our board of directors reviews the methodology employed in determining how the expenses are allocated to us and any proposed allocation of administrative expenses among us and any affiliates of the Adviser. Our board of directors then assesses the reasonableness of such reimbursements for expenses allocated to us based on the breadth, depth and quality of the administrative services as compared to the estimated cost to us of obtaining similar services from third-party service providers known to be available. In addition, our board of directors considers whether any single third-party service provider would be capable of providing all such services at comparable cost and quality. Finally, our board of directors compares the total amount paid to the Adviser for such services as a percentage of our net assets to the same ratio as reported by other comparable funds. The amount payable by us under the Administration Agreement was initially capped at \$1.0 million for each annual term of the agreement. On July 8, 2015, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to increase

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the cap on the payment or reimbursement of expenses by the Company thereunder, which had not been increased since the inception of the agreement, to \$1.3 million. On October 5, 2016, our board of directors determined to increase the cap on the payment or reimbursement of expenses by the Company under the Administration Agreement, from \$1.3 million to \$1.5 million, effective November 1, 2016. On July 11, 2017, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to increase the cap on the payment or reimbursement of expenses by the Company from \$1.5 million to \$1.75 million, effective August 1, 2017.

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 Management Agreement is terminated, we would be required to change our name to eliminate the use of the name "Saratoga."

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," as defined in the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (i) 67.0% or more of such company's stock present at a meeting if more than 50.0% of the outstanding stock of such company is present and represented by proxy or (ii) more than 50.0% of the outstanding stock of such company.

We do not intend to acquire securities issued by any investment company (i.e., mutual fund, registered closed-end fund or BDC) that exceed the limits imposed by the 1940 Act. Under these limits, except for registered money market funds, we generally cannot acquire more than 3% of the voting stock of any investment company, invest more than 5% of the value of our total assets in the securities of one investment company or invest more than 10% of the value of our total assets in the securities of more than one investment company. With regard to that portion of our portfolio invested in securities issued by investment companies, it should be noted that such investments might subject our stockholders to additional expenses.

We expect to be periodically examined 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 our investment adviser have adopted and implemented written policies and procedures reasonably designed to prevent violation of the federal securities laws and review these policies and procedures annually for their adequacy and the effectiveness of their implementation. We and our investment adviser have designated a chief compliance officer to be responsible for administering these policies and procedures.

Qualifying assets

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) below. 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 70.0% 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 \$250.0 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 \$4.0 million and capital and surplus of not less than \$2.0 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 60.0% of the outstanding equity of the eligible portfolio company.
- (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.

The regulations defining qualifying assets may change over time. We may adjust our investment focus as needed to comply with and/or take advantage of any regulatory, legislative, administrative or judicial actions in this area.

Significant managerial assistance to portfolio companies

A BDC generally must offer to make available to the issuer of the securities in which it invests 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. As a BDC we offer, and must provide upon request, managerial assistance to our portfolio companies. Making available significant managerial assistance means, among other things, any arrangement whereby the BDC, through its directors, officers or employees or those of its investment adviser, 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. 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.

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 70.0% 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 25.0% 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 regulated investment company (“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 200.0% immediately after each such issuance. Recently passed legislation, however, would allow us to incur additional leverage if we obtain certain approvals from our independent directors and/or our stockholders to reduce our asset coverage ratio from 200.0% to 150.0%. See “Risk Factors – Recent legislation may allow us to incur additional leverage.” On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019. We may also borrow amounts up to 5.0% of the value of our total assets for temporary or emergency purposes without regard to asset coverage.

The 1940 Act also limits the amount of warrants, options and rights to common stock that we may issue and the terms of such securities.

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 and Rule 204A-1 under the Advisers Act, respectively, 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. You may read and copy the code of ethics at the SEC’s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at (202) 942-8090. In addition, each code of ethics is available on the EDGAR database on the SEC’s website at <http://www.sec.gov>. You may also obtain copies of the code of ethics, 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. Our code of ethics is also available on our corporate governance webpage at <http://ir.saratogainvestmentcorp.com/corporate-governance>.

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.

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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 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.

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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.

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.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. 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 restrict access to non-public personal information about our stockholders to our Investment Adviser's and Administrator's employees with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

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 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 are periodically examined 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.

The NYSE Corporate Governance Regulations

The NYSE has adopted corporate governance regulations that listed companies must comply with. We are in compliance with such corporate governance listing standards applicable to BDCs.

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 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.

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We may in the future submit an application for exemptive relief 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 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, SBIC LP, received an SBIC license from the SBA.

The SBIC license allows our SBIC LP 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 \$19.5 million and have average annual fully taxed net income not exceeding \$6.5 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.

We received exemptive relief from the SEC 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 us 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. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

In December 2015, the 2016 omnibus spending bill approved by Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval. SBA regulations currently limit the amount of SBA-guaranteed debentures that an SBIC may issue to \$150.0 million when it has at least \$75.0 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of \$350.0 million in SBA-guaranteed debentures when they have at least \$175.0 million in combined regulatory capital.

On April 2, 2015, the SBA issued a “green light” letter inviting us to continue the application process to obtain a license to form and operate its second SBIC subsidiary. On September 27, 2016, the SBA informed us that as part of their continued review of our application for a second license, and in order to ensure that they were reviewing the most current information available, we would need to update all previously submitted materials and invited us to reapply. As a result of this request, with which we are in the process of complying, the existing “green light” letter that the SBA issued to us has expired. If approved in the future, a second SBIC license would provide us an incremental source of long-term capital by permitting us to issue up to \$150.0 million of additional SBA-guaranteed debentures in addition to the \$150.0 million already approved under the first license.

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As of February 28, 2018, our SBIC LP subsidiary had \$75.0 million in regulatory capital and \$137.7 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 LP 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.

Available Information

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 Securities Exchange of 1934, as amended (the “Exchange Act”). You may inspect and copy these reports, proxy statements and other information 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>. Our Internet address is <http://www.saratogainvestmentcorp.com>. We make available free of charge on our Internet website our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into this Annual Report, and you should not consider that information to be part of this Annual Report.

ITEM 1A. RISK FACTORS

Investing in our securities involves a number of significant risks. In addition to other information contained in this Annual Report on Form 10-K, you should consider carefully the following information before making an investment in our securities. The risks set forth below are the principal risks with respect to the Company generally and with respect to business development companies, they may not be the only risks we face. This section nonetheless describes the principal risk factors associated with investment in the Company specifically, as well as those factors generally associated with investment in a company with investment objectives, investment policies, capital structure or trading markets similar to the Company's. If any of the risks occur, our business, financial condition and results of operations could be materially 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.

Risks Related to Our Business and Structure

Market volatility and the condition of the debt and equity capital markets could negatively impact our financial condition and stock price.

From time to time, capital markets may experience periods of disruption and instability. For example, between 2008 and 2009, the global capital markets were unstable as evidenced by periodic disruptions in liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of major financial institutions. Despite actions of the U.S. federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular. While market conditions have largely recovered from the events of 2008 and 2009, there have been continuing periods of volatility, some lasting longer than others. For example, the referendum by British voters to exit the European Union in June 2016 led to further disruption and instability in the global markets. There can be no assurance these market conditions will not repeat themselves or worsen in the future.

Equity capital may be difficult to raise during periods of adverse or volatile market conditions because, subject to some limited exceptions, as a BDC, we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors.

Volatility and dislocation in the capital markets can also create a challenging environment in which to raise or access debt capital. The reappearance of market conditions similar to those experienced from 2008 through 2009 for any substantial length of time could make it difficult to extend the maturity of or refinance our existing indebtedness or obtain new indebtedness with similar terms and any failure to do so could have a material adverse effect on our business. The debt capital that will be available to us in the future, if at all, may be at a higher cost and on less favorable terms and conditions than what we currently experience including being at a higher cost due to a rising rate environment. If we are unable to raise or refinance debt, then our equity investors may not benefit from the potential for increased returns on equity resulting from leverage and we may be limited in our ability to make new commitments or to fund existing commitments to our portfolio companies.

Significant changes or volatility in the capital markets may also have a negative effect on the valuations of our investments. While most of our investments are not publicly traded, applicable accounting standards require us to assume as part of our valuation process that our investments are sold in a principal market to market participants (even if we plan on holding an investment through its maturity). Significant changes in the capital markets may also affect the pace of our investment activity and the potential for liquidity events involving our investments. Thus, the illiquidity of our investments may make it difficult for us to sell such investments to access capital if required, and as a result, we could realize significantly less than the value at which we have recorded our investments if we were required to sell them for liquidity purposes. An inability to raise or access capital could have a material adverse effect on our business, financial condition or results of operations.

As a result of the 2016 U.S. election, the Republican Party currently controls both the executive and legislative branches of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. The United States may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the United States. We cannot predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the United States. Such actions could have a significant adverse effect on our business, financial condition and results of operations. We cannot predict the effects of these or similar events in the future on the U.S. 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.

Uncertainty about the financial stability of the United States, China and several countries in Europe could have a significant adverse effect on our business, financial condition and results of operations.

Due to federal budget deficit concerns, Standard & Poor's Financial Services LLC ("S&P") downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's Investor Services, Inc. ("Moody's") and Fitch Ratings Inc. ("Fitch") had warned that they may downgrade the federal government's credit rating under certain circumstances. Further downgrades or warnings by S&P or other rating agencies, and the United States government's credit and deficit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased U.S. government credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

Deterioration in the economic conditions in the Eurozone and globally, including instability in financial markets, may pose a risk to our business. In recent years, financial markets have been affected at times by a number of global macroeconomic and political events, including the following: large sovereign debts and fiscal deficits of several countries in Europe and in emerging markets jurisdictions, levels of non-performing loans on the balance sheets of European banks, the potential effect of any European country leaving the Eurozone, the potential effect of the United Kingdom leaving the European Union, the potential effect of Scotland leaving the United Kingdom, and market volatility and loss of investor confidence driven by political events, including the general elections in the United Kingdom in June 2017 and in Germany in September 2017 and referenda in the United Kingdom in June 2016 and Italy in December 2016. Market and economic disruptions have affected, and may in the future affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not impact the global economy, and we cannot assure you that assistance packages will be available, or if available, be sufficient to stabilize countries and markets in Europe or elsewhere affected by a financial crisis. To the extent uncertainty regarding any economic recovery in Europe negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be significantly and adversely affected.

In the second quarter of 2015, stock prices in China experienced a significant drop, resulting primarily from continued sell-off of shares trading in Chinese markets. In addition, in August 2015, Chinese authorities sharply devalued China's currency. Since then, the Chinese capital markets have continued to experience periods of instability. These market and economic disruptions have affected, and may in the future affect, the U.S. capital markets, which could adversely affect our business, financial condition or results of operations.

The Federal Reserve raised the Federal Funds Rate in December 2015, in December 2016, in March 2017, in June 2017 and again in December 2017, and has announced its intention to continue to raise the federal funds rate over time. These developments, along with the United States government's credit and deficit concerns, the European sovereign debt crisis and the economic slowdown in China, could cause interest rates to be volatile, which may negatively impact our ability to access the debt markets on favorable terms.

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 our consolidated statements 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 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. 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 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. However, if we repurchase our outstanding debt securities, including our 6.75% Notes due 2023 (the “2023 Notes”) and such repurchase results in our recording a net gain or loss on the extinguishment of debt for financial reporting and tax purposes, such net gain or loss will not 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.

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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 induce it to influence our leverage, which may be 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. 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 2023 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.

As of February 28, 2018, there were no outstanding borrowings under the Credit Facility. As of February 28, 2018, we had issued \$137.7 million SBA-guaranteed debentures and \$74.5 million in aggregate principal amount of the 2023 Notes. On January 13, 2017, we redeemed the \$61.8 million of outstanding 2020 Notes using the proceeds from the issuance of the 2023 Notes, leaving \$9.8 million in net proceeds from the 2023 Notes offering. We may incur additional indebtedness in the future, including, but not limited to, borrowings under the Credit Facility or the issuance of additional debt securities in one or more public or private offerings, although there can be no assurance that we will be successful in doing so. Our ability to service our debt depends largely on our financial performance and is subject to prevailing economic conditions and competitive pressures. The amount of leverage that we employ at any particular time will depend on our management's and our board of directors' assessment of market and other factors at the time of any proposed borrowing.

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 2023 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

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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.

The interest rates of our floating-rate loans to our portfolio companies that extend beyond 2021 might be subject to change based on recent regulatory changes.

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending transactions between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. We typically use LIBOR as a reference rate in floating-rate loans we extend to portfolio companies such that the interest due to us pursuant to a term loan extended to a portfolio company is calculated using LIBOR. The terms of our debt investments generally include minimum interest rate floors which are calculated based on LIBOR.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short term repurchase agreements, backed by Treasury securities. The future of LIBOR at this time is uncertain. If LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established.

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

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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.

Changes to United States tariff and import/export regulations may have a negative effect on our portfolio companies and, in turn, harm us.

There has been on-going discussion and commentary regarding potential significant changes to United States trade policies, treaties and tariffs. The current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties and tariffs. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our portfolio companies' access to suppliers or customers and have a material adverse effect on their business, financial condition and results of operations, which in turn would negatively impact us.

We are dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay dividends.

Our business is dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber-attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay dividends to our stockholders.

Cybersecurity risks and cyber incidents may adversely affect our business by causing a disruption to our operations, a compromise or corruption of our confidential information and/or damage to our business relationships, all of which could negatively impact our business, results of operations or financial condition.

Our business operations rely upon secure information technology systems for data processing, storage and reporting. Despite careful security and controls design, implementation and updating, our information technology systems could become subject to cyber-attacks and cyber incidents. A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of our information resources. These incidents may be an intentional attack or an unintentional event and could involve gaining unauthorized access to our information systems for purposes of misappropriating assets, stealing confidential information, corrupting data or causing operational disruption. The result of these incidents may include disrupted operations, misstated or unreliable financial data, liability for stolen information, misappropriation of assets, increased cybersecurity protection and insurance costs, litigation and damage to our business relationships. Any such attack could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or otherwise adversely affect our business, financial condition or results of operations. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational

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and security risks. We face risks posed to our information systems, both internal and those provided to us by third-party service providers. We, our Adviser and its affiliates have implemented processes, procedures and internal controls to help mitigate cybersecurity risks and cyber intrusions, but these measures, as well as our increased awareness of the nature and extent of a risk of a cyber-incident, may be ineffective and do not guarantee that a cyber-incident will not occur or that our financial results, operations or confidential information will not be negatively impacted by such an incident.

Third parties with which we do business (including those that provide services to us) may also be sources or targets of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information and assets, as well as certain investor, counterparty, employee and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure or destruction of data, or other cybersecurity incidents, with increased costs and other consequences, including those described above. Privacy and information security laws and regulation changes, and compliance with those changes, may also result in cost increases due to system changes and the development of new administrative processes.

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. 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.

Currently, we are generally permitted to incur indebtedness or issue senior securities in amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200% after each issuance of senior securities; however, as discussed under “Recent legislation may allow us to incur additional leverage” below, we may be permitted to increase our leverage if we receive certain approvals from our independent directors and/or our stockholders. 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 stock that is a senior security, 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. We do not currently have stockholder approval of issuances below net asset value.

Recent legislation may allow us to incur additional leverage.

The 1940 Act generally prohibits us from incurring 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). However, the Small Business Credit Availability Act, which was signed into law on March 23, 2018, has modified the 1940 Act by allowing a BDC to increase the maximum amount of leverage it may incur from an asset coverage ratio of 200% to an asset coverage ratio of 150%, if certain requirements are met. Under the legislation, we are allowed to increase our leverage capacity if shareholders representing at least a majority of the votes cast, when quorum is met, approve a proposal to do so. If we receive shareholder approval, we would be allowed to increase our leverage capacity on the first day after such approval. Alternatively, the legislation allows the majority of our independent directors to approve an increase in our leverage capacity, and such approval would become effective after one year. In either case, we would be required to make certain disclosures on our website and in SEC filings regarding, among other things, the receipt of approval to increase our leverage, our leverage capacity and usage, and risks related to leverage.

As a result of this legislation, we may be able to increase our leverage up to an amount that reduces our asset coverage ratio from 200% to 150%. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net

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asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique. See “Risk Factors—Risks Related to Our Business and Structure—We employ leverage, which magnifies the potential for gain or loss on amounts invested and may increase the risk of investing in us.”

On April 16, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150% asset coverage ratio will become effective on April 16, 2019.

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 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.

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

We intend to maintain our qualification as a RIC under the Code. As a RIC, we do not pay federal income taxes on our income (including realized gains) that is distributed to our stockholders, provided that we satisfy 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 the required distributions. In such case, if we are unable to obtain cash from other sources, we may be subject to corporate-level 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 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.

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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 2023 Notes. Such a failure would have a material adverse effect on our results of operations and financial condition.

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 taxes, 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%; however, as discussed under “Recent legislation may allow us to incur additional leverage” below, we will be permitted to increase our leverage effective April 16, 2019 as a result of the approval received from our independent directors. 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 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 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 income tax.

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

Because we have elected to be treated as a BDC, we are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval 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 any security of which we are the issuer) 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 the ability of our portfolio companies to repay loans 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 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 adding to our investment portfolio, cause us to receive a reduced level of interest income from our portfolio companies and/or reduce the fair market value of our investments. Any of the foregoing events could adversely affect our distributable income and have a material adverse effect on 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 operations 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 and annual 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, changes in our portfolio composition, 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. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause the net asset value of our common stock to decline.

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, 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 2023 Notes.

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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 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.

A majority of our debt investments are not required to make principal payments until the maturity of such debt securities and are generally riskier than other types of loans.

As of February 28, 2018, 79.9% of our debt portfolio consisted of "interest-only" loans, which are structured such that the borrower makes only interest payments throughout the life of the loan and makes a large, "balloon payment" at the end of the loan term. The ability of a borrower to make or refinance a balloon payment may be affected by a number of factors, including the financial condition of the borrower, prevailing economic conditions, interest rates, and collateral values. If the interest-only loan borrower is unable to make or refinance a balloon payment, we may experience greater losses than if the loan were structured as amortizing.

We may be exposed to higher risks with respect to our investments that include PIK interest, particularly our investments in interest-only loans.

To the extent our portfolio investments permit PIK interest and our portfolio companies elect to pay PIK interest, we will be exposed to higher risks, including the following:

- Because PIK interest results in an increase in the size of the loan balance of the underlying loan, our exposure to potential loss increases when we receive PIK interest;
- PIK instruments may have higher yields, which reflect the payment deferral and credit risk associated with these instruments;

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- PIK accruals may create uncertainty about the source of our distributions to stockholders;
- PIK instruments may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of the collateral.

To the extent our investments are structured as interest-only loans, PIK interest will increase the size of the balloon payment due at the end of the loan term. PIK interest payments on such loans may increase the probability and magnitude of a loss on our investment, particularly with respect to our interest-only loans. As of February 28, 2018, 38.5% of our interest-only loans provided for contractual PIK interest, which represents contractual interest added to a loan balance and due at the end of such loan's term, and 71.5% of such investments elected to pay a portion of interest due in PIK.

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. Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies or, if not rated, would be rated below investment grade if rated, which are often referred to as "junk."

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.

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, 2018, our investment in the subordinated notes of Saratoga CLO, a collateralized loan obligation fund, had a fair value of \$11.9 million and constituted 3.5% of our portfolio. This investment constitutes a first loss position in a portfolio that, as of February 28, 2018, was composed of \$310.4 million in aggregate principal amount of primarily senior secured first lien term loans and \$5.8 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 Annual Report with respect to portfolio investments in leveraged loans.

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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 \$310.4 million aggregate principal amount of debt, as of February 28, 2018 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 \$310.4 million aggregate principal amount of debt, as of February 28, 2018 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.

Our investments in Saratoga CLO are typically broadly syndicated loans that have a different risk profile than would direct investments made by us, including less information available and fewer rights regarding repayment compared to companies we invest in directly as well as complicated accounting and tax implications.

Due to our investments in the Saratoga CLO being primarily broadly syndicated loans, there may be less information available to us on those companies as compared to most investments that we make directly. For example, we will typically have fewer rights relating to how such companies manage their cash flow to repay debt, the inclusion of protective covenants, default penalties, lien protection, change of control provisions and board observation rights in deal terms, and our general ability to oversee the company's operations. Our investment in Saratoga CLO is also subject to the risk of leverage associated with the debt issued by Saratoga CLO and the repayment priority of senior debt holders in Saratoga CLO.

The accounting and tax implications of such investments are complicated. In particular, reported earnings from the equity tranche investment of Saratoga CLO are recorded under U.S. generally accepted accounting principles ("U.S. GAAP") based upon an effective yield calculation. Current taxable earnings on these investments, however, will generally not be determinable until after the end of the fiscal year of Saratoga CLO that ends within the Company's fiscal year, even though the investment is generating cash flow. In general, the tax treatment of investment in Saratoga CLO may result in higher distributable earnings in the early years and a capital loss at maturity, while for reporting purposes the totality of cash flows are reflected in a constant yield to maturity.

The senior loan portfolio of Saratoga CLO is concentrated in a limited number of industries or borrowers, which may subject Saratoga CLO, and in turn us, to a risk of significant loss if there is a downturn in a particular industry in which Saratoga CLO is concentrated.

Saratoga CLO has senior loan portfolios that are concentrated in a limited number of industries or borrowers. A downturn in any particular industry or borrower in which Saratoga CLO is heavily invested may subject Saratoga CLO, and in turn us, to a risk of significant loss and could significantly impact the aggregate returns we realize. If an industry in which Saratoga CLO is heavily invested suffers from adverse business or economic conditions, a material portion of our investment in Saratoga CLO could be affected adversely, which, in turn, could adversely affect our financial position and results of operations. For example, as of February 28, 2018, Saratoga CLO's investments in the business services industry represented approximately 15.4% of the fair value of Saratoga CLO's portfolio. Companies in the business services industry are subject to general economic downturns and business cycles, and will often suffer reduced revenues and rate pressures during periods of economic uncertainty. In addition, investments in the healthcare & pharmaceuticals industry represented approximately 8.3% of the fair value of Saratoga CLO's portfolio. Changes in healthcare or other laws and regulations applicable to the businesses of some of the companies in which Saratoga CLO invests may occur that could increase their compliance and other costs of doing business, require significant systems enhancements, or render their products or services less profitable or obsolete, any of which could have a material adverse effect on their results of operations. There has also been an increased political and regulatory focus on healthcare laws in recent years, and new legislation could have a material effect on the business and operations of companies in which Saratoga CLO invests.

Failure by Saratoga CLO to satisfy certain financial covenants may entitle senior debtholders to additional payments, which may harm our operating results by reducing payments we would otherwise be entitled to receive from Saratoga CLO.

The failure by Saratoga CLO to satisfy certain financial covenants, specifically those with respect to adequate collateralization and/or interest coverage tests, could lead to a reduction in its payments to us. In the event that Saratoga CLO failed these certain tests, senior debt holders may be entitled to additional payments that would, in turn, reduce the payments we would otherwise be entitled to receive. Separately, we may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms, which may include the waiver of certain financial covenants, with Saratoga CLO or any other investment we may make. If any of these occur, it could materially and adversely affect our operating results and cash flows.

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 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

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- 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. As a result, a change in currency exchange rates may adversely affect our profitability.

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.

The success of our hedging transactions will depend on our ability to correctly predict movements in currencies and interest rates.

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Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not entirely related to currency fluctuations. To the extent we engage in hedging transactions, we also face the risk that counterparties to the derivative instruments we hold may default, which may expose us to unexpected losses from positions where we believed that our risk had been appropriately hedged.

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” 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.

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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 portfolio may continue to be concentrated in a limited number of industries, which may subject us to a risk of significant loss if there is a downturn in a particular industry in which a number of our investments are concentrated.

Our portfolio may continue to be concentrated in a limited number of industries. A downturn in any particular industry in which we are invested could significantly impact the aggregate returns we realize.

As of February 28, 2018, our investments in the business services industry represented approximately 55.7% of the fair value of our portfolio and our investments in the healthcare industry represented approximately 12.9% of the fair value of our portfolio. In addition, we may from time to time invest a relatively significant percentage of our portfolio in industries we do not necessarily target. If an industry in which we have significant investments suffers from adverse business or economic conditions, as these industries have to varying degrees, a material portion of our investment portfolio could be affected adversely, which, in turn, could adversely affect our financial position and results of operations.

We cannot predict how tax reform legislation will affect us, our investments, or our stockholders, and any such legislation could adversely affect our business.

Legislative or other actions relating to taxes could have a negative effect on the Company. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Treasury Department. The U.S. House of Representatives and U.S. Senate recently passed tax reform legislation, which was recently signed by the President. Such legislation will make many changes to the Internal Revenue Code, including significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. We cannot predict with certainty how any changes in the tax laws might affect the Company, investors, or the Company's portfolio investments. New legislation and any U.S. Treasury regulations, administrative interpretations or court decisions interpreting such legislation could significantly and negatively affect the Company's ability to qualify for tax treatment as a RIC or the U.S. federal income tax consequences to the Company and its investors of such qualification, or could have other adverse consequences. Investors are urged to consult with their tax advisor regarding tax legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in the Company's securities.

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 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.

We have in the past, and may continue to, distribute taxable dividends that are payable to our stockholders in part through the issuance of shares of our common 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 IRS 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 United States 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.

On September 24, 2014, we announced the recommencement of quarterly dividends to our stockholders. We have adopted a 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 the DRIP by the dividend record date will have their cash dividends automatically reinvested into 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.

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; or
- loss of a major funding source.

Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.

In the past, following periods of volatility in the market price of a company’s securities, securities class action litigation has often been brought against that company. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any securities litigation or shareholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert management’s and our board of directors’ attention and resources from our business. Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service

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providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation and activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

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 results that will allow us to make a specified level of cash distributions or periodically increase our dividend rate. 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 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.

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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. We do not currently have stockholder approval of issuances below net asset value.

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 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 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.

Risks Related to Our 2023 Notes

The 2023 Notes are unsecured and therefore are effectively subordinated to any secured indebtedness we have incurred or may incur in the future.

The 2023 Notes are not secured by any of our assets or any of the assets of our subsidiaries, including our wholly owned subsidiaries. As a result, the 2023 Notes are 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. Because the 2023 Notes are not secured by any of our assets, they will be effectively subordinated to any secured indebtedness we have incurred and 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 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 2023 Notes.

The 2023 Notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The 2023 Notes are obligations exclusively of Saratoga Investment Corp., and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the 2023 Notes and the 2023 Notes are not required to be guaranteed by any subsidiary we may acquire or create in the future, including indebtedness under the Credit Facility. Any assets of our subsidiaries are not directly available to satisfy the claims of our creditors, including holders of the 2023 Notes. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors of our subsidiaries will have priority over our equity interests in such entities (and therefore the claims of our creditors, including holders of the 2023 Notes) with respect to the assets of such entities. Even if we are recognized as a creditor of one or more of these entities, our claims would still be effectively subordinated to any security interests in the assets of any such entity and to any indebtedness or other liabilities of any such entity senior to our claims. Consequently, the 2023 Notes are structurally subordinated to all indebtedness and other liabilities of any of our subsidiaries and portfolio companies with respect to which we hold equity investments. In addition, our subsidiaries and these entities may incur substantial indebtedness in the future, all of which would be structurally senior to the 2023 Notes. As of February 28, 2018, there were no outstanding borrowings under the Credit Facility and we had the ability to borrow up to \$45.0 million under the Credit Facility, subject to certain conditions. As of February 28, 2018, we had \$137.7 million in SBA-guaranteed debentures outstanding. The indebtedness under the Credit Facility and to SBA-guaranteed debentures is structurally senior to the 2023 Notes.

The indenture under which the 2023 Notes are issued contains limited protection for holders of the 2023 Notes.

The indenture under which the 2023 Notes are issued offers limited protection to holders of the 2023 Notes. The terms of the indenture and the 2023 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 2023 Notes. In particular, the terms of the indenture and the 2023 Notes do 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 2023 Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 2023 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 2023 Notes and (4) securities, indebtedness or obligations issued or incurred by our subsidiaries or the portfolio companies with respect to which we hold an equity investment that would be senior to our equity interests in those entities and therefore rank structurally senior to the 2023 Notes with respect to the assets of these entities, 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 are subject thereto), but giving effect, in each 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, or, once the approval we received from our independent directors becomes effective on April 16, 2019, 150% (after deducting the amount of such dividend, distribution or purchase price, as the case may be);
- 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 indenture does not require us to offer to purchase the 2023 Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 2023 Notes do not protect holders of the 2023 Notes in the event that we experience changes (including significant adverse changes) in our financial condition, results of operations or credit ratings, if any, as they do not require that we 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 2023 Notes may have important consequences for you as a holder of the 2023 Notes, including making it more difficult for us to satisfy our obligations with respect to the 2023 Notes or negatively affecting the trading value of the 2023 Notes.

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Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 2023 Notes, including additional covenants and events of default. For example, the indenture under which the 2023 Notes are issued does not contain cross-default provisions that are contained in the Credit Facility. The issuance or incurrence of any such debt with incremental protections could affect the market for and trading levels and prices of the 2023 Notes.

An active trading market for the 2023 Notes may not develop or be sustained, which could limit the market price of the 2023 Notes or the ability to sell them.

Although the 2023 Notes are listed on the NYSE under the symbol “SAB”, we cannot provide any assurances that an active trading market will develop or be maintained for the 2023 Notes or that the 2023 Notes will be able to be sold. At various times, the 2023 Notes 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. Accordingly, we cannot provide any assurance that a liquid trading market will develop for the 2023 Notes, or that the 2023 Notes will be able to be sold at a particular time or at a favorable price. To the extent an active trading market does not develop, the liquidity and trading price for the 2023 Notes may be harmed.

We may choose to redeem the 2023 Notes when prevailing interest rates are relatively low.

On or after December 21, 2019, we may choose to redeem the 2023 Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the 2023 Notes. If prevailing rates are lower at the time of redemption, you would not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as the interest rate on the 2023 Notes being redeemed. Our redemption right also may adversely impact your ability to sell the 2023 Notes as the optional redemption date or period approaches.

If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 2023 Notes.

Any default under the agreements governing our indebtedness, including a default under the Credit Facility or other indebtedness to which we may be a party that is not waived by the required lenders, and the remedies sought by the holders of such indebtedness could make us unable to pay principal, premium, if any, and interest on the 2023 Notes and substantially decrease the market value of the 2023 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, including the 2023 Notes. 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 lender under the Credit Facility or other debt we may incur in the future could elect to terminate its commitment, cease making further loans and institute foreclosure proceedings against our assets, and we could be forced into bankruptcy or liquidation. In addition, any such default may constitute a default under the 2023 Notes, which could further limit our ability to repay our debt, including the 2023 Notes. If our operating performance declines, we may in the future need to seek to obtain waivers from the lender under the Credit Facility or other debt that we may incur in the future to avoid being in default. If we breach our covenants under the Credit Facility or other debt and seek a waiver, we may not be able to obtain a waiver from the required lenders. If this occurs, we would be in default under the Credit Facility or other debt, the lender could exercise its 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.

Because the Credit Facility has, and any future credit facilities will likely have, customary cross-default provisions, if the indebtedness under the 2023 Notes, the Credit Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We do not own any real estate or other physical properties important to our operations, however, an affiliate of our Investment Adviser leases office space for our executive offices at 535 Madison Avenue, New York, New York 10022.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Price range of common stock

Our common stock is traded on the New York Stock Exchange under the symbol “SAR.” Prior to July 30, 2010, our common stock traded on the New York Stock Exchange under the symbol “GNV.” The following table sets forth, for the two most recent fiscal years and the current fiscal year, the net asset value (“NAV”) at each period end and the range of high and low sales prices of our common stock as reported on the New York Stock Exchange. The net asset value per share and high and low sales prices listed below reflect the 1:10 reverse stock split that occurred on August 12, 2010.

<u>Fiscal Year ended February 28, 2017</u>	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>
First Quarter	\$22.11	\$16.84	\$14.03
Second Quarter	\$22.39	\$18.15	\$16.37
Third Quarter	\$22.21	\$20.24	\$17.20
Fourth Quarter	\$21.97	\$23.30	\$18.12
<u>Fiscal Year ended February 28, 2018</u>	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>
First Quarter	\$21.69	\$23.60	\$20.54
Second Quarter	\$22.37	\$22.53	\$20.28
Third Quarter	\$22.58	\$22.72	\$20.65
Fourth Quarter	\$22.96	\$22.70	\$19.65
<u>Fiscal Year ending February 28, 2019</u>	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>
First Quarter through May 11, 2018	\$ *	\$22.58	\$20.02

* Not determinable at the time of filing.

(1) NAV per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low closing sales prices. The net asset values shown are based on outstanding shares at the end of each period.

On September 24, 2014, we announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of our common stock at prices below its NAV as reported in our then most recently published consolidated financial statements. On October 7, 2015, our board of directors extended the open market share repurchase plan for another year and increased the number of shares we are permitted to repurchase at prices below our NAV, as reported in our then most recently published consolidated financial statements, to 400,000 shares of our common stock. On October 5, 2016, our board of directors extended the open market share repurchase plan for another year to October 15, 2017 and increased the number of shares we are permitted to repurchase at prices below our NAV, as reported in our then most recently published consolidated financial statements, to 600,000 shares of its common stock. On October 10, 2017, the Company’s board of directors extended the open market share repurchase plan for another year to October 15, 2018, leaving the number of shares unchanged at 600,000 shares of its common stock.

As shown in the table below, as of February 28, 2018, we had purchased 218,491 shares of common stock pursuant to this repurchase plan.

<u>Period</u>	<u>Total Number of Shares (or Units) Purchased</u>	<u>Average Price per Share (or Unit)</u>	<u>Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs</u>	<u>Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs</u>
March 1, 2015 through November 30, 2015	2,500	\$ 15.59	2,500	397,500
December 1, 2015 through December 31, 2015	—	\$ —	2,500	397,500
January 1, 2016 through January 31, 2016	4,200	\$ 13.86	6,700	393,300
February 1, 2016 through February 29, 2016	18,717	\$ 13.86	25,417	374,583

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Period	Total Number of Shares (or Units) Purchased	Average Price per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
March 1, 2016 through March 31, 2016	16,282	\$ 14.57	41,699	358,301
April 1, 2016 through April 30, 2016	7,858	\$ 16.22	49,557	350,443
May 1, 2016 through May 31, 2016	21,357	\$ 16.29	70,914	329,086
June 1, 2016 through June 30, 2016	8,310	\$ 16.50	79,224	320,776
July 1, 2016 through July 31, 2016	19,212	\$ 17.31	98,436	301,564
August 1, 2016 through August 31, 2016	40,058	\$ 17.44	138,494	261,506
September 1, 2016 through September 30, 2016	40,221	\$ 18.04	178,715	221,285
October 1, 2016 through October 31, 2016	27,076	\$ 18.10	205,791	394,209
November 1, 2016 through November 30, 2016	8,600	\$ 18.24	214,391	385,609
December 1, 2016 through December 31, 2016	4,100	\$ 18.57	218,491	381,509
January 1, 2017 through February 28, 2018	—	—	218,491	381,509
Total	218,491	\$ 16.87		

Holders

The last reported price for our common stock on May 11, 2018 was \$21.23 per share. As of May 11, 2018, there were 16 holders of record of our common stock.

Dividend Policy

The following table summarizes our dividends or distributions declared during fiscal 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018:

Date Declared	Record Date	Payment Date	Amount per Share(2)
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(1)
Total Dividends Declared for Fiscal 2015			<u>\$ 0.40</u>

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April 9, 2015	May 4, 2015	May 29, 2015	\$0.27(1)
May 14, 2015	May 26, 2015	June 5, 2015	1.00(1)
July 8, 2015	August 3, 2015	August 31, 2015	0.33(1)
October 7, 2015	November 2, 2015	November 30, 2015	0.36(1)
January 12, 2016	February 1, 2016	February 29, 2016	0.40(1)
Total Dividends Declared for Fiscal 2016			<u>\$2.36</u>
March 31, 2016	April 15, 2016	April 27, 2016	\$0.41(1)
July 7, 2016	July 29, 2016	August 9, 2016	0.43(1)
August 8, 2016	August 24, 2016	September 5, 2016	0.20(1)
October 5, 2016	October 31, 2016	November 9, 2016	0.44(1)
January 12, 2017	January 31, 2017	February 9, 2017	0.45(1)
Total Dividends Declared for Fiscal 2017			<u>\$1.93</u>
February 28, 2017	March 15, 2017	March 28, 2017	\$0.46(1)
May 30, 2017	June 15, 2017	June 27, 2017	0.47(1)
August 28, 2017	September 15, 2017	September 26, 2017	0.48(1)
November 29, 2017	December 15, 2017	December 27, 2017	0.49(1)
Total Dividends Declared for Fiscal 2018			<u>\$1.90</u>
February 26, 2018	March 14, 2018	March 26, 2018	0.50(1)
Total Dividends Declared for Fiscal 2019			<u>\$0.50</u>

- (1) This dividend was paid by a 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.
- (2) In each case, all of our distributions have been paid from our earnings and there has not been any return of capital to investors.

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 thereafter, paid five annual dividend distributions (December 2013, 2012, 2011, 2010 and 2009) to our stockholders since such time, 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, we announced the recommencement of quarterly dividends to our stockholders. 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 the DRIP by the dividend record date will have their cash dividends automatically reinvested into 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.

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.

In order to maintain tax treatment 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 2017 calendar year, the Company made distributions sufficient such that we did not incur any federal excise taxes. For the 2014, 2015 and 2016 calendar years, our distributions were insufficient such that we incurred federal excise taxes. We may elect to withhold from distribution a portion of our ordinary income for the 2016 calendar year and/or portion of the capital gains in excess of capital losses realized during the one year period ending October 31, 2016, if any, and, if we do so, we would expect to incur federal excise taxes as a result.

Pursuant to a revenue procedure (Revenue Procedure 2010-12), or the Revenue Procedure, issued by the 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.

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Although this Revenue Procedure is no longer available and did not apply to our distributions for our fiscal year ended February 28, 2018, 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 September 24, 2014, we announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of our common stock at prices below our NAV as reported in its then most recently published consolidated financial statements, which was subsequently increased to 400,000 shares of our common stock. On October 5, 2016, our board of directors extended the open market share repurchase plan for another year to October 15, 2017 and increased the number of shares we are permitted to repurchase at prices below our NAV, as reported in its then most recently published consolidated financial statements, to 600,000 shares of our common stock. On October 10, 2017, the Company's board of directors extended the open market share repurchase plan for another year to October 15, 2018, leaving the number of shares unchanged at 600,000 shares of its common stock. As of February 28, 2018, we purchased 218,491 shares of common stock, at the average price of \$16.87 for approximately \$3.7 million pursuant to this repurchase plan.

On February 26, 2018, our board of directors declared a dividend of \$0.50 per share, which was paid on March 26, 2018, to common stockholders of record as of March 14, 2018. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.6 million in cash and 25,354 newly issued shares of common stock, or 0.4% 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 \$19.91 per share, which equaled the volume weighted average trading price per share of the common stock on March 13, 14, 15, 16, 19, 20, 21, 22, 23 and 26, 2018.

On November 29, 2017, our board of directors declared a dividend of \$0.49 per share payable on December 27, 2017, to common stockholders of record on December 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 25,435 newly issued shares of common stock, or 0.4% 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 \$21.14 per share, which equaled the volume weighted average trading price per share of the common stock on December 13, 14, 15, 18, 19, 20, 21, 22, 26 and 27, 2017.

On August 28, 2017, our board of directors declared a dividend of \$0.48 per share payable on September 26, 2017, to common stockholders of record on September 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.2 million in cash and 33,551 newly issued shares of common stock, or 0.6% 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 \$20.19 per share, which equaled the volume weighted average trading price per share of the common stock on September 13, 14, 15, 18, 19, 20, 21, 22, 25 and 26, 2017.

On May 30, 2017, our board of directors declared a dividend of \$0.47 per share which was paid on June 27, 2017, to common stockholders of record on June 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.3 million in cash and 26,222 newly issued shares of common stock, or 0.4% 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 \$20.04 per share, which equaled the volume weighted average trading price per share of the common stock on June 14, 15, 16, 19, 20, 21, 22, 23, 26 and 27, 2017.

On February 28, 2017, our board of directors declared a dividend of \$0.46 per share, which was paid on March 28, 2017, to common stockholders of record as of March 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

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Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 29,096 newly issued shares of common stock, or 0.5% 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 \$21.38 per share, which equaled the volume weighted average trading price per share of the common stock on March 15, 16, 17, 20, 21, 22, 23, 24, 27 and 28, 2017.

On January 12, 2017, our board of directors declared a dividend of \$0.45 per share, which was paid on February 9, 2017, to common stockholders of record as of January 31, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.6 million in cash and 50,453 newly issued shares of common stock, or 0.9% 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 \$20.25 per share, which equaled the volume weighted average trading price per share of the common stock on January 27, 30, 31 and February 1, 2, 3, 6, 7, 8 and 9, 2017.

On October 5, 2016, our board of directors declared a dividend of \$0.44 per share, which was paid on November 9, 2016, to common stockholders of record as of October 31, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,548 newly issued shares of common stock, or 1.0% 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 \$17.12 per share, which equaled the volume weighted average trading price per share of the common stock on October 27, 28, 31 and November 1, 2, 3, 4, 7, 8 and 9, 2016.

On August 8, 2016, our board of directors declared a special dividend of \$0.20 per share, which was paid on September 5, 2016, to common stockholders of record as of August 24, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.7 million in cash and 24,786 newly issued shares of common stock, or 0.4% 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 \$17.06 per share, which equaled the volume weighted average trading price per share of the common stock on August 22, 23, 24, 25, 26, 29, 30, 31 and September 1 and 2, 2016.

On July 7, 2016, our board of directors declared a dividend of \$0.43 per share, which was paid on August 9, 2016, to common stockholders of record as of July 29, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,167 newly issued shares of common stock, or 1.0% 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 \$16.32 per share, which equaled the volume weighted average trading price per share of the common stock on July 27, 28, 29 and August 1, 2, 3, 4, 5, 8 and 9, 2016.

On March 31, 2016, our board of directors declared a dividend of \$0.41 per share payable on April 27, 2016, to common stockholders of record on April 15, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 56,728 newly issued shares of common stock, or 1.0% 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 \$15.43 per share, which equaled the volume weighted average trading price per share of the common stock on April 14, 15, 18, 19, 20, 21, 22, 25, 26 and 27, 2016.

On January 12, 2016, our board of directors declared a dividend of \$0.40 per share payable on February 29, 2016, to all stockholders of record on February 1, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,765 newly issued shares of common stock, or 1.2% 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 \$13.11 per share, which equaled the volume weighted average trading price per share of the common stock on February 16, 17, 18, 19, 22, 23, 24, 25, 26 and 29, 2016.

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On October 7, 2015, our board of directors declared a dividend of \$0.36 per share payable on November 30, 2015, to common stockholders of record on November 2, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 61,029 newly issued shares of common stock, or 1.1% 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 \$14.53 per share, which equaled the volume weighted average trading price per share of the common stock on November 16, 17, 18, 19, 20, 23, 24, 25, 27 and 30, 2015.

On July 8, 2015, our board of directors declared a dividend of \$0.33 per share payable on August 31, 2015, to common stockholders of record on August 3, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 47,861 newly issued shares of common stock, or 0.9% 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 \$15.28 per share, which equaled the volume weighted average trading price per share of the common stock on August 18, 19, 20, 21, 24, 25, 26, 27, 28 and 31, 2015.

On May 14, 2015, our board of directors declared a special dividend of \$1.00 per share payable on June 5, 2015, to common stockholders of record on May 26, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$3.4 million in cash and 126,230 newly issued shares of common stock, or 2.3% 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 \$16.47 per share, which equaled the volume weighted average trading price per share of the common stock on May 22, 26, 27, 28, 29 and June 1, 2, 3, 4, and 5, 2015.

On April 9, 2015, our board of directors declared a dividend of \$0.27 per share payable on May 29, 2015, to common stockholders of record on May 4, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.9 million in cash and 33,766 newly issued shares of common stock, or 0.6% 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 \$16.78 per share, which equaled the volume weighted average trading price per share of the common stock on May 15, 18, 19, 20, 21, 22, 26, 27, 28 and 29, 2015.

On September 24, 2014, our board of directors declared a dividend of \$0.22 per share payable on February 27, 2015, to common stockholders of record on February 2, 2015. Shareholders have the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.8 million in cash and 26,858 newly issued shares of common stock, or 0.5% 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 \$14.97 per share, which equaled the volume weighted average trading price per share of the common stock on February 13, 17, 18, 19, 20, 23, 24, 25, 26 and 27, 2015.

On September 24, 2014, our board of directors declared a dividend of \$0.18 per share payable on November 28, 2014, to common stockholders of record on November 3, 2014. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.6 million in cash and 22,283 newly issued shares of common stock, or 0.4% 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 \$14.37 per share, which equaled the volume weighted average trading price per share of the common stock on November 14, 17, 18, 19, 20, 21, 24, 25, 26 and 28, 2014.

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.

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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.

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.

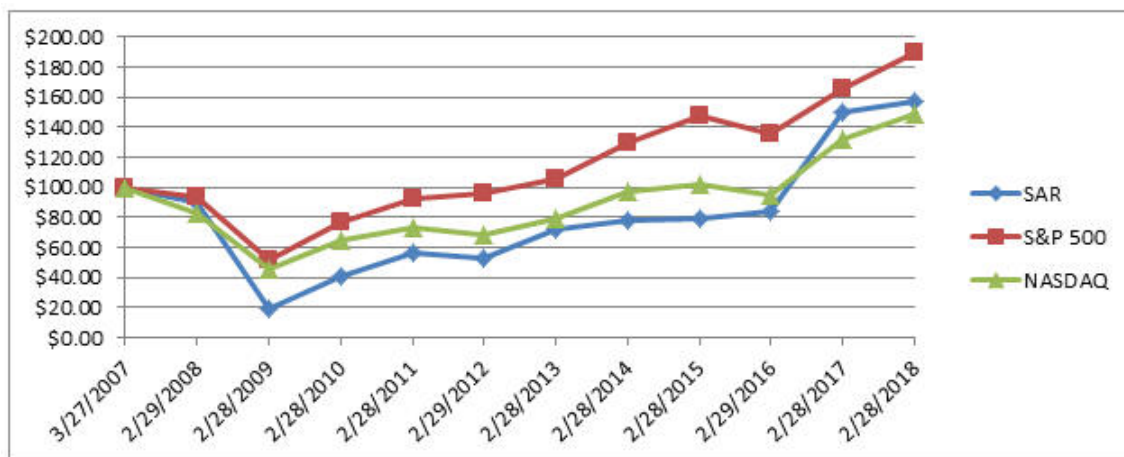
Based on shareholder elections, the dividend consisted of \$1.2 million in cash and 596,235 shares of common stock, or 22.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 10.0% of the aggregate dividend amount, 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 shareholder elections, the dividend consisted of \$2.1 million in cash and 864,872.5 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.

Performance Graph

The following graph compares the return on our common stock with that of the Standard & Poor's 500 Stock Index and the NASDAQ Financial 100 index, for the period from March 23, 2007, the date our common stock began trading, through February 28, 2018. The graph assumes that, on March 23, 2007, a person invested \$100 in each of our common stock, the Standard & Poor's 500 Stock Index and the NASDAQ Financial 100 index. The graph measures total shareholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are reinvested in like securities.



Sales of unregistered securities

Not applicable.

Issuer purchases of equity securities

We did not make any purchases of our common stock in the open market during the year ended February 28, 2018. During the years ended February 28, 2017 and February 29, 2016, we purchased 193,074 and 25,417 shares respectively, of our common stock in the open market.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected financial and other data as of and for the years ended February 28, 2018, February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014 are 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 within this Annual Report. The data should be read in conjunction with our consolidated financial statements and notes thereto, which are included elsewhere in this Annual Report, and Part II. Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

SARATOGA INVESTMENT CORP.
SELECTED CONSOLIDATED FINANCIAL DATA
(dollar amounts in thousands, except share and per share numbers)

	As of and for the Year Ended February 28, 2018	As of and for the Year Ended February 28, 2017	As of and for the Year Ended February 29, 2016	As of and for the Year Ended February 28, 2015	As of and for the Year Ended February 28, 2014
Consolidated Statements of Operations Data:					
Investment income:					
Interest from investments	\$ 35,110	\$ 29,348	\$ 26,871	\$ 24,684	\$ 20,179
Management fee, incentive fee and other income	3,505	3,809	3,179	2,691	2,714
Total investment income	<u>38,615</u>	<u>33,157</u>	<u>30,050</u>	<u>27,375</u>	<u>22,893</u>
Operating Expenses:					
Interest and debt financing expenses	10,939	9,888	8,456	7,375	6,084
Base management and incentive management fees(1)	10,180	7,846	6,761	6,704	4,266
Administrator expenses	1,646	1,367	1,175	1,000	1,000
General and administrative and other expenses	3,133	2,896	2,866	2,328	2,669
Excise tax expense (credit)	(15)	45	114	294	—
Total operating expenses	<u>25,883</u>	<u>22,042</u>	<u>19,372</u>	<u>17,701</u>	<u>14,019</u>
Loss on extinguishment of debt	—	1,455	—	—	—
Net investment income	<u>12,732</u>	<u>9,660</u>	<u>10,678</u>	<u>9,674</u>	<u>8,874</u>
Realized and unrealized gain (loss) on investments:					
Net realized gain (loss) from investments	(5,878)	12,368	226	3,276	1,271
Net change in unrealized appreciation (depreciation) on investments	10,825	(10,641)	741	(1,943)	(1,648)
Total net gain (loss) on investments	<u>4,947</u>	<u>1,727</u>	<u>967</u>	<u>1,333</u>	<u>(377)</u>
Net increase in net assets resulting from operations	<u>\$ 17,679</u>	<u>\$ 11,387</u>	<u>\$ 11,645</u>	<u>\$ 11,007</u>	<u>\$ 8,497</u>
	As of and for the Year Ended February 28, 2018	As of and for the Year Ended February 28, 2017	As of and for the Year Ended February 29, 2016	As of and for the Year Ended February 28, 2015	As of and for the Year Ended February 28, 2014
Per Share:					
Earnings per common share—basic and diluted(2)	\$ 2.93	\$ 1.98	\$ 2.09	\$ 2.04	\$ 1.73
Net investment income per share—basic and diluted(2)	\$ 2.11	\$ 1.68	\$ 1.91	\$ 1.80	\$ 1.80
Net realized and unrealized gain (loss) per share—basic and diluted(2)	\$ 0.82	\$ 0.30	\$ 0.18	\$ 0.24	\$ (0.07)
Dividends declared per common share(3)	\$ 1.90	\$ 1.93	\$ 2.36	\$ 0.40	\$ 2.65

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Dilutive impact of dividends paid in stock on net asset value per share(4)	\$ (0.04)	\$ (0.14)	\$ (0.37)	\$ (0.02)	\$ (0.71)
Net asset value per share	\$ 22.96	\$ 21.97	\$ 22.06	\$ 22.70	\$ 21.08
Total return based on market value(5)	5.28%	80.83%	4.27%	1.63%	9.11%
Total return based on net asset value(6)	14.45%	12.62%	11.10%	10.09%	8.75%
Consolidated Statements of Assets and Liabilities Data:					
Investment assets at fair value	\$ 342,694	\$ 292,661	\$ 283,996	\$ 240,538	\$ 205,845
Total assets(7)	360,336	318,651	295,047	263,560	215,168
Total debt outstanding(7)	206,486	181,476	160,749	132,117	94,291
Total net assets	143,691	127,295	125,150	122,599	113,428
Net asset value per common share	\$ 22.96	\$ 21.97	\$ 22.06	\$ 22.70	\$ 21.08
Common shares outstanding at end of year	6,257,029	5,794,600	5,672,227	5,401,899	5,379,616
Other Data:					
Investments funded	\$ 107,697	\$ 126,935	\$ 109,191	\$ 104,872	\$ 121,074
Principal collections related to investment repayments or sales	\$ 66,312	\$ 121,159	\$ 68,174	\$ 73,257	\$ 71,607
Number of investments at year end	56	53	59	64	60
Weighted average yield of income producing debt investments —Non-control/Non-affiliate(8)	11.11%	10.66%	10.82%	10.63%	10.62%
Weighted average yield on income producing debt investments— Affiliate(8)	13.06%	12.17%	—	—	—
Weighted average yield on income producing debt investments— Control(8)	16.97%	11.64%	16.40%	25.22%	18.55%

- (1) See Note 6 to the consolidated financial statements contained elsewhere herein.
- (2) For the years ended February 28, 2018, February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014, amounts are calculated using weighted average common shares outstanding of 6,024,040, 5,740,450, 5,582,453, 5,385,049 and 4,920,517, respectively.
- (3) Calculated using the shares outstanding at the 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—Dividend Policy."
- (5) 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 DRIP. Total investment return does not reflect brokerage commissions.
- (6) 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 DRIP. Total investment return does not reflect brokerage commissions.
- (7) The Company adopted the provisions of ASU 2015-03 *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, as of February 28, 2015. The amendments in this ASU require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability consistent with debt discounts. The adoption of the provisions of ASU 2015-03 did not materially impact the Company's consolidated financial position or results of operations. Prior period amounts for the year ended February 28, 2014 were reclassified to conform to the current period presentation.
- (8) The weighted average yield on income producing investments is higher than what investors in the Company will realize because it does not reflect the Company's expenses and any sales load paid by investors.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our consolidated financial statements and related notes and other financial information appearing elsewhere in this Annual Report on Form 10-K. In addition to historical information, the following discussion and other parts of this Annual Report contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under Part I. Item 1A. "Risk Factors" and "Note about Forward-Looking Statements" appearing elsewhere herein.

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 Annual Report on Form 10-K involve risks and uncertainties, including statements as to:

- our future operating results;
- the introduction, withdrawal, success and timing of business initiatives and strategies;
- changes in political, economic or industry conditions, the interest rate environment or financial and capital markets, which could result in changes in the value of our assets;
- the relative and absolute investment performance and operations of our Investment Adviser;
- the impact of increased competition;
- our ability to turn potential investment opportunities into transactions and thereafter into completed and successful investments;
- the unfavorable resolution of any future legal proceedings;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make and future acquisitions and divestitures;
- 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 status, including our ability to operate as a business development company ("BDC"), or to operate our small business investment company ("SBIC") subsidiary, and to continue to qualify to be taxed as a regulated investment company ("RIC");
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies;
- the impact of interest rate volatility on our results, particularly because we use leverage as part of our investment strategy;
- the impact of legislative and regulatory actions and reforms and regulatory, supervisory or enforcement actions of government agencies relating to us or our investment adviser;
- the impact of changes to tax legislation and, generally, our tax position;
- our ability to access capital and any future financings by us;
- the ability of our investment adviser to attract and retain highly talented professionals; and
- the ability of our Investment Adviser to locate suitable investments for us and to monitor and effectively administer our investments.

Such forward-looking statements may include statements preceded by, followed by or that otherwise include terms such as "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "plan," "potential," "project," "should," "will" and "would" or the negative of these terms or other comparable terminology.

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We have based the forward-looking statements included in this annual report on Form 10-K on information available to us on the date of this annual report on Form 10-K, and we assume no obligation to update any such forward-looking statements. Actual results could differ materially from those anticipated in our forward-looking statements, and future results could differ materially from historical performance. We undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law or SEC rule or regulation. You are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

The following analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes thereto contained elsewhere in this annual report on Form 10-K.

OVERVIEW

We are a Maryland corporation that has elected to be treated as a 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 earnings before interest, tax, depreciation and amortization (“EBITDA”) of between \$2 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. Although we have no current intention to do so, to the extent we invest in private equity funds, we will limit our investments in entities that are excluded from the definition of “investment company” under Section 3(c)(1) or Section 3(c)(7) of the 1940 Act, which includes private equity funds, to no more than 15.0% of its net assets. We have elected and qualified to be treated as a RIC under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

Corporate History and Recent Developments

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

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.

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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 of the 986,842 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 an SBIC license from the Small Business Administration (“SBA”).

In May 2013, we issued \$48.3 million in aggregate principal amount of our 7.50% fixed-rate unsecured notes due 2020 (the “2020 Notes”) 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. The 2020 Notes were listed on the NYSE under the trading symbol “SAQ” with a par value of \$25.00 per share. The 2020 Notes were redeemed in full on January 13, 2017.

On May 29, 2015, we entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. through which we may offer for sale, from time to time, up to \$20.0 million in aggregate principal amount of the 2020 Notes through an At-the-Market (“ATM”) offering. As of February 28, 2018, the Company sold 539,725 bonds with a principal of \$13.5 million at an average price of \$25.31 for aggregate net proceeds of \$13.4 million (net of transaction costs).

On December 21, 2016, we issued \$74.5 million in aggregate principal amount of our 6.75% fixed-rate unsecured notes due 2023 (the “2023 Notes”) for net proceeds of \$71.7 million after deducting underwriting commissions of approximately \$2.3 million and offering costs of approximately \$0.5 million. The issuance included the exercise of substantially all of the underwriters’ option to purchase an additional \$9.8 million aggregate principal amount of 2023 Notes within 30 days. Interest on the 2023 Notes is paid quarterly in arrears on March 15, June 15, September 15 and December 15, at a rate of 6.75% per year, beginning March 30, 2017. The 2023 Notes mature on December 20, 2023, and commencing December 21, 2019, may be redeemed in whole or in part at any time or from time to time at our option. The 2023 Notes are listed on the NYSE under the trading symbol “SAB” with a par value of \$25.00 per share.

On March 16, 2017, we entered into an equity distribution agreement with Ladenburg Thalmann & Co. Inc., through which we may offer for sale, from time to time, up to \$30.0 million of our common stock through an ATM offering. As of February 28, 2018, the Company sold 348,123 shares for gross proceeds of \$7.8 million at an average price of \$22.52 for aggregate net proceeds of \$7.8 million (net of transaction costs).

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 balance sheet date in the principal market to independent market participants, or in the absence of a principal market, in the most advantageous market, which may be a hypothetical market. Market participants are defined as buyers and sellers in the principal or most advantageous market that are independent, knowledgeable, and willing and able to transact.

Investments for which market quotations are readily available are fair valued at such market quotations obtained from independent third party pricing services and market makers subject to any decision by our board of directors to approve a fair value determination to reflect significant events affecting the value of these investments. We value investments for which market quotations are not readily available at fair value as approved, in good faith, by our board of directors based on input from Saratoga Investment Advisors, the audit

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committee of our board of directors and a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments, market yield trend analysis, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.

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

- Each investment is initially valued by the responsible investment professionals of Saratoga Investment Advisors and preliminary valuation conclusions are documented and discussed with our senior management; and
- An independent valuation firm engaged by our board of directors independently reviews a selection 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 once each fiscal year.

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

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

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

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

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Payment-in-Kind Interest

The Company holds debt and preferred equity 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 or preferred equity investments may provide for a portion or all of the interest to be PIK. To the extent interest is PIK, 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 or common 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 initially refinanced in October 2013 and its reinvestment period ended in October 2016. On November 15, 2016, we completed the second refinancing of the Saratoga CLO. The Saratoga CLO refinancing, among other things, extended its reinvestment period to October 2018, and extended its legal maturity date to October 2025. Following the refinancing, the Saratoga CLO portfolio remained at the same size and with a similar capital structure of approximately \$300.0 million in aggregate principal amount of predominantly senior secured first lien term loans. In addition to refinancing its liabilities, we also purchased \$4.5 million in aggregate principal amount of the Class F notes tranche of the Saratoga CLO at par, with a coupon of LIBOR plus 8.5%.

The Saratoga CLO remains effectively 100% owned and managed by Saratoga Investment Corp. Following the refinancing, we receive a base management fee of 0.10% and a subordinated management fee of 0.40% 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 excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return paid in cash equal to or greater than 12.0%.

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

Expenses

Our primary operating expenses include the payment of investment advisory and management fees, professional fees, directors and officers insurance, fees paid to independent directors and administrator expenses, including our allocable portion of our administrator’s overhead. Our investment advisory and management fees compensate our Investment Adviser for its work in identifying, evaluating, negotiating, closing and monitoring our investments. We bear all other costs and expenses of our operations and transactions, including those relating to:

- organization;
- calculating our net asset value (including the cost and expenses of any independent valuation firm);
- expenses incurred by our Investment Adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;

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- expenses incurred by our Investment Adviser payable for travel and 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 U.S. Securities and Exchange Commission ("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)).

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 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 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.

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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.
- 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% 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.

New Accounting Pronouncements

In March 2017, the FASB issued Accounting Standards Update (“ASU”) 2017-08, *Receivables— Nonrefundable Fees and Other Costs (Subtopic 310-20)*, *Premium Amortization on Purchased Callable Debt Securities* (“ASU 2017-08”) which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. ASU 2017-08 does not require any accounting change for debt securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management has assessed these changes and does not believe they would have a material impact on the Company’s consolidated financial statements and disclosures.

In October 2016, the SEC adopted new rules and amended existing rules (together, “final rules”) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. Management has adopted the amendments to Regulation S-X and included required disclosures in the Company’s consolidated financial statements and related disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows* (Topic 230), *Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein. Early adoption is permitted. Management has assessed these changes and does not believe they would have a material impact on the Company’s consolidated financial statements and disclosures.

In November 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash*, a consensus of the FASB Emerging Issues Task Force, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. This guidance is effective for annual reporting periods, and the interim periods within those periods, beginning after December 15, 2017 and early adoption is permitted. The Company has elected to adopt the ASU which did not have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Amendments to the Leases* (“ASU Topic 842”), which will require for all operating leases the recognition of a right-of-use asset and a lease liability, in the statement of financial position. The lease cost will be allocated over the lease term on a straight-line basis. This guidance is effective for annual and interim periods beginning after December 15, 2018. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

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In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. Management has assessed these changes and does not believe they would have a material impact on the Company’s consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In May 2016, ASU 2016-12 amended ASU 2014-09 and deferred the effective period for annual periods beginning after December 15, 2017. Management has concluded that the majority of its revenues associated with financial instruments are scoped out of ASC 606, and has concluded that the only significant impact relates to the timing of the recognition of the CLO incentive fee income.

Portfolio and investment activity

Investment Portfolio Overview

	At February 28, 2018 (\$ in millions)	At February 28, 2017 (\$ in millions)	At February 29, 2016 (\$ in millions)
Number of investments(1)	55	52	59
Number of portfolio companies(3)	30	28	34
Average investment size(1)	\$ 6.0	\$ 5.4	\$ 4.6
Weighted average maturity(2)	3.5yrs	3.8yrs	3.8yrs
Number of industries(3)	9	9	11
Average investment per portfolio company(1)	\$ 10.7	\$ 9.7	\$ 8.0
Non-performing or delinquent investments	\$ 9.5	\$ 8.4	\$ 0.0
Fixed rate debt (% of interest earning portfolio)(2)	\$ 67.5(21.5)%	\$ 44.2(16.9)%	\$ 97.9(40.0)%
Fixed rate debt (weighted average current coupon)(2)	11.7%	11.4%	11.5%
Floating rate debt (% of interest earning portfolio)(2)	\$ 246.7(78.5)%	\$ 217.6(83.1)%	\$ 146.8(60.0)%
Floating rate debt (weighted average current spread over LIBOR)(2)(4)	9.1%	9.3%	9.1%

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

(2) Excludes our investment in the subordinated notes of Saratoga CLO and equity interests.

(3) Excludes our investment in the subordinated notes of Saratoga CLO and Class F notes tranche of Saratoga CLO.

(4) Calculation uses either 1-month or 3-month LIBOR, depending on the contractual terms, and after factoring in any existing LIBOR floors.

During the fiscal year ended February 28, 2018, we invested \$107.7 million in new or existing portfolio companies and had \$66.3 million in aggregate amount of exits and repayments resulting in net investments of \$41.4 million for the year.

During the fiscal year ended February 28, 2017, we invested \$126.9 million in new or existing portfolio companies and had \$121.2 million in aggregate amount of exits and repayments resulting in net investments of \$5.7 million for the year.

During the fiscal year ended February 29, 2016, we invested \$109.2 million in new or existing portfolio companies and had \$68.2 million in aggregate amount of exits and repayments resulting in net investments of \$41.0 million for the year.

Portfolio Composition

Our portfolio composition at February 28, 2018, February 28, 2017 and February 29, 2016 at fair value was as follows:

	At February 28, 2018		At February 28, 2017		At February 29, 2016	
	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	1.2%	5.9%	3.4%	5.3%	4.2%	8.2%
First lien term loans	57.6	11.1	54.3	10.5	50.9	10.6
Second lien term loans	27.7	11.9	30.0	11.7	31.1	11.5
Structured finance securities	4.8	21.2	5.3	12.7	4.5	16.4
Equity interests	8.7	3.6	7.0	0.4	9.3	N/A
Total	<u>100.0%</u>	<u>11.1%</u>	<u>100.0%</u>	<u>10.9%</u>	<u>100.0%</u>	<u>11.1%</u>

Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at February 28, 2018 and February 28, 2017, was composed of \$310.4 million and \$297.1 million, respectively, in aggregate principal amount of predominantly senior secured first lien term loans. This investment is subject to unique risks. (See “Part 1. 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 do not consolidate the Saratoga CLO portfolio in our consolidated financial statements. Accordingly, the metrics below do not include the underlying Saratoga CLO portfolio investments. However, at February 28, 2018, \$299.6 million or 98.0% of the Saratoga CLO portfolio investments in terms of market value had a CMR (as defined below) color rating of green or yellow and three Saratoga CLO portfolio investments were in default with a fair value of \$1.8 million. At February 28, 2017, \$288.5 million or 98.7% of the Saratoga CLO portfolio investments in terms of market value had a CMR (as defined below) color rating of green or yellow and one Saratoga CLO portfolio investment was in default with a fair value of \$1.4 million. For more information relating to Saratoga CLO, see the audited financial statements for Saratoga CLO included elsewhere herein.

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)—performing credit; (Yellow)—underperforming credit; (Red)—in principal payment default and/or expected loss of principal.

Portfolio CMR distribution

The CMR distribution of our investments at February 28, 2018 and February 28, 2017 was as follows:

Saratoga Investment Corp.

Color Score	At February 28, 2018		At February 28, 2017	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Green	\$ 291,509	85.0%	\$ 245,678	83.9%
Yellow	9,522	2.8	8,423	2.9
Red	8	0.0	7,069	2.4
N/A(1)	41,655	12.2	31,491	10.8
Total	<u>\$ 342,694</u>	<u>100.0%</u>	<u>\$ 292,661</u>	<u>100.0%</u>

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

The change in reserve from \$0.2 million as of February 28, 2017 to \$1.8 million as of February 28, 2018 primarily related to the increase in reserve for the year on the non-performing and delinquent investment, TM Restaurant Group L.L.C.

The CMR distribution of Saratoga CLO investments at February 28, 2018 and February 28, 2017 was as follows:

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Saratoga CLO

Color Score	At February 28, 2018		At February 28, 2017	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Green	\$ 275,412	90.1%	\$ 266,449	91.1%
Yellow	24,230	7.9	22,064	7.6
Red	6,181	2.0	3,925	1.3
N/A(1)	7	0.0	23	0.0
Total	\$ 305,830	100.0%	\$ 292,461	100.0%

(1) Comprised of Saratoga CLO's equity interests.

Portfolio composition by industry grouping at fair value

The following table shows our portfolio composition by industry grouping at fair value at February 28, 2018 and February 28, 2017:

Saratoga Investment Corp.

	At February 28, 2018		At February 28, 2017	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Business Services	\$ 190,886	55.7%	\$ 161,212	55.1%
Healthcare Services	44,179	12.9	38,544	13.2
Education	26,778	7.8	20,748	7.1
Media	18,159	5.3	18,698	6.4
Consumer Services	17,199	5.0	16,839	5.7
Structured Finance Securities(1)	16,374	4.8	15,450	5.3
Building Products	14,850	4.3	10,928	3.7
Food and Beverage	9,522	2.8	8,423	2.9
Metals	4,313	1.3	968	0.3
Consumer Products	434	0.1	851	0.3
Total	\$ 342,694	100.0%	\$ 292,661	100.0%

(1) Comprised of our investment in the subordinated notes and Class F Note of Saratoga CLO.

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The following table shows Saratoga CLO's portfolio composition by industry grouping at fair value at February 28, 2018 and February 28, 2017:

Saratoga CLO

	At February 28, 2018		At February 28, 2017	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Services: Business	\$ 47,093	15.4%	\$ 40,675	13.9%
High Tech Industries	25,507	8.3	17,851	6.1
Healthcare & Pharmaceuticals	25,247	8.3	33,002	11.3
Banking, Finance, Insurance & Real Estate	20,337	6.7	14,752	5.0
Telecommunications	18,930	6.2	13,704	4.7
Retailers (Except Food and Drugs)	18,633	6.1	14,706	5.0
Chemicals/Plastics	14,373	4.7	21,492	7.4
Media	13,203	4.3	11,283	3.9
Aerospace & Defense	10,632	3.5	11,643	4.0
Automotive	9,133	3.0	6,088	2.1
Industrial Equipment	7,991	2.6	9,853	3.4
Publishing	7,761	2.5	4,580	1.6
Leisure Goods/Activities/Movies	7,423	2.4	9,627	3.3
Transportation	7,003	2.3	2,731	0.9
Retail	6,486	2.1	—	—
Services: Consumer	6,072	2.0	788	0.3
Containers & Glass Products	5,494	1.8	2,008	0.7
Utilities	4,877	1.6	4,944	1.7
Financial Intermediaries	4,409	1.5	9,476	3.2
Food Services	4,148	1.4	5,932	2.0
Beverage, Food & Tobacco	3,972	1.3	3,013	1.0
Drugs	3,608	1.2	5,394	1.8
Construction & Building	3,442	1.1	1,974	0.7
Electronics/Electric	3,363	1.1	8,036	2.7
Hotel, Gaming & Leisure	3,014	1.0	2,025	0.7
Insurance	2,905	0.9	3,001	1.0
Conglomerate	2,518	0.8	3,584	1.2
Brokers/Dealers/Investment Houses	2,424	0.8	2,479	0.8
Lodging & Casinos	2,108	0.7	4,311	1.5
Food/Drug Retailers	1,963	0.6	2,877	1.0
Technology	1,695	0.6	3,935	1.3
Food Products	1,621	0.5	3,147	1.1
Capital Equipment	1,607	0.5	6,026	2.1
Cable and Satellite Television	1,603	0.5	1,617	0.6
Consumer Goods: Durable	1,009	0.3	—	—
Forest Products & Paper	1,004	0.3	—	—
Consumer Goods: Non-durable	997	0.3	—	—
Oil & Gas	835	0.3	3,209	1.1
Metals & Mining	503	0.2	1,312	0.4
Building & Development	501	0.2	243	0.1
Broadcast Radio and Television	386	0.1	343	0.1
Environmental Industries	—	—	800	0.3
Total	\$ 305,830	100.0%	\$ 292,461	100.0%

Portfolio composition by geographic location at fair value

The following table shows our portfolio composition by geographic location at fair value at February 28, 2018 and February 28, 2017. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

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	At February 28, 2018		At February 28, 2017	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Southeast	\$ 155,240	45.3%	\$ 116,186	39.7%
Midwest	101,604	29.6	75,154	25.7
Northeast	35,234	10.3	38,880	13.3
Southwest	21,855	6.4	34,060	11.6
Other(1)	16,374	4.8	15,450	5.3
Northwest	7,847	2.3	7,780	2.6
West	4,540	1.3	5,151	1.8
Total	<u>\$ 342,694</u>	<u>100.0%</u>	<u>\$ 292,661</u>	<u>100.0%</u>

(1) Comprised of our investment in the subordinated notes and Class F Note of Saratoga CLO.

Results of operations

Operating results for the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016 were as follows:

	For the Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
	(\$ in thousands)		
Total investment income	\$ 38,615	\$ 33,157	\$ 30,050
Total operating expenses	25,883	22,042	19,372
Loss on extinguishment of debt	—	1,455	—
Net investment income	12,732	9,660	10,678
Net realized gains (losses) from investments	(5,878)	12,368	226
Net change in unrealized appreciation (depreciation) on investments	10,825	(10,641)	741
Net increase in net assets resulting from operations	<u>\$ 17,679</u>	<u>\$ 11,387</u>	<u>\$ 11,645</u>

Investment income

The composition of our investment income for the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016 were as follows:

	February 28, 2018	February 28, 2017	February 29, 2016
	(\$ in thousands)		
Interest from investments	\$ 35,110	\$ 29,348	\$ 26,871
Management fee income	1,509	1,499	1,495
Incentive fee income	591	—	—
Interest from cash and cash equivalents and other income	1,405	2,310	1,684
Total investment income	<u>\$ 38,615</u>	<u>\$ 33,157</u>	<u>\$ 30,050</u>

For the fiscal year ended February 28, 2018, total investment income increased \$5.5 million, or 16.5% compared to the fiscal year ended February 28, 2017. Interest income from investments increased \$5.8 million, or 19.6%, to \$35.1 million for the year ended February 28, 2018 from \$29.3 million for the fiscal year ended February 28, 2017. This reflects an increase of 17.1% in total investments to \$342.7 million at February 28, 2018 from \$292.7 million at February 28, 2017, as well as the weighted average current coupon increasing from 10.9% to 11.1%.

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For the fiscal year ended February 28, 2017, total investment income increased \$3.1 million, or 10.3% compared to the fiscal year ended February 29, 2016. Interest income from investments increased \$2.5 million, or 9.2%, to \$29.3 million for the year ended February 28, 2017 from \$26.9 million for the fiscal year ended February 29, 2016. This reflects an increase of 3.1% in total investments to \$292.7 million at February 28, 2017 from \$284.0 million at February 29, 2016, partially offset by the weighted average current coupon reducing from 11.1% to 10.9%.

For the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016, total PIK income was \$2.8 million, \$0.7 million and \$1.0 million, respectively. The increase for the fiscal year ended February 28, 2018 was primarily due to the investment in Easy Ice, LLC, which accrued significant PIK interest income.

For the year ended February 28, 2018, incentive fee income of \$0.6 million was recognized related to the Saratoga CLO, reflecting the 12.0% hurdle rate that has been achieved. For the years ended February 28, 2017 and February 29, 2016, we did not accrue any amounts related to the incentive management fee from Saratoga CLO as the 12.0% hurdle rate had not yet been achieved.

Operating expenses

The composition of our operating expenses for the years ended February 28, 2018, February 28, 2017 and February 29, 2016 were as follows:

	February 28, 2018	February 28, 2017	February 29, 2016
	(\$ in thousands)		
Interest and debt financing expenses	\$ 10,939	\$ 9,888	\$ 8,456
Base management fees	5,846	4,899	4,529
Professional fees	1,591	1,243	1,336
Administrator expenses	1,646	1,367	1,175
Incentive management fees	4,334	2,948	2,232
Insurance	260	276	331
Directors fees and expenses	197	235	204
General and administrative and other expenses	1,085	1,141	995
Excise tax expense (credit)	(15)	45	114
Total operating expenses	<u>\$ 25,883</u>	<u>\$ 22,042</u>	<u>\$ 19,372</u>

For the year ended February 28, 2018, total operating expenses increased \$3.8 million, or 17.4% compared to the year ended February 28, 2017. For the year ended February 28, 2017, total operating expenses increased \$2.7 million, or 13.8% compared to the year ended February 29, 2016.

For the years ended February 28, 2018 and February 28, 2017, the increase in interest and debt financing expenses is primarily attributable to an increase in outstanding SBA debentures. Our SBA debentures increased from \$112.7 million at February 28, 2017 to \$137.7 million at February 28, 2018. For the year ended February 28, 2018, the weighted average interest rate on our outstanding indebtedness was 4.50% compared to 4.76% for the fiscal year ended February 28, 2017 and 4.92% for the fiscal year ended February 29, 2016. The decrease in the weighted average interest rate was primarily driven by an increase in SBA debentures that carry a lower interest rate as well as the notes payable interest rate decreasing from 7.50% to 6.75% following the refinancing of the 2020 Notes. SBA debentures increased from 60.2% of overall debt as of February 28, 2017 to 64.9% as of February 28, 2018, primarily due to the increase in outstanding SBA debentures.

For the year ended February 28, 2018, base management fees increased \$0.9 million, or 19.3% compared to the fiscal year ended February 28, 2017. The increase in base management fees results from the 15.4% increase in the average value of our total assets, less cash and cash equivalents, from \$289.4 million as of February 28, 2017 to \$334.1 million as of February 28, 2018. For the year ended February 28, 2017, base management fees increased \$0.4 million, or 8.2% compared to the fiscal year ended February 29, 2016. The increase in base management fees results from the 8.7% increase in the average value of our total assets, less cash and cash equivalents, from \$266.3 million as of February 29, 2016 to \$289.4 million as of February 28, 2017.

For the year ended February 28, 2018, professional fees increased \$0.3 million, or 27.9% compared to the fiscal year ended February 28, 2017. This increase primarily relates to accounting fees from the current Sarbanes-Oxley Act implementation. For the year ended February 28, 2017, professional fees decreased \$0.1 million, or 6.9% compared to the fiscal year ended February 29, 2016.

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For the year ended February 28, 2018, administrator expenses increased \$0.3 million, or 20.4% compared to the fiscal year ended February 28, 2017, which reflects an increase to the cap on the payment or reimbursement of expenses by the Company from \$1.5 million to \$1.75 million, effective August 1, 2017. For the year ended February 28, 2017, administrator expenses increased \$0.2 million, or 16.3% compared to the fiscal year ended February 29, 2016, which reflects an increase to the cap on the payment or reimbursement of expenses by the Company from \$1.3 million to \$1.5 million, effective November 1, 2016.

For the year ended February 28, 2018, incentive management fees increased \$1.4 million, or 47.0% compared to the fiscal year ended February 28, 2017. The first part of the incentive management fees increased this year from \$2.8 million for the year ended February 28, 2017 to \$3.4 million for the year ended February 28, 2018, as higher average total assets of 15.4% has led to increased net investment income above the hurdle rate pursuant to the investment advisory and management agreement. In addition, the incentive management fees related to capital gains also increased from \$0.1 million for the fiscal year ended February 28, 2017 to \$0.9 million for the fiscal year ended February 28, 2018, reflecting the realized and unrealized gains earned this year.

For the year ended February 28, 2017, incentive management fees increased \$0.7 million, or 32.0% compared to the fiscal year ended February 29, 2016. The first part of the incentive management fees increased in 2017 from \$2.2 million for the year ended February 29, 2016 to \$2.8 million for the year ended February 28, 2017, as higher average total assets of 8.7% has led to increased net investment income above the hurdle rate pursuant to the investment advisory and management agreement. In addition, the incentive management fees related to capital gains also increased from a decrease in expense of \$0.1 million for the fiscal year ended February 29, 2016 to an increase in expense of \$0.1 million for the fiscal year ended February 28, 2017, reflecting the realized and unrealized gains earned in the 2017 fiscal year.

As discussed above, the increase in interest and debt financing expenses for the years ended February 28, 2018, February 28, 2017 and February 29, 2016 is primarily attributable to an increase in the amount of outstanding debt as compared to the prior years. For the fiscal year ended February 28, 2018, the average borrowings outstanding under the Credit Facility was approximately \$7.1 million and the weighted average interest rate on the outstanding borrowings under the Credit Facility was 6.02%. For the fiscal year ended February 28, 2017, there were no outstanding borrowings under the Credit Facility. For the fiscal year ended February 29, 2016, the average borrowings outstanding under the Credit Facility was approximately \$4.4 million and the weighted average interest rate on the outstanding borrowings under the Credit Facility was 6.00%. For the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016, the average borrowings outstanding of SBA debentures was \$130.1 million, \$107.6 million and \$83.0 million, respectively. For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, the weighted average interest rate on the outstanding borrowings of the SBA debentures was 3.14%, 3.13% and 3.12%, respectively. During the years ended February 28, 2018 and 2017, the average dollar amount of our 6.75% fixed-rate 2023 Notes outstanding was \$74.5 million. During the years ended February 28, 2017 and 2016, the average dollar amount of our 7.50% fixed-rate 2020 Notes outstanding was \$61.8 million and \$55.9 million, respectively.

Net realized gains (losses) on sales of investments

For the fiscal year ended February 28, 2018, the Company had \$66.3 million of sales, repayments, exits or restructurings resulting in \$5.9 million of net realized losses. The most significant realized gains and losses during the year ended February 28, 2018 were as follows (dollars in thousands):

Fiscal year ended February 28, 2018

Issuer	Asset Type	Gross Proceeds	Cost	Net Realized Gain (Loss)
My Alarm Center, LLC	Second Lien Term Loan	\$ 2,617	\$10,330	\$(7,713)
Mercury Funding, LLC	Common Stock	2,631	858	1,773

The \$7.7 million of realized loss on our investment in My Alarm Center, LLC, was due to the completion of a sales transaction, following increasing leverage levels combined with declining market conditions in the sector.

The \$1.8 million of realized gain on our investment in Mercury Funding, LLC, was driven by the completion of a sales transaction with a strategic acquirer.

For the fiscal year ended February 28, 2017, the Company had \$121.2 million of sales, repayments, exits or restructurings resulting in \$12.4 million of net realized gains. The most significant realized gains during the year ended February 28, 2017 were as follows (dollars in thousands):

Fiscal year ended February 28, 2017

Issuer	Asset Type	Gross Proceeds	Cost	Net Realized Gain
Take 5 Oil Change, L.L.C.	Common Stock	\$ 6,505	\$481	\$ 6,024
Legacy Cabinets, Inc.	Common Stock Voting A-1	2,320	221	2,099
Legacy Cabinets, Inc.	Common Stock Voting B-1	1,464	139	1,325

The \$6.0 million of realized gain on our investment in Take 5 Oil Change, L.L.C. was due to the completion of a sales transaction with a strategic acquirer.

The \$3.4 million of realized gains on our investments in Legacy Cabinets, Inc. were due to a period of steadily improving performance, leading up to our sale of shares in Legacy Cabinets, Inc.

For the fiscal year ended February 29, 2016, the Company had \$68.2 million of sales, repayments, exits or restructurings resulting in \$0.2 million of net realized gains. The most significant realized gains and losses during the year ended February 29, 2016 were as follows (dollars in thousands):

Fiscal year ended February 29, 2016

Issuer	Asset Type	Gross Proceeds	Cost	Net Realized Gain (Loss)
Network Communications, Inc.	Common Stock	\$ 3,206	\$ —	\$ 3,206
Targus Holdings, Inc.	Unsecured Note	—	(2,054)	(2,054)
Targus Holdings, Inc.	First Lien Term Loan	—	(1,172)	(1,172)
Targus Holdings, Inc.	Common Stock	—	(567)	(567)

The \$3.2 million of realized gain on our investments in Network Communications, Inc. is due to the sale of the company to a third party and reflects the realization value pursuant to that transaction.

Net change in unrealized appreciation (depreciation) on investments

For the year ended February 28, 2018, our investments had a net change in unrealized appreciation of \$10.8 million versus a net change in unrealized depreciation of \$10.6 million for the year ended February 28, 2017. The most significant cumulative changes in unrealized appreciation for the year ended February 28, 2018, were the following (dollars in thousands):

Fiscal year ended February 28, 2018

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Appreciation (Depreciation)	YTD Change in Unrealized Appreciation
Elyria Foundry Company, L.L.C.	Common Stock	\$9,685	\$ 3,434	\$ (6,251)	\$ 2,553
My Alarm Center, LLC	Second Lien Term Loan	—	—	—	2,298
Easy Ice, LLC	Preferred Equity	8,761	10,760	1,999	1,999
Saratoga Investment Corp. CLO 2013-1 Ltd.	Other/Structured Finance Securities	9,296	11,875	2,579	1,948

The \$2.6 million of change in unrealized appreciation in our investment in Elyria Foundry Company, L.L.C. was driven by a continued increase in oil and gas markets, positively impacting the company's performance.

The \$2.3 million of change in unrealized appreciation in our investment in My Alarm Center, LLC was driven by the completion of a sales transaction. In recognizing this loss as a result of the sale, unrealized depreciation was adjusted to zero, which resulted in a \$2.3 million change in unrealized appreciation for the year.

The \$2.0 million of change in unrealized appreciation in our investment in Easy Ice, LLC was driven by the completion of a strategic acquisition that increased the scale and earnings of the business.

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The \$1.9 million of change in unrealized appreciation in our investment in Saratoga CLO was driven by continued improved performance of the Saratoga CLO.

For the year ended February 28, 2017, our investments had a net change in unrealized depreciation of \$10.6 million versus a net change in unrealized appreciation of \$0.7 million for the year ended February 29, 2016. The most significant cumulative changes in unrealized depreciation for the year ended February 28, 2017, were the following (dollars in thousands):

Fiscal year ended February 28, 2017

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Depreciation	YTD Change in Unrealized Depreciation
Take 5 Oil Change, L.L.C.	Common Stock	\$ —	\$—	\$ —	\$ (5,755)
Legacy Cabinets, Inc.	Common Stock Voting A-1	—	—	—	(2,456)
Legacy Cabinets, Inc.	Common Stock Voting B-1	—	—	—	(1,550)
Elyria Foundry Company, L.L.C.	Common Stock	9,217	413	(8,804)	(1,613)

The \$5.8 million of change in unrealized depreciation in our investment in Take 5 Oil Change, L.L.C. was driven by the completion of a sales transaction with a strategic acquirer. In realizing this gain as a result of the sale, unrealized appreciation was adjusted to zero, which resulted in a \$5.8 million change in unrealized depreciation for the year.

The \$4.0 million of change in unrealized depreciation in our investments in Legacy Cabinets, Inc. were driven by the completion of a sales transaction. In realizing these gains as a result of the sale, unrealized appreciation was adjusted to zero, which resulted in a \$4.0 million change in unrealized depreciation for the year.

The \$1.6 million of change in unrealized depreciation in our investment in Elyria Foundry Company, L.L.C. was driven by a decline in oil and gas end markets since year-end, negatively impacting the company's performance.

For the year ended February 29, 2016, our investments had a net change in unrealized appreciation of \$0.7 million versus a net change in unrealized depreciation of \$1.9 million for the year ended February 28, 2015. The most significant cumulative changes in unrealized appreciation and depreciation for the year ended February 29, 2016, were the following (dollars in thousands):

Fiscal year ended February 29, 2016

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Appreciation (Depreciation)	YTD Change in Unrealized Appreciation (Depreciation)
Take 5 Oil Change, L.L.C.	Common Stock	\$ 481	\$6,235	\$ 5,754	\$ 4,762
Targus Holdings, Inc.	Unsecured Notes	—	—	—	2,054
Elyria Foundry Company, L.L.C.	Common Stock	9,217	2,026	(7,191)	(4,735)

Changes in net assets resulting from operations

For the fiscal years ended February 28, 2018, February 28, 2017 and February 29, 2016, we recorded a net increase in net assets resulting from operations of \$17.7 million, \$11.4 million and \$11.6 million, respectively. Based on 6,024,040 weighted average common shares outstanding as of February 28, 2018, our per share net increase in net assets resulting from operations was \$2.93 for the fiscal year ended February 28, 2018. This compares to a per share net increase in net assets resulting from operations of \$1.98 for the fiscal year ended February 28, 2017 (based on 5,740,450 weighted average common shares outstanding as of February 28, 2017), and a per share net increase in net assets resulting from operations of \$2.09 for the fiscal year ended February 29, 2016 (based on 5,582,453 weighted average common shares outstanding as of February 29, 2016).

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.

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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 (“DRIP”), 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.

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 the Code. In satisfying this distribution requirement, we have in the past relied on Internal Revenue Service (“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 20.0% of the aggregate declared distribution. We may rely on these IRS private letter rulings in future periods to satisfy our RIC distribution requirement.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200.0%, or, if we obtain the required approvals from our independent directors and/or stockholders, 150.0%. This requirement limits the amount that we may borrow. Our asset coverage ratio, as defined in the 1940 Act, was 293.0% as of February 28, 2018 and 271.0% as of February 28, 2017. 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.

On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150% asset coverage ratio will become effective on April 16, 2019.

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 LLC (the “Credit Facility”) on June 30, 2010, which was most recently amended on May 18, 2017.

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 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).

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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 1.00%, plus an applicable margin of 4.75%. At the Company's option, funds may be borrowed based on an alternative base rate, which in no event will be less than 2.00%, and the applicable margin over such alternative base rate is 3.75%. 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 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 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.

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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 \$5.0 million 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 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 LLC 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 LLC 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 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, be terminated. 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 the administrative agent.

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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%.

On May 18, 2017, we entered into a third amendment to the Credit Facility with Madison Capital Funding LLC to, among other things:

- extend the commitment termination date from September 17, 2017 to September 17, 2020;
- extend the final maturity date of the Credit Facility from September 17, 2022 to September 17, 2025;
- reduce the floor on base rate borrowings from 2.25% to 2.00%;
- reduce the floor on LIBOR borrowings from 1.25% to 1.00%; and
- reduce the commitment fee rate from 0.75% to 0.50% for any period during which the ratio of advances outstanding to aggregate commitments, expressed as a percentage, is greater than or equal to 50%.

As of February 28, 2018, we had no outstanding borrowings under the Credit Facility and \$137.7 million of SBA-guaranteed debentures outstanding (which are discussed below). As of February 28, 2017, we had no outstanding borrowings under the Credit Facility and \$112.7 million of SBA-guaranteed debentures outstanding. Our borrowing base under the Credit Facility at February 28, 2018 and February 28, 2017 was \$27.4 million and \$24.7 million, respectively.

Our asset coverage ratio, as defined in the 1940 Act, was 293.0% as of February 28, 2018 and 271.0% as of February 28, 2017.

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.

SBA regulations currently limit the amount that our SBIC subsidiary may borrow to a maximum of \$150.0 million when it has at least \$75.0 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 February 28, 2018, our SBIC subsidiary had \$75.0 million in regulatory capital and \$137.7 million SBA-guaranteed debentures outstanding.

We received exemptive relief from the SEC to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200.0% asset coverage test 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. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

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On April 2, 2015, the SBA issued a “green light” letter inviting the Company to continue our application process to obtain a license to form and operate its second SBIC subsidiary. On September 27, 2016, the SBA informed us that as part of their continued review of our application for a second license, and in order to ensure that they were reviewing the most current information available, we would need to update all previously submitted materials and invited us to reapply. As a result of this request, with which we are in the process of complying, the existing “green light” letter that the SBA issued to us has expired. If approved in the future, a second SBIC license would provide us an incremental source of long-term capital by permitting us to issue up to \$150.0 million of additional SBA-guaranteed debentures in addition to the \$150.0 million already approved under the first license.

Unsecured notes

In May 2013, we issued \$48.3 million in aggregate principal amount of our 2020 Notes 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 2020 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 2020 Notes mature on May 31, 2020 and since May 31, 2016, may be redeemed in whole or in part at any time or from time to time at our option. In connection with the issuance of the 2020 Notes, we agreed to the following covenants for the period of time during which the 2020 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 200.0% after such borrowings, or, if we obtain the required approvals from our independent directors and/or stockholders, 150.0%. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.
- 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 the Code. 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 200.0% 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, or, if we obtain the required approvals from our independent directors and/or stockholders, 150.0%. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

The 2020 Notes were redeemed in full on January 13, 2017 and are no longer listed on the NYSE.

On May 29, 2015, we entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. through which we may offer for sale, from time to time, up to \$20.0 million in aggregate principal amount of the 2020 Notes through an ATM offering. As of February 28, 2018, the Company sold 539,725 bonds with a principal of \$13.5 million at an average price of \$25.31 for aggregate net proceeds of \$13.4 million (net of transaction costs).

On December 21, 2016, we issued \$74.5 million in aggregate principal amount of our 2023 Notes for net proceeds of \$71.7 million after deducting underwriting commissions of approximately \$2.3 million and offering costs of approximately \$0.5 million. The issuance included the exercise of substantially all of the underwriters’ option to purchase an additional \$9.8 million aggregate principal amount of 2023 Notes within 30 days. Interest on the 2023 Notes is paid quarterly in arrears on March 15, June 15, September 15 and December 15, at a rate of 6.75% per year, beginning March 30, 2017. The 2023 Notes mature on December 30, 2023, and commencing December 21, 2019, may be redeemed in whole or in part at any time or from time to time at our option. The net proceeds from the offering were used to repay all of the outstanding indebtedness under the 2020 Notes on January 13, 2017, which amounted to \$61.8 million, and for general corporate purposes in accordance with our investment objective and strategies. The 2020 Notes were redeemed in full on January 13, 2017. The 2023 Notes are listed on the NYSE under the trading symbol “SAB” with a par value of \$25.00 per share. In connection with the issuance of the 2023 Notes, we agreed to the following covenants for the period of time during which the notes are outstanding:

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On August 28, 2017, our board of directors declared a dividend of \$0.48 per share payable on September 26, 2017, to common stockholders of record on September 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.2 million in cash and 33,551 newly issued shares of common stock, or 0.6% 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 \$20.19 per share, which equaled the volume weighted average trading price per share of the common stock on September 13, 14, 15, 18, 19, 20, 21, 22, 25 and 26, 2017.

On May 30, 2017, our board of directors declared a dividend of \$0.47 per share which was paid on June 27, 2017, to common stockholders of record on June 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.3 million in cash and 26,222 newly issued shares of common stock, or 0.4% 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 \$20.04 per share, which equaled the volume weighted average trading price per share of the common stock on June 14, 15, 16, 19, 20, 21, 22, 23, 26 and 27, 2017.

On February 28, 2017, our board of directors declared a dividend of \$0.46 per share, which was paid on March 28, 2017, to common stockholders of record as of March 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 29,096 newly issued shares of common stock, or 0.5% 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 \$21.38 per share, which equaled the volume weighted average trading price per share of the common stock on March 15, 16, 17, 20, 21, 22, 23, 24, 27 and 28, 2017.

On January 12, 2017, our board of directors declared a dividend of \$0.45 per share, which was paid on February 9, 2017, to common stockholders of record as of January 31, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.6 million in cash and 50,453 newly issued shares of common stock, or 0.9% 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 \$20.25 per share, which equaled the volume weighted average trading price per share of the common stock on January 27, 30, 31 and February 1, 2, 3, 6, 7, 8 and 9, 2017.

On October 5, 2016, our board of directors declared a dividend of \$0.44 per share, which was paid on November 9, 2016, to common stockholders of record as of October 31, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,548 newly issued shares of common stock, or 1.0% 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 \$17.12 per share, which equaled the volume weighted average trading price per share of the common stock on October 27, 28, 31 and November 1, 2, 3, 4, 7, 8 and 9, 2016.

On August 8, 2016, our board of directors declared a special dividend of \$0.20 per share, which was paid on September 5, 2016, to common stockholders of record as of August 24, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.7 million in cash and 24,786 newly issued shares of common stock, or 0.4% 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 \$17.06 per share, which equaled the volume weighted average trading price per share of the common stock on August 22, 23, 24, 25, 26, 29, 30, 31 and September 1 and 2, 2016.

On July 7, 2016, our board of directors declared a dividend of \$0.43 per share, which was paid on August 9, 2016, to common stockholders of record as of July 29, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,167 newly issued shares of common stock, or 1.0% 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 \$16.32 per share, which equaled the volume weighted average trading price per share of the common stock on July 27, 28, 29 and August 1, 2, 3, 4, 5, 8 and 9, 2016.

On March 31, 2016, our board of directors declared a dividend of \$0.41 per share, which was paid on April 27, 2016, to common stockholders of record as of April 15, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 56,728 newly issued shares of common stock, or 1.0% 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 \$15.43 per share, which equaled the volume weighted average trading price per share of the common stock on April 14, 15, 18, 19, 20, 21, 22, 25, 26 and 27, 2016.

On January 12, 2016, our board of directors declared a dividend of \$0.40 per share, which was paid on February 29, 2016, to common stockholders of record as of February 1, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.4 million in

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cash and 66,765 newly issued shares of common stock, or 1.2% 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 \$13.11 per share, which equaled the volume weighted average trading price per share of the common stock on February 16, 17, 18, 19, 22, 23, 24, 25, 26 and 29, 2016.

On October 7, 2015, our board of directors declared a dividend of \$0.36 per share, which was paid on November 30, 2015, to common stockholders of record as of November 2, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 61,029 newly issued shares of common stock, or 1.1% 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 \$14.53 per share, which equaled the volume weighted average trading price per share of the common stock on November 16, 17, 18, 19, 20, 23, 24, 25, 27 and 30, 2015.

On July 8, 2015, our board of directors declared a dividend of \$0.33 per share, which was paid on August 31, 2015, to common stockholders of record as of August 3, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 47,861 newly issued shares of common stock, or 0.9% 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 \$15.28 per share, which equaled the volume weighted average trading price per share of the common stock on August 18, 19, 20, 21, 24, 25, 26, 27, 28 and 31, 2015.

On May 14, 2015, our board of directors declared a special dividend of \$1.00 per share, which was paid on June 5, 2015, to common stockholders of record on as of May 26, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$3.4 million in cash and 126,230 newly issued shares of common stock, or 2.3% 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 \$16.47 per share, which equaled the volume weighted average trading price per share of the common stock on May 22, 26, 27, 28, 29 and June 1, 2, 3, 4, and 5, 2015.

On April 9, 2015, our board of directors declared a dividend of \$0.27 per share, which was paid on May 29, 2015, to common stockholders of record as of May 4, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.9 million in cash and 33,766 newly issued shares of common stock, or 0.6% 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 \$16.78 per share, which equaled the volume weighted average trading price per share of the common stock on May 15, 18, 19, 20, 21, 22, 26, 27, 28 and 29, 2015.

On September 24, 2014, our board of directors declared a dividend of \$0.22 per share, which was paid on February 27, 2015, to common stockholders of record on February 2, 2015. Shareholders have the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.8 million in cash and 26,858 newly issued shares of common stock, or 0.5% 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 \$14.97 per share, which equaled the volume weighted average trading price per share of the common stock on February 13, 17, 18, 19, 20, 23, 24, 25, 26 and 27, 2015.

Also on September 24, 2014, our board of directors declared a dividend of \$0.18 per share, which was paid on November 28, 2014, to common stockholders of record on November 3, 2014. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.6 million in cash and 22,283 newly issued shares of common stock, or 0.4% 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 \$14.37 per share, which equaled the volume weighted average trading price per share of the common stock on November 14, 17, 18, 19, 20, 21, 24, 25, 26 and 28, 2014.

On October 30, 2013, our board of directors declared a dividend of \$2.65 per share, which was paid on December 27, 2013, to common stockholders of record as of 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. This dividend was declared in reliance on certain private letter rulings issued by the IRS 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.

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.

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On November 9, 2012, our board of directors declared a dividend of \$4.25 per share, which was paid on December 31, 2012, to common stockholders of record as of 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, which was paid on December 30, 2011, to common stockholders of record as of 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, which was paid on December 31, 2009, to common stockholders of record as of 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 864,872.5 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.

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Contractual obligations

The following table shows our payment obligations for repayment of debt and other contractual obligations at February 28, 2018:

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1 -3 Years	3 -5 Years	
		(\$ in thousands)			
Long-Term Debt Obligations	\$212,111	\$ —	\$—	\$—	\$ 212,111

Off-balance sheet arrangements

The Company's off-balance sheet arrangements consisted of \$4.9 million and \$2.0 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of February 28, 2018 and February 28, 2017, 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 statements of assets and liabilities and are not reflected in the Company's consolidated statements of assets and liabilities.

A summary of the composition of the unfunded commitments as of February 28, 2018 and February 28, 2017 is shown in the table below (dollars in thousands):

	As of	
	February 28, 2018	February 28, 2017
CLEO Communications Holding, LLC	\$ 2,000	\$ —
GreyHeller LLC	2,000	2,000
Pathway Partners Vet Management Company LLC	917	—
Total	\$ 4,917	\$ 2,000

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Our investment income is affected by fluctuations in various interest rates, including LIBOR and the prime rate. A large portion of our portfolio is, and we expect will continue to be, comprised of floating rate investments that utilize LIBOR. Our interest expense is affected by fluctuations in LIBOR only on our revolving credit facility. At February 28, 2018, we had \$212.1 million of borrowings outstanding. There were no borrowings outstanding on the revolving credit facility as of February 28, 2018.

We have analyzed the potential impact of changes in interest rates on interest income from investments. Assuming that our investments as of February 28, 2018 were to remain constant for a full fiscal year and no actions were taken to alter the existing interest rate terms, a hypothetical change of 1.0% in interest rates would cause a corresponding increase of approximately \$2.3 million to our interest income.

Although management believes that this measure is indicative of our sensitivity to interest rate changes, it does not adjust for potential changes in credit quality, size and composition of the assets on the statements of assets and liabilities and other business developments that could magnify or diminish our sensitivity to interest rate changes, nor does it account for divergences in LIBOR and the commercial paper rate, which have historically moved in tandem but, in times of unusual credit dislocations, have experienced periods of divergence. Accordingly no assurances can be given that actual results would not materially differ from the potential outcome simulated by this estimate.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements are annexed to this Annual Report beginning on page F-1. In addition, the Financial Statements of Saratoga Investment Corp. CLO 2013-1, Ltd. are annexed to this Annual Report beginning on page S-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our current disclosure controls and procedures are effective in facilitating timely decisions regarding required disclosure of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Management's annual report on internal control over financial reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes in accordance with U.S. GAAP. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with participation of our Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of internal control over financial reporting based on the criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the Company's evaluation under the framework in Internal Control—Integrated Framework (2013), management concluded that the Company's internal control over financial reporting was effective as of February 28, 2018.

Attestation Report of the Registered Public Accounting Firm

Our internal control over financial reporting as of February 28, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which is included in the consolidated financial statements of the Company in this Annual Report under the heading Report of Independent Registered Public Accounting Firm.

Changes in internal controls over financial reporting

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of Exchange Act) that occurred during our most recently completed fiscal year that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Director and Executive Officer Information

Directors

The following table sets forth the names, ages and positions held by each of our directors, followed by a brief biography of each individual, including the business experience of each individual during the past five years and the specific qualifications that led to the conclusion that each individual should serve as a director.

Name	Age	Position	Director Since	Term Expires
Interested Directors				
Christian L. Oberbeck	58	Chairman of the Board and Chief Executive Officer	2010	2018
Michael J. Grisius	54	President and Director	2011	2020
Independent Directors				
Steven M. Looney	68	Director	2007	2019
Charles S. Whitman III	76	Director	2007	2019
G. Cabell Williams	64	Director	2007	2020

Christian L. Oberbeck—Mr. Oberbeck has over 35 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 Member of Saratoga Investment Advisors, LLC, the Company's investment adviser, and the Chairman of the Board and Chief Executive Officer of the Company. Mr. Oberbeck also served as President of the Company until February 2014. Mr. Oberbeck is also the Managing Partner of Saratoga Partners, a middle market private equity investment firm.

Prior to assuming full management responsibility for Saratoga Partners in 2008, Mr. Oberbeck had co-managed Saratoga Partners since 1995. Mr. Oberbeck 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 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.

Michael J. Grisius—Mr. Grisius has over 28 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.

Steven M. Looney—Mr. Looney is a Managing Director of Peale Davies & Co. Inc., a strategic advisory firm specializing in change management, revenue enhancement and business process improvement for middle market enterprises, and is a CPA and an attorney. Mr. Looney has served as a consultant and director to numerous companies in the healthcare, manufacturing and services

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industries. 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 is a trustee 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. He began his career at the United States Securities and Exchange Commission. Mr. Looney's qualifications as director include his experience as a Managing Director of Peale Davies & Co. 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 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. Mr. Williams is also a Senior Manager, Director of Farragut Capital Partners which is a Chevy Chase, Maryland based Mezzanine Fund. Since 2011, Mr. Williams has also served as a partner of Farragut 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, CIO 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 directors 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 28 years of experience managing investment activities at Allied Capital, where he served in a variety of positions, including President, CIO and Managing Director.

Executive Officer Who Is Not Also a Director

The following table sets forth the name, age and position held by our executive officer who is not also a director, followed by a brief biography, including the business experience during the past five years.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Executive Officer		
Henri J. Steenkamp	42	Chief Financial Officer, Chief Compliance Officer, Treasurer and Secretary

Henri J. Steenkamp—Mr. Steenkamp, 42 years old, had 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.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own 10.0% or more of our voting stock, to file reports of ownership and changes in ownership of our equity securities with the SEC. Directors, executive officers and 10.0% or more holders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of those forms furnished to us, or written representations that no such forms were required, we believe that our directors, executive officers and 10.0% or more beneficial owners complied with all Section 16(a) filing requirements during the year ended February 28, 2018.

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Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics 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 www.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 www.saratogainvestmentcorp.com.

Nomination of Directors

There have been no material changes to the procedures by which stockholders may recommend nominees to our board of directors implemented since the filing of our Proxy Statement for our 2017 Annual Meeting of Stockholders.

Audit Committee

The current members of the audit committee are Steven M. Looney (Chairman), Charles S. Whitman III and G. Cabell Williams. The board of directors 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. Whitman and Williams are "financially literate" as required by NYSE corporate governance standards. All of these members are independent directors.

ITEM 11. EXECUTIVE COMPENSATION

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 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, 2018:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Total</u>
Interested Director		
Christian L. Oberbeck(1)	\$ —	\$ —
Michael J. Grisius(1)	—	—
Independent Directors		
Steven M. Looney	\$ 68,500	\$68,500
Charles S. Whitman III	\$ 68,500	\$68,500
G. Cabell Williams	\$ 68,500	\$68,500

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

Compensation Committee Interlocks and Insider Participation

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 of directors with respect to incentive compensation and equity-based plans of the Company that are subject to board of directors 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 our Annual Report on Form 10-K. 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 Report on Form 10-K.

During fiscal year 2018, 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.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth, as of May 11, 2018, 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 6,282,384 shares of common stock outstanding as of May 11, 2018. 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	1,703,344(1)	27.1%
Michael J. Grisius	153,725	2.5%
Executive Officer		
Henri J. Steenkamp	6,815	*
Independent Directors		
Steven M. Looney	2,508	*
Charles S. Whitman III	2,629	*
G. Cabell Williams	44,193	*
All Directors and Executive Officers as a Group	<u>1,913,214</u>	30.5%
Owners of 5% or more of our common stock		
Black Diamond Capital Management, L.L.C.(2)	713,360	11.4%
Elizabeth Oberbeck(3)	744,183	11.8%
Thomas V. Inglesby	354,237	5.6%

* Less than 1.0%

Mr. Oberbeck and Mr. Inglesby are affiliates who make up 32.8% of the ownership of SAR.

- (1) Includes 617,822 shares of common stock directly held by Mr. Oberbeck, 121,015 shares of common stock held by Saratoga Investment Advisors, which Mr. Oberbeck controls, and 220,324 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. 7 to Schedule 13G filed by Black Diamond Capital Management, L.L.C. with the SEC on February 14, 2018. The address of Black Diamond Capital Management, L.L.C. is One Sound Shore Drive, Suite 200, Greenwich, CT 06830.

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- (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.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Transactions with Related Persons

We have entered into a 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).

Director Independence

In accordance with rules of the NYSE, the board of directors annually determines the independence of each director. No director is considered independent unless the board of directors 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 of directors 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 of directors 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 its Investment Adviser.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**Independent Registered Public Accounting Firm**

For the years ended February 28, 2018 and February 28, 2017, the Company incurred the following fees for services provided by Ernst & Young LLP, including expenses:

	Fiscal Year Ended February 28, 2018	Fiscal Year Ended February 28, 2017
Audit Fees	\$ 616,000	\$ 517,690
Tax Fees	38,870	38,870
Total Fees	<u>\$ 654,870</u>	<u>\$ 556,560</u>

In addition to the services listed above, Ernst & Young LLP provided audit services to the Company's subsidiaries. The following are the related fees:

	Fiscal Year Ended February 28, 2018	Fiscal Year Ended February 28, 2017
CLO Audit Fees	\$ 102,905	\$ 109,905
Tax Services for Company's Subsidiaries	121,990	23,000
All Other Fees	26,000	26,000
Total Fees	<u>\$ 250,895</u>	<u>\$ 158,905</u>

Audit Fees. Audit fees include fees for services that normally would be provided by the accountant in connection with statutory and regulatory filings or engagements and that generally only the independent accountant can provide. In addition to fees for the audit of our annual consolidated financial statements, the audit of the effectiveness of our internal control over financial reporting and the review of our quarterly consolidated financial statements in accordance with generally accepted auditing standards, this category contains fees for comfort letters, statutory audits, consents, and assistance with and review of documents filed with the SEC.

Audit Related Fees. Audit related fees are assurance related services that traditionally are performed by the independent accountant, such as attest services that are not required by statute or regulation.

Tax Fees. Tax fees include services in conjunction with preparation of the Company's tax return.

All Other Fees. Fees for other services would include fees for products and services other than the services reported above.

It is the policy of the audit committee to pre-approve all audit, review or attest engagements and permissible non-audit services to be performed by our independent registered public accounting firm.

2017 fees have been adjusted to conform with 2018 fees presentation.

PART IV

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

The following documents are filed or incorporated by reference as part of this Annual Report:

1. Consolidated Financial Statements

The following consolidated financial statements of the Company are filed herewith:

Report of Independent Registered Public Accounting Firm

Consolidated Statements of Assets and Liabilities as of February 28, 2018 and February 28, 2017

Consolidated Statements of Operations for the years ended February 28, 2018, February 28, 2017 and February 29, 2016

Consolidated Schedules of Investments as of February 28, 2018 and February 28, 2017

Consolidated Statements of Changes in Net Assets for the years ended February 28, 2018, February 28, 2017 and February 29, 2016

Consolidated Statements of Cash Flows for the years ended February 28, 2018, February 28, 2017 and February 29, 2016

Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Reference is made to the Index to Other Financial Statements on page S-1.

3. Exhibits required to be filed by Item 601 of Regulation S-K

The following exhibits are filed as part of this report or hereby incorporated by reference to exhibits previously filed with the SEC:

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3.1(a)	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).
3.1(b)	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).
3.1(c)	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).
3.2	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).
4.1	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).
4.2	Registration Rights Agreement dated July 30, 2010 between GSC 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).
4.3	Dividend Reinvestment Plan (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on September 24, 2014).
4.4	Form of Indenture by and between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Saratoga Investment Corp.'s Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-186323 filed April 30, 2013).
4.5	Form of Second Supplemental Indenture between the Company and U.S. Bank National Association (incorporated by reference to Amendment No. 2 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-214182, filed on December 12, 2016).
4.6	Form of Global Note (incorporated by reference to Exhibit 4.7 hereto, and Exhibit A therein).
4.7	Form of Articles Supplementary Establishing and Fixing the Rights and Preferences of Preferred Stock (incorporated by reference to Saratoga Investment Corp.'s registration statement on Form N-2 Pre-Effective Amendment No. 1, File No. 333-196526, filed on December 5, 2014).
10.1	Investment Advisory and Management Agreement dated July 30, 2010 between GSC 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).
10.2	Custodian Agreement dated March 21, 2007 between GSC 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).
10.3	Administration Agreement dated July 30, 2010 between GSC 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).
10.4	Trademark License Agreement dated July 30, 2010 between Saratoga Investment Advisors, LLC and GSC Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
10.5	Credit, Security and Management Agreement dated July 30, 2010 by and among GSC 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).
10.6	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).

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<u>Exhibit Number</u>	<u>Description</u>
10.7	<u>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).</u>
10.8	<u>Amended and Restated Indenture, dated as of November 15, 2016, among Saratoga Investment Corp. CLO 2013-1, Ltd., Saratoga Investment Corp. CLO 2013-1, Inc. and U.S. Bank National Association. (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-216344, filed on February 28, 2017).</u>
10.9	<u>Amended and Restated Collateral Management Agreement, dated October 17, 2013, by and between Saratoga Investment Corp. and Saratoga Investment Corp. CLO 2013-1, Ltd. (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-196526, filed on December 5, 2014).</u>
10.10	<u>Investment Advisory and Management Agreement dated July 30, 2010 between Saratoga Investment Corp. and Saratoga Investment Advisors, LLC (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-196526, filed on December 5, 2014).</u>
10.11	<u>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).</u>
10.12	<u>Amendment No. 3 to Credit, Security and Management Agreement, dated May 18, 2017, 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 May 18, 2017).</u>
10.13	<u>Equity Distribution Agreement dated March 16, 2017, by and among Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Ladenburg Thalmann and Co. Inc. and BB&T Capital Markets, a division of BB&T Securities, LLC (incorporated by reference to Saratoga Investment Corp.'s Post-Effective Amendment No. 1 to the Registration Statement on Form N-2, File No. 333-216344, filed on March 16, 2017).</u>
10.14	<u>Amendment No. 1 to the Equity Distribution Agreement dated October 12, 2017 by and among Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Ladenburg Thalmann and Co. Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, and FBR Capital Markets & Co. (incorporated by reference to Saratoga Investment Corp.'s Post-Effective Amendment No. 2 to the Registration Statement on Form N-2, File No. 333-216344, filed on October 12, 2017).</u>
10.15	<u>Amendment No. 2 to the Equity Distribution Agreement dated January 11, 2018 by and among Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Ladenburg Thalmann and Co. Inc., BB&T Capital Markets, a division of BB&T Securities, LLC, and B. Riley FBR, Inc. (incorporated by reference to Post-Effective Amendment No. 3 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-216344, filed on January 11, 2018).</u>
11	<u>Computation of Per Share Earnings (included in Note 12 to the consolidated financial statements contained in this report).</u>
14	<u>Code of Ethics of the Company adopted under Rule 17j-1 (incorporated by reference to Amendment No.7 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-138051, filed on March 22, 2007).</u>
21.1	List of Subsidiaries and jurisdiction of incorporation/organization: Saratoga Investment Funding LLC—Delaware; Saratoga Investment Corp. SBIC, LP—Delaware; and Saratoga Investment Corp. GP, LLC—Delaware.
31.1*	<u>Chief Executive Officer Certification Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
31.2*	<u>Chief Financial Officer Certification Pursuant to Rule 13a-14(a) of the Securities Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>
32.1*	<u>Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>

* Filed herewith

ITEM 16. FORM 10-K SUMMARY

None.

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Report of Independent Registered Public Accounting Firm

The Shareholders and the Board of Directors of
Saratoga Investment Corp.

Opinion on the financial statements

We have audited the accompanying consolidated statements of assets and liabilities of Saratoga Investment Corp. (the “Company”), including the consolidated schedules of investments, as of February 28, 2018 and 2017, the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended February 28, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of February 28, 2018 and 2017, and the results of their operations, changes in their net assets and their cash flows for each of the three years in the period ended February 28, 2018, in conformity with US generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of February 28, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated May 14, 2018 expressed an unqualified opinion thereon.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the US federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our procedures included confirmation of investments owned as of February 28, 2018 and 2017, by correspondence with the custodians, debt agents and lenders. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 2006.

New York, New York
May 14, 2018

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Saratoga Investment Corp.

Opinion on Internal Control over Financial Reporting

We have audited Saratoga Investment Corp.'s internal control over financial reporting as of February 28, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission “(2013 framework),” (the COSO criteria). In our opinion, Saratoga Investment Corp. (the “Company”) maintained, in all material respects, effective internal control over financial reporting as of February 28, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated May 14, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

New York, New York
May 14, 2018

Saratoga Investment Corp.

Consolidated Statements of Assets and Liabilities

	As of	
	February 28, 2018	February 28, 2017
ASSETS		
Investments at fair value		
Non-control/Non-affiliate investments (amortized cost of \$281,534,277 and \$243,415,755, respectively)	\$286,061,722	\$234,751,514
Affiliate investments (amortized cost of \$18,358,611 and \$7,783,141, respectively)	12,160,564	7,780,000
Control investments (amortized cost of \$39,797,229 and \$49,283,536, respectively)	44,471,767	50,129,799
Total investments at fair value (amortized cost of \$339,690,117 and \$300,482,432, respectively)	342,694,053	292,661,313
Cash and cash equivalents	3,927,579	9,306,543
Cash and cash equivalents, reserve accounts	9,849,912	12,781,425
Interest receivable (net of reserve of \$1,768,021 and \$157,560, respectively)	3,047,125	3,294,450
Management and incentive fee receivable	233,024	171,106
Other assets	584,668	183,346
Receivable from unsettled trades	—	253,041
Total assets	<u>\$360,336,361</u>	<u>\$318,651,224</u>
LIABILITIES		
Revolving credit facility	\$ —	\$ —
Deferred debt financing costs, revolving credit facility	(697,497)	(437,183)
SBA debentures payable	137,660,000	112,660,000
Deferred debt financing costs, SBA debentures payable	(2,611,120)	(2,508,280)
Notes payable	74,450,500	74,450,500
Deferred debt financing costs, notes payable	(2,316,370)	(2,689,511)
Base management and incentive fees payable	5,776,944	5,814,692
Accounts payable and accrued expenses	924,312	852,987
Interest and debt fees payable	3,004,354	2,764,237
Directors fees payable	43,500	51,500
Due to manager	410,371	397,505
Total liabilities	<u>\$216,644,994</u>	<u>\$191,356,447</u>
Commitments and contingencies (See Note 8)		
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 6,257,029 and 5,794,600 common shares issued and outstanding, respectively	\$ 6,257	\$ 5,795
Capital in excess of par value	188,975,590	190,483,931
Distribution in excess of net investment income	(27,862,543)	(27,737,348)
Accumulated net realized loss	(20,431,873)	(27,636,482)
Net unrealized appreciation (depreciation) on investments	3,003,936	(7,821,119)
Total net assets	<u>143,691,367</u>	<u>127,294,777</u>
Total liabilities and net assets	<u>\$360,336,361</u>	<u>\$318,651,224</u>
NET ASSET VALUE PER SHARE	<u>\$ 22.96</u>	<u>\$ 21.97</u>

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Statements of Operations

	For the Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
INVESTMENT INCOME			
Interest from investments			
Interest income:			
Non-control/Non-affiliate investments	\$26,648,380	\$ 26,167,951	\$23,165,823
Affiliate investments	886,948	246,035	—
Control investments	4,768,534	2,281,397	2,665,648
Payment-in-kind interest income:			
Non-control/Non-affiliate investments	984,305	652,847	1,039,398
Affiliate investments	80,460	—	—
Control investments	1,741,334	—	—
Total interest from investments	35,109,961	29,348,230	26,870,869
Interest from cash and cash equivalents	27,495	31,151	5,420
Management fee income	1,509,317	1,499,001	1,494,779
Incentive fee income	591,368	—	—
Other income	1,376,837	2,278,770	1,679,602
Total investment income	38,614,978	33,157,152	30,050,670
OPERATING EXPENSES			
Interest and debt financing expenses	10,938,654	9,888,127	8,456,467
Base management fees	5,846,400	4,898,657	4,528,589
Professional fees	1,590,798	1,243,400	1,336,214
Administrator expenses	1,645,833	1,366,667	1,175,000
Incentive management fees	4,333,983	2,947,543	2,232,188
Insurance	259,571	275,787	330,867
Directors fees and expenses	197,500	235,422	204,000
General & administrative	1,058,009	1,121,594	995,205
Excise tax expense (credit)	(14,738)	44,770	113,808
Other expense	27,310	19,780	—
Total operating expenses	25,883,320	22,041,747	19,372,338
Loss on extinguishment of debt	—	1,454,595	—
NET INVESTMENT INCOME	12,731,658	9,660,810	10,678,332
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain (loss) from investments:			
Non-control/Non-affiliate investments	(5,877,734)	12,368,115	226,252
Affiliate investments	—	—	—
Control investments	166	—	—
Net realized gain (loss) from investments	(5,877,568)	12,368,115	226,252
Net change in unrealized appreciation (depreciation) on investments:			
Non-control/Non-affiliate investments	6,178,457	(11,687,337)	2,021,890
Affiliate investments	818,323	(3,141)	—
Control investments	3,828,275	1,049,034	(1,280,916)
Net change in unrealized appreciation (depreciation) on investments	10,825,055	(10,641,444)	740,974
Net realized and unrealized gain on investments	4,947,487	1,726,671	967,226
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$17,679,145	\$ 11,387,481	\$11,645,558
WEIGHTED AVERAGE—BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 2.93	\$ 1.98	\$ 2.09
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC AND DILUTED	6,024,040	5,740,450	5,582,453

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.

Consolidated Schedule of Investments

February 28, 2018

Company	Industry	Investment Interest Rate/ Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Non-control/Non-affiliate investments—199.1% (b)						
Tile Redi Holdings, LLC (d)	Building Products	First Lien Term Loan (3M USD LIBOR+10.00%), 12.02% Cash, 6/16/2022	\$ 15,000,000	\$ 14,865,903	\$ 14,850,000	10.3%
		Total Building Products		14,865,903	14,850,000	10.3%
Apex Holdings Software Technologies, LLC	Business Services	First Lien Term Loan (3M USD LIBOR+8.00%), 10.02% Cash, 9/21/2021	\$ 18,000,000	17,886,188	18,000,000	12.5%
Avionte Holdings, LLC (h)	Business Services	Common Stock	100,000	100,000	449,685	0.3%
CLEO Communications Holding, LLC	Business Services	First Lien Term Loan (3M USD LIBOR+8.00%), 10.02% Cash/2.00% PIK, 3/31/2022	\$ 13,243,267	13,128,695	13,243,267	9.2%
CLEO Communications Holding, LLC (j)	Business Services	Delayed Draw Term Loan (3M USD LIBOR+8.00%), 10.02% Cash/2.00% PIK, 3/31/2022	\$ 3,026,732	2,999,896	3,026,732	2.1%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note (3M USD LIBOR+8.50%), 10.52% Cash, 1/23/2020	\$ 3,300,000	3,298,099	3,316,500	2.3%
Emily Street Enterprises, L.L.C. (h)	Business Services	Warrant Membership Interests Expires 12/28/2022	49,318	400,000	468,521	0.3%
Erwin, Inc.	Business Services	Second Lien Term Loan (3M USD LIBOR+11.50%), 13.52% Cash/1.00% PIK, 8/28/2021	\$ 13,245,008	13,153,253	13,245,008	9.2%
FranConnect LLC (d)	Business Services	First Lien Term Loan (3M USD LIBOR+7.00%), 9.02% Cash, 5/26/2022	\$ 14,500,000	14,435,057	14,574,035	10.1%
Help/Systems Holdings, Inc.(Help/Systems, LLC)	Business Services	First Lien Term Loan (3M USD LIBOR+4.50%), 6.52% Cash, 10/8/2021	\$ 5,376,934	5,294,119	5,376,934	3.8%
Help/Systems Holdings, Inc.(Help/Systems, LLC)	Business Services	Second Lien Term Loan (3M USD LIBOR+9.50%), 11.52% Cash, 10/8/2022	\$ 3,000,000	2,933,255	3,000,000	2.1%
Identity Automation Systems (h)	Business Services	Common Stock Class A Units	232,616	232,616	673,377	0.5%
Identity Automation Systems	Business Services	First Lien Term Loan (3M USD LIBOR+9.50%), 11.52% Cash, 3/31/2021	\$ 17,950,000	17,849,294	17,950,000	12.5%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan (3M USD LIBOR+7.75%), 9.77% Cash, 7/20/2021	\$ 22,288,730	22,214,703	22,288,731	15.5%
Microsystems Company	Business Services	Second Lien Term Loan (3M USD LIBOR+8.25%), 10.27% Cash, 7/1/2022	\$ 18,000,000	17,866,185	18,014,400	12.5%
National Waste Partners (d)	Business Services	Second Lien Term Loan 10.00% Cash, 2/13/2022	\$ 9,000,000	8,925,728	9,000,000	6.3%
Vector Controls Holding Co., LLC (d)	Business Services	First Lien Term Loan 13.75% (12.00% Cash/1.75% PIK), 3/6/2022	\$ 11,248,990	11,246,851	11,248,991	7.8%
Vector Controls Holding Co., LLC (h)	Business Services	Warrants to Purchase Limited Liability Company Interests, Expires 11/30/2027	343	—	1,064,145	0.8%
		Total Business Services		151,963,939	154,940,326	107.8%
Targus Holdings, Inc. (h)	Consumer Products	Common Stock	210,456	1,791,242	433,927	0.3%
		Total Consumer Products		1,791,242	433,927	0.3%
My Alarm Center, LLC	Consumer Services	Preferred Equity Class A Units 8.00% PIK	2,227	2,311,649	2,340,154	1.6%
My Alarm Center, LLC (h)	Consumer Services	Preferred Equity Class B Units	1,797	1,796,880	1,481,939	1.0%
My Alarm Center, LLC (h)	Consumer Services	Common Stock	96,224	—	—	0.0%
PrePaid Legal Services, Inc. (d)	Consumer Services	First Lien Term Loan (1M USD LIBOR+5.25%), 6.92% Cash, 7/1/2019	\$ 2,377,472	2,370,104	2,377,472	1.7%
PrePaid Legal Services, Inc. (d)	Consumer Services	Second Lien Term Loan (1M USD LIBOR+9.00%), 10.67% Cash, 7/1/2020	\$ 11,000,000	10,974,817	11,000,000	7.7%
		Total Consumer Services		17,453,450	17,199,565	12.0%
C2 Educational Systems (d)	Education	First Lien Term Loan (3M USD LIBOR+8.50%), 10.52% Cash, 5/31/2020	\$ 16,000,000	15,875,823	15,977,118	11.1%
M/C Acquisition Corp., L.L.C. (h)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C. (h), (l)	Education	First Lien Term Loan 1.00% Cash, 3/31/2018	\$ 2,318,121	1,190,838	8,058	0.0%
Texas Teachers of Tomorrow, LLC (h), (i)	Education	Common Stock	750,000	750,000	792,681	0.6%
Texas Teachers of Tomorrow, LLC	Education	Second Lien Term Loan (3M USD LIBOR+9.75%), 11.77% Cash, 6/2/2021	\$ 10,000,000	9,934,492	10,000,000	7.0%
		Total Education		27,781,394	26,777,857	18.7%
TM Restaurant Group L.L.C. (h), (l)	Food and Beverage	First Lien Term Loan 14.50% PIK, 7/17/2017	\$ 9,358,694	9,358,694	9,133,149	6.3%
TM Restaurant Group L.L.C. (h), (l)	Food and Beverage	Revolver 14.50% PIK, 7/17/2017	\$ 398,645	398,644	389,037	0.3%
		Total Food and Beverage		9,757,338	9,522,186	6.6%
Censis Technologies, Inc.	Healthcare Services	First Lien Term Loan B (1M USD LIBOR+10.00%), 11.67% Cash, 7/24/2019	\$ 10,350,000	10,279,781	10,350,000	7.2%
Censis Technologies, Inc. (h), (i)	Healthcare Services	Limited Partner Interests	999	999,000	1,578,840	1.1%
ComForCare Health Care	Healthcare Services	First Lien Term Loan (3M USD LIBOR+8.50%), 10.52% Cash, 1/31/2022	\$ 15,000,000	14,869,275	14,955,000	10.4%
Ohio Medical, LLC (h)	Healthcare Services	Common Stock	5,000	500,000	238,069	0.2%
Ohio Medical, LLC	Healthcare Services	Senior Subordinated Note 12.00% Cash, 7/15/2021	\$ 7,300,000	7,250,224	6,635,570	4.6%

Pathway Partners Vet Management Company LLC	Healthcare Services	Second Lien Term Loan (1M USD LIBOR+8.00%), 9.67% Cash, 10/10/2025	\$ 2,083,333	2,063,158	2,062,500	1.4%
Pathway Partners Vet Management Company LLC (k)	Healthcare Services	Delayed Draw Term Loan (1M USD LIBOR+8.00%), 9.67% Cash, 10/10/2025	\$ —	—	—	0.0%
Roscoe Medical, Inc. (h)	Healthcare Services	Common Stock	5,081	508,077	352,097	0.3%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,171,558	3,900,960	2.7%
Zest Holdings, LLC (d)	Healthcare Services	Syndicated Loan (1M USD LIBOR+4.25%), 5.92% Cash, 8/16/2023	\$ 4,105,884	4,033,095	4,105,884	2.9%
		Total Healthcare Services		<u>44,674,168</u>	<u>44,178,920</u>	<u>30.8%</u>
HMN Holdco, LLC	Media	First Lien Term Loan 12.00% Cash, 7/8/2021	\$ 8,028,824	7,981,971	8,249,617	5.7%
HMN Holdco, LLC	Media	Delayed Draw First Lien Term Loan 12.00% Cash, 7/8/2021	\$ 4,800,000	4,764,872	4,938,000	3.4%
HMN Holdco, LLC (h)	Media	Class A Series, Expires 1/16/2025	4,264	61,647	274,431	0.2%
HMN Holdco, LLC (h)	Media	Class A Warrant, Expires 1/16/2025	30,320	438,353	1,565,118	1.1%
HMN Holdco, LLC (h)	Media	Warrants to Purchase Limited Liability Company Interests (Common), Expires 5/16/2024	57,872	—	2,696,257	1.9%
HMN Holdco, LLC (h)	Media	Warrants to Purchase Limited Liability Company Interests (Preferred), Expires 5/16/2024	8,139	—	435,518	0.3%
		Total Media		<u>13,246,843</u>	<u>18,158,941</u>	<u>12.6%</u>
Sub Total Non-control/Non-affiliate investments				<u>281,534,277</u>	<u>286,061,722</u>	<u>199.1%</u>

See accompanying notes to consolidated financial statements.

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Affiliate investments—8.5% (b)						
GreyHeller LLC (f)	Business Services	First Lien Term Loan (3M USD LIBOR+11.00%), 13.02% Cash, 11/16/2021	\$ 7,000,000	6,944,319	7,106,501	5.0%
GreyHeller LLC (f), (k)	Business Services	Delayed Draw Term Loan B (3M USD LIBOR+11.00%), 13.02% Cash, 11/16/2021	\$ —	—	—	0.0%
GreyHeller LLC (f), (h)	Business Services	Series A Preferred Units	850,000	850,000	740,999	0.5%
Total Business Services				7,794,319	7,847,500	5.5%
Elyria Foundry Company, L.L.C. (f), (h)	Metals	Common Stock	60,000	9,685,028	3,433,800	2.4%
Elyria Foundry Company, L.L.C. (d), (f)	Metals	Second Lien Term Loan 15.00% PIK, 8/10/2022	\$ 879,264	879,264	879,264	0.6%
Total Metals				10,564,292	4,313,064	3.0%
Sub Total Affiliate investments				18,358,611	12,160,564	8.5%
Control investments—30.9% (b)						
Easy Ice, LLC (g)	Business Services	Preferred Equity 10.00% PIK	5,080,000	8,761,000	10,760,435	7.5%
Easy Ice, LLC (d), (g)	Business Services	Second Lien Term Loan (3M USD LIBOR+11.00%), 5.44% Cash/7.56% PIK, 2/28/2023	\$ 17,337,528	17,240,357	17,337,528	12.0%
Total Business Services				26,001,357	28,097,963	19.5%
Saratoga Investment Corp. CLO 2013-1, Ltd. (a), (e), (g)	Structured Finance Securities	Other/Structured Finance Securities 32.21%, 10/20/2025	\$ 30,000,000	9,295,872	11,874,704	8.3%
Saratoga Investment Corp. Class F Note (a), (g)	Structured Finance Securities	Other/Structured Finance Securities (3M USD LIBOR+8.50%), 10.52%, 10/20/2025	\$ 4,500,000	4,500,000	4,499,100	3.1%
Total Structured Finance Securities				13,795,872	16,373,804	11.4%
Sub Total Control investments				39,797,229	44,471,767	30.9%
TOTAL INVESTMENTS—238.5% (b)				\$339,690,117	\$342,694,053	238.5%

	Number of Shares	Cost	Fair Value	% of Net Assets
Cash and cash equivalents and cash and cash equivalents, reserve accounts—9.6% (b)				
U.S. Bank Money Market (m)	13,777,491	\$ 13,777,491	\$ 13,777,491	9.6%
Total cash and cash equivalents and cash and cash equivalents, reserve accounts	13,777,491	\$ 13,777,491	\$ 13,777,491	9.6%

- (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 4.8% 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 \$143,691,367 as of February 28, 2018.
- (c) Because there is no readily available market value for these investments, the fair values of these investments were determined using significant unobservable inputs and approved in good faith by our board of directors. These investments have been included as Level 3 in the Fair Value Hierarchy (see Note 3 to the consolidated financial statements).
- (d) These securities are either fully or partially pledged as collateral under a senior secured revolving credit facility (see Note 7 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 32.21% interest rate in the table above represents the effective 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, this portfolio company is an Affiliate as we own between 5.0% and 25.0% of the voting securities. Transactions during the year ended February 28, 2018 in which the issuer was an Affiliate are as follows:

Company	Purchases	Sales	Total Interest from Investments	Management and Incentive Fee Income	Net Realized Gain (Loss) from Investments	Net Change in Unrealized Appreciation
GreyHeller LLC	\$ —	\$ —	\$ 886,948	\$ —	\$ —	\$ 56,322
Elyria Foundry Company, L.L.C.	800,000	—	80,460	—	—	762,001
Total	\$800,000	\$—	\$ 967,408	\$ —	\$ —	\$ 818,323

- (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 year ended February 28, 2018 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Sales	Total Interest from Investments	Management and Incentive Fee Income	Net Realized Gain from Investments	Net Change in Unrealized Appreciation (Depreciation)
Easy Ice, LLC	\$ —	\$(10,180,000)	\$ 3,656,285	\$ —	\$ 166	\$ 1,880,768
Saratoga Investment Corp. CLO 2013-1, Ltd.	—	—	2,429,680	2,100,685	—	1,947,957
Saratoga Investment Corp. Class F Note	—	—	423,903	—	—	(450)
Total	\$ —	\$(10,180,000)	\$ 6,509,868	\$ 2,100,685	\$ 166	\$ 3,828,275

- (h) Non-income producing at February 28, 2018.
- (i) Includes securities issued by an affiliate of the company.
- (j) The investment has an unfunded commitment as of February 28, 2018 (see Note 8 to the consolidated financial statements).
- (k) The entire commitment was unfunded at February 28, 2018. As such, no interest is being earned on this investment (see Note 8 to the consolidated financial statements).
- (l) At February 28, 2018, the investment was on non-accrual status. The fair value of these investments was approximately \$9.5 million, which represented 2.8% of the Company's portfolio.
- (m) Included within cash and cash equivalents and cash and cash equivalents, reserve accounts in the Company's consolidated statements of assets and liabilities as of February 28, 2018.

LIBOR—London Interbank Offered Rate

1M USD LIBOR—The 1 month USD LIBOR rate as of February 28, 2018 was 1.67%.

3M USD LIBOR—The 3 month USD LIBOR rate as of February 28, 2018 was 2.02%.

PIK—Payment-in-Kind (see Note 2 to the consolidated financial statements)

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.
Consolidated Schedule of Investments
February 28, 2017

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Non-control/Non-affiliated investments						
—184.4% (b)						
Apex Holdings Software Technologies, LLC	Business Services	First Lien Term Loan (3M USD LIBOR+8.00%), 9.05% Cash, 9/21/2021	\$ 18,000,000	\$ 17,857,818	\$ 17,843,400	14.0%
Avionte Holdings, LLC (h)	Business Services	Common Stock	100,000	100,000	251,000	0.2%
BMC Software, Inc. (d)	Business Services	Syndicated Loan (1M USD LIBOR+4.00%), 5.00% Cash, 9/10/2020	\$ 5,611,666	5,582,551	5,639,163	4.4%
Courion Corporation	Business Services	Second Lien Term Loan (3M USD LIBOR+10.00%), 11.05% Cash, 6/1/2021	\$ 15,000,000	14,879,353	14,230,500	11.2%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note (3M USD LIBOR+8.50%), 10.00% Cash, 1/23/2020	\$ 3,300,000	3,282,213	3,316,500	2.6%
Emily Street Enterprises, L.L.C. (h)	Business Services	Warrant Membership Interests Expires 12/28/2022	49,318	400,000	394,544	0.3%
Erwin, Inc.	Business Services	Second Lien Term Loan (3M USD LIBOR+11.50%), 12.55% Cash/1.00% PIK, 8/28/2021	\$ 13,111,929	13,000,581	13,111,929	10.2%
Help/Systems Holdings, Inc.(Help/Systems, LLC)	Business Services	First Lien Term Loan (3M USD LIBOR+5.25%), 6.30% Cash, 10/8/2021	\$ 5,947,481	5,857,960	5,947,481	4.7%
Help/Systems Holdings, Inc.(Help/Systems, LLC)	Business Services	Second Lien Term Loan(3M USD LIBOR+9.50%), 10.55% Cash, 10/8/2022	\$ 3,000,000	2,922,606	2,926,800	2.3%
Identity Automation Systems	Business Services	Convertible Promissory Note 13.50% (6.75% Cash/6.75% PIK), 8/18/2018	611,517	611,517	611,517	0.5%
Identity Automation Systems (h)	Business Services	Common Stock Class A Units	232,616	232,616	386,143	0.3%
Identity Automation Systems	Business Services	First Lien Term Loan (3M USD LIBOR+9.25%), 10.30% Cash/1.75% PIK, 12/18/2020	\$ 10,293,791	10,223,741	10,293,791	8.1%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan (3M USD LIBOR+8.75%), 9.80% Cash, 7/20/2021	\$ 17,777,730	17,692,307	17,777,730	14.0%
Microsystems Company	Business Services	Second Lien Term Loan (3M USD LIBOR+10.00%), 11.05% Cash, 7/1/2022	\$ 8,000,000	7,927,489	7,964,800	6.3%
National Waste Partners	Business Services	First Lien Term Loan 10.00% Cash, 2/13/2022	\$ 9,000,000	8,910,000	8,910,000	7.0%
Vector Controls Holding Co., LLC (d)	Business Services	First Lien Term Loan 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 8,819,270	8,778,186	8,819,270	6.9%
Vector Controls Holding Co., LLC (d), (h)	Business Services	Warrants to Purchase Limited Liability Company Interests, Expires 5/31/2025	343	—	327,200	0.3%
Total Business Services				118,258,938	118,751,768	93.30%
Targus Holdings, Inc. (d), (h)	Consumer Products	Common Stock	210,456	1,791,242	29,241	0.0%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan A-2 15.00% PIK, 12/31/2019	\$ 234,630	234,630	234,630	0.2%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan B 15.00% PIK, 12/31/2019	\$ 703,889	703,889	703,889	0.6%
Total Consumer Products				2,729,761	967,760	0.8%
My Alarm Center, LLC	Consumer Services	Second Lien Term Loan (3M USD LIBOR+11.00%), 12.05% Cash, 7/9/2019	\$ 9,375,000	9,359,492	7,061,250	5.6%
PrePaid Legal Services, Inc. (d)	Consumer Services	First Lien Term Loan (1M USD LIBOR+5.25%), 6.50% Cash, 7/1/2019	\$ 2,687,143	2,672,435	2,687,143	2.1%
PrePaid Legal Services, Inc. (d)	Consumer Services	Second Lien Term Loan (1M USD LIBOR+9.00%), 10.25% Cash, 7/1/2020	\$ 11,000,000	10,966,188	11,000,000	8.6%
Total Consumer Services				22,998,115	20,748,393	16.3%
M/C Acquisition Corp., L.L.C. (d), (h)	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, 3/31/2018	\$ 2,321,073	1,193,790	8,087	0.0%
Texas Teachers of Tomorrow, LLC (h), (i)	Education	Common Stock	750	750,000	919,680	0.7%
Texas Teachers of Tomorrow, LLC	Education	Second Lien Term Loan (3M USD LIBOR+9.75%), 10.80% Cash, 6/2/2021	\$ 10,000,000	9,918,572	10,000,000	7.9%
Total Education				11,892,603	10,927,767	8.6%
TM Restaurant Group L.L.C. (h)	Food and Beverage	First Lien Term Loan (1M USD LIBOR+8.50%), 9.75% Cash, 7/17/2017	\$ 9,358,694	9,331,446	8,422,825	6.6%
Total Food and Beverage				9,331,446	8,422,825	6.6%
Censis Technologies, Inc.	Healthcare Services	First Lien Term Loan B (1M USD LIBOR+10.00%), 11.00% Cash, 7/24/2019	\$ 11,100,000	10,977,689	10,940,160	8.6%
Censis Technologies, Inc. (h), (i)	Healthcare Services	Limited Partner Interests	999	999,000	886,772	0.7%
ComForCare Health Care	Healthcare Services	First Lien Term Loan (3M USD LIBOR+8.50%), 9.55% Cash, 1/31/2022	\$ 10,500,000	10,398,957	10,395,000	8.2%
Roscoe Medical, Inc. (d), (h)	Healthcare Services	Common Stock	5,081	508,077	680,823	0.5%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,155,827	4,179,000	3.3%
Ohio Medical, LLC (h)	Healthcare Services	Common Stock	5,000	500,000	288,800	0.2%
Ohio Medical, LLC	Healthcare Services	Senior Subordinated Note 12.00% Cash, 7/15/2021	\$ 7,300,000	7,238,831	6,989,750	5.5%
Zest Holdings, LLC (d)	Healthcare Services	Syndicated Loan (1M USD LIBOR+4.75%), 5.75% Cash, 8/17/2020	\$ 4,136,911	4,085,888	4,183,658	3.3%
Total Healthcare Services				38,864,269	38,543,963	30.3%
HMN Holdco, LLC	Media	First Lien Term Loan 12.00% Cash, 7/8/2021	\$ 8,462,482	8,376,876	8,462,482	6.6%
HMN Holdco, LLC	Media	Delayed Draw First Lien Term Loan 12.00% Cash, 7/8/2021	\$ 4,800,000	4,751,258	4,800,000	3.8%
HMN Holdco, LLC (h)	Media	Class A Series, Expires 1/16/2025	4,264	61,647	294,770	0.2%
HMN Holdco, LLC (h)	Media	Class A Warrant, Expires 1/16/2025	30,320	438,353	1,706,410	1.3%
HMN Holdco, LLC (h)	Media	Warrants to Purchase Limited Liability Company Interests (Common), Expires 5/16/2024	57,872	—	2,961,310	2.3%
HMN Holdco, LLC (h)	Media	Warrants to Purchase Limited Liability Company Interests (Preferred), Expires 5/16/2024	8,139	—	473,690	0.4%
Total Media				13,628,134	18,698,662	14.6%
Elyria Foundry Company, L.L.C. (d), (h)	Metals	Common Stock	35,000	9,217,564	413,350	0.3%
Elyria Foundry Company, L.L.C. (d)	Metals	Second Lien Term Loan 15.00% PIK, 8/10/2022	\$ 437,500	437,500	437,500	0.4%
Total Metals				9,655,064	850,850	0.7%
Mercury Network, LLC	Real Estate	First Lien Term Loan (3M USD LIBOR+9.50%), 10.55% Cash, 8/24/2021	\$ 15,773,875	15,644,382	15,773,875	12.4%
Mercury Network, LLC (h)	Real Estate	Common Stock	413,043	413,043	1,065,651	0.8%

	Total Real Estate	<u>16,057,425</u>	<u>16,839,526</u>	<u>13.2%</u>
Sub Total Non-control/Non-affiliated investments		<u>243,415,755</u>	<u>234,751,514</u>	<u>184.4%</u>

See accompanying notes to consolidated financial statements.

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets	
Affiliated investments—6.1% (b)							
GreyHeller LLC (f)	Business Services	First Lien Term Loan (3M USD LIBOR+11.00%), 12.05% Cash, 11/16/2021	\$ 7,000,000	6,933,141	6,930,000	5.4%	
GreyHeller LLC (f), (j)		Delayed Draw Term Loan B (3M USD LIBOR+11.00%), 12.05% Cash, 11/16/2021	\$ —	—	—	0.0%	
GreyHeller LLC (f), (h)	Business Services	Series A Preferred Units	850,000	850,000	850,000	0.7%	
				Total Business Services	7,783,141	7,780,000	6.1%
Sub Total Affiliated Investments							
Control investments—39.4% (b)							
Easy Ice, LLC (g), (h)	Business Services	Preferred Equity	5,080,000	8,000,000	8,000,000	6.3%	
Easy Ice, LLC (d), (g)	Business Services	First Lien Term Loan (1M USD LIBOR+10.25%) 11.02% Cash, 1/15/2020	\$ 26,680,000	26,464,162	26,680,000	20.9%	
				Total Business Services	34,464,162	34,680,000	27.2%
Saratoga Investment Corp. CLO 2013-1, Ltd. (a), (d), (e), (g)	Structured Finance Securities	Other/Structured Finance Securities 14.87%, 10/20/2025	\$ 30,000,000	10,319,374	10,950,249	8.7%	
Saratoga Investment Corp. Class F Note (a), (d), (g)	Structured Finance Securities	Other/Structured Finance Securities (3M USD LIBOR+8.50%), 9.55%, 10/20/2025	\$ 4,500,000	4,500,000	4,499,550	3.5%	
				Total Structured Finance Securities	14,819,374	15,449,799	12.2%
				Total Control investments	49,283,536	50,129,799	39.4%
				TOTAL INVESTMENTS—229.9% (b)	\$300,482,432	\$292,661,313	229.9%

	Number of Shares	Cost	Fair Value	% of Net Assets
Cash and cash equivalents and cash and cash equivalents, reserve accounts—17.4% (b)				
U.S. Bank Money Market (k)	22,087,968	\$ 22,087,968	\$ 22,087,968	17.4%
Total cash and cash equivalents and cash and cash equivalents, reserve accounts				
22,087,968 \$ 22,087,968 \$ 22,087,968 17.4%				

- (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 5.3% 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 \$127,294,777 as of February 28, 2017.
- (c) Because there is no readily available market value for these investments, the fair values of these investments were determined using significant unobservable inputs and approved in good faith by our board of directors. These investments have been included as Level 3 in the Fair Value Hierarchy (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 7 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 14.87% interest rate in the table above represents the effective 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, this portfolio company is an Affiliate as we own between 5.0% and 25.0% of the voting securities. Transactions during the year ended February 28, 2017 in which the issuer was an Affiliate are as follows:

Company	Purchases	Sales	Total Interest from Investments	Management and Incentive Fee Income	Net Realized Gain (Loss) from Investments	Net Change in Unrealized (Depreciation)
GreyHeller LLC	\$7,780,000	\$—	\$ 246,035	\$ —	\$ —	\$ (3,141)

- (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 year ended February 28, 2017 in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Sales	Total Interest from Investments	Management and Incentive Fee Income	Net Realized Gain (Loss) from Investments	Net Change in Unrealized Appreciation (Depreciation)
Easy Ice, LLC	\$20,553,200	\$—	\$ 217,362	\$ —	\$ —	\$ 283,226
Saratoga Investment Corp. CLO 2013-1, Ltd.	—	—	1,941,914	1,499,001	—	833,646
Saratoga Investment Corp. Class F Note	4,500,000	—	122,121	—	—	(450)
Total	\$25,053,200	\$—	\$ 2,281,397	\$ 1,499,001	\$ —	\$ 1,116,422

- (h) Non-income producing at February 28, 2017.
- (i) Includes securities issued by an affiliate of the company.
- (j) The investment has an unfunded commitment as of February 28, 2017. As such, no interest is being earned on this investment (see Note 8 to the consolidated financial statements).
- (k) Included within cash and cash equivalents and cash and cash equivalents, reserve accounts in the Company's consolidated statements of assets and liabilities as of February 28, 2017.

LIBOR—London Interbank Offered Rate

1M USD LIBOR—The 1 month USD LIBOR rate as of February 28, 2017 was 0.77%.

3M USD LIBOR—The 3 month USD LIBOR rate as of February 28, 2017 was 1.05%.

PIK—Payment-in-Kind (see Note 2 to the consolidated financial statements)

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.**Consolidated Statements of Changes in Net Assets**

	<u>February 28, 2018</u>	<u>For the Year Ended February 28, 2017</u>	<u>February 29, 2016</u>
INCREASE FROM OPERATIONS:			
Net investment income	\$ 12,731,658	\$ 9,660,810	\$ 10,678,332
Net realized gain (loss) from investments	(5,877,568)	12,368,115	226,252
Net change in unrealized appreciation (depreciation) on investments	10,825,055	(10,641,444)	740,974
Net increase in net assets resulting from operations	<u>17,679,145</u>	<u>11,387,481</u>	<u>11,645,558</u>
DECREASE FROM SHAREHOLDER DISTRIBUTIONS:			
Distributions of investment income – net	(11,375,577)	(11,057,075)	(13,045,149)
Net decrease in net assets from shareholder distributions	<u>(11,375,577)</u>	<u>(11,057,075)</u>	<u>(13,045,149)</u>
CAPITAL SHARE TRANSACTIONS:			
Proceeds from issuance of common stock	7,838,351	—	—
Stock dividend distribution	2,362,814	5,147,335	4,665,447
Repurchases of common stock	—	(3,332,839)	(356,792)
Offering costs	(108,143)	—	(357,931)
Net increase in net assets from capital share transactions	<u>10,093,022</u>	<u>1,814,496</u>	<u>3,950,724</u>
Total increase in net assets	16,396,590	2,144,902	2,551,133
Net assets at beginning of period	127,294,777	125,149,875	122,598,742
Net assets at end of period	<u>\$ 143,691,367</u>	<u>\$ 127,294,777</u>	<u>\$ 125,149,875</u>
Net asset value per common share	\$ 22.96	\$ 21.97	\$ 22.06
Common shares outstanding at end of period	6,257,029	5,794,600	5,672,227
Distribution in excess of net investment income	\$ (27,862,543)	\$ (27,737,348)	\$ (26,217,902)

See accompanying notes to consolidated financial statements.

Saratoga Investment Corp.

Consolidated Statements of Cash Flows

	For the Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
Operating activities			
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 17,679,145	\$ 11,387,481	\$ 11,645,558
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Payment-in-kind interest income	(2,664,627)	(580,268)	(966,906)
Net accretion of discount on investments	(1,035,501)	(582,186)	(507,180)
Amortization of deferred debt financing costs	990,035	2,487,716	913,773
Net realized (gain) loss from investments	5,877,568	(12,368,115)	(226,252)
Net change in unrealized (appreciation) depreciation on investments	(10,825,055)	10,641,444	(740,974)
Proceeds from sales and repayments of investments	66,312,032	121,158,873	68,174,143
Purchase of investments	(107,697,157)	(126,934,895)	(109,191,262)
(Increase) decrease in operating assets:			
Interest receivable	247,325	(98,531)	(726,521)
Management and incentive fee receivable	(61,918)	(1,090)	1,897
Other assets	(273,897)	70,488	(128,370)
Receivable from unsettled trades	253,041	46,959	(300,000)
Increase (decrease) in operating liabilities:			
Base management and incentive fees payable	(37,748)	220,736	(241,985)
Accounts payable and accrued expenses	215,458	(99,719)	73,141
Interest and debt fees payable	240,117	1,212,168	146,603
Payable for repurchases of common stock	—	(20,957)	—
Directors fees payable	(8,000)	20,000	—
Due to manager	12,866	179,412	(147,727)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(30,776,316)</u>	<u>6,739,516</u>	<u>(32,222,062)</u>
Financing activities			
Borrowings on debt	59,800,000	9,000,000	35,260,000
Paydowns on debt	(34,800,000)	—	(20,200,000)
Issuance of notes	—	74,450,500	13,493,125
Repayments of notes	—	(61,793,125)	—
Payments of deferred debt financing costs	(1,277,266)	(3,225,528)	(1,096,556)
Proceeds from issuance of common stock	7,838,351	—	—
Payments of offering costs	(82,483)	—	—
Repurchases of common stock	—	(3,332,839)	(356,792)
Payments of cash dividends	(9,012,763)	(6,785,339)	(7,906,304)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>22,465,839</u>	<u>8,313,669</u>	<u>19,193,473</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS, RESERVE ACCOUNTS	(8,310,477)	15,053,185	(13,028,589)
CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS, RESERVE ACCOUNTS, BEGINNING OF PERIOD	22,087,968	7,034,783	20,063,372
CASH AND CASH EQUIVALENTS AND CASH AND CASH EQUIVALENTS, RESERVE ACCOUNTS, END OF PERIOD	<u>\$ 13,777,491</u>	<u>\$ 22,087,968</u>	<u>\$ 7,034,783</u>
Supplemental information:			
Interest paid during the period	\$ 9,708,503	\$ 7,642,838	\$ 7,396,091
Cash paid for taxes	208,164	144,247	293,953
Supplemental non-cash information:			
Payment-in-kind interest income	\$ 2,664,627	\$ 580,268	\$ 966,906
Net accretion of discount on investments	1,035,501	582,186	507,180
Amortization of deferred debt financing costs	990,035	2,487,716	913,773
Stock dividend distribution	2,362,814	5,147,335	4,665,447

See accompanying notes to consolidated financial statements.

SARATOGA INVESTMENT CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2018

Note 1. Organization

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”). The Company commenced operations on March 23, 2007 as GSC Investment Corp. and completed the initial public offering (“IPO”) on March 28, 2007. The Company has elected to be treated as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code (the “Code”). The Company expects to continue to qualify and to elect to be treated, for tax purposes, as a RIC. The Company’s investment objective is to generate current income and, to a lesser extent, capital appreciation from its 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 connection with the consummation of a recapitalization transaction.

The Company is externally managed and advised by the investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant to a management agreement (the “Management Agreement”). Prior to July 30, 2010, the Company was managed and advised by GSCP (NJ), L.P.

The Company has established wholly-owned subsidiaries, SIA Avionte, Inc., SIA Easy Ice, LLC, SIA GH, Inc., SIA MAC, Inc., SIA TT, Inc., and SIA Vector, Inc., which are structured as Delaware entities, or tax blockers, to hold equity or equity-like investments in portfolio companies organized as limited liability companies, or LLCs (or other forms of pass through entities). Tax blockers are consolidated for accounting purposes, but are not consolidated for income tax purposes and may incur income tax expense as a result of their ownership of portfolio companies.

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”).

On April 2, 2015, the SBA issued a “green light” letter inviting the Company to continue the application process to obtain a license to form and operate its second SBIC subsidiary. On September 27, 2016, the SBA informed us that as part of their continued review of our application for a second license, and in order to ensure that they were reviewing the most current information available, we would need to update all previously submitted materials and invited us to reapply. As a result of this request, with which we are in the process of complying, the existing “green light” letter that the SBA issued to us has expired. If approved in the future, a second SBIC license would provide us an incremental source of long-term capital by permitting us to issue up to \$150.0 million of additional SBA-guaranteed debentures in addition to the \$150.0 million already approved under the first license.

Note 2. Summary of Significant Accounting Policies

Basis of Presentation

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”), are stated in U.S. Dollars and include the accounts of the Company and its special purpose financing subsidiaries, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC), SBIC LP, SIA Avionte, Inc., SIA Easy Ice, LLC, SIA GH, Inc., SIA MAC, Inc., SIA TT, Inc., and SIA Vector, Inc. 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.

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The Company and SBIC LP are both considered to be investment companies for financial reporting purposes and have applied the guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, “*Financial Services — Investment Companies*” (“ASC 946”). There have been no changes to the Company or SBIC LP’s status as investment companies during the year ended February 28, 2018.

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, except as allowed pursuant to Rule 12d1-1 of Section 12(d)(1) of the 1940 Act which is designed to permit “cash sweep” arrangements rather than investments directly in short-term instruments; 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.

As of February 28, 2018, the Company did not exceed any of these limitations.

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 the Company’s \$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.

In addition, cash and cash equivalents, reserve accounts also include amounts held in designated bank accounts, in the form of cash and short-term liquid investments in money market funds, within our wholly-owned subsidiary, SBIC LP.

In November 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows* (Topic 230): *Restricted Cash* (“ASU 2016-18”). ASU 2016-18 requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted and is to be applied on a retrospective basis. The Company has adopted the provisions of ASU 2016-18 as of November 30, 2016. The adoption of the provisions of ASU 2016-18 did not materially impact the Company’s consolidated financial position or results of operations. Prior period amounts were reclassified to conform to the current period presentation.

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The following table provides a reconciliation of cash and cash equivalents and cash and cash equivalents, reserve accounts reported within the consolidated statements of assets and liabilities that sum to the total of the same such amounts shown in the consolidated statements of cash flows:

	February 28, 2018	February 28, 2017	February 29, 2016
Cash and cash equivalents	\$ 3,927,579	\$ 9,306,543	\$2,440,277
Cash and cash equivalents, reserve accounts	9,849,912	12,781,425	4,594,506
Total cash and cash equivalents and cash and cash equivalents, reserve accounts	<u>\$13,777,491</u>	<u>\$22,087,968</u>	<u>\$7,034,783</u>

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 FASB 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 balance sheet 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.

The Company undertakes 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 reviews a selection 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 once each fiscal year.

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

- The audit committee of our board of directors reviews and approves 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.

The Company’s 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 rates 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. The Company uses the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flow 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. The Company’s 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

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

Investment Transactions and Income Recognition

Purchases and sales of investments and the related realized gains or losses are recorded on a trade-date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortization of premiums 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. At February 28, 2018, certain investments in two portfolio companies were on non-accrual status with a fair value of approximately \$9.5 million, or 2.8% of the fair value of our portfolio.

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.

Other Income

Other income includes dividends received, origination fees, structuring fees and advisory fees, and is recorded in the consolidated statements of operations when earned.

Payment-in-Kind Interest

The Company holds debt and preferred equity 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 and notes are deferred and amortized using the straight line method over the life of the respective facility and debt securities. Financing costs incurred in connection with our SBA debentures are deferred and amortized using the effective yield method over the life of the debentures.

The Company presents deferred debt financing costs on the balance sheet as a contra- liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Contingencies

In the ordinary course of 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. Therefore, the Company has not accrued any liabilities in connection with such indemnifications.

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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 elected to be treated for tax purposes as a RIC under 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 U.S. Treasury regulations and private letter rulings issued by the Internal Revenue Service (“IRS”), 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 on the consolidated statements of operations. During the fiscal year ended February 28, 2018, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2015, 2016 and 2017 federal tax years for the Company remain subject to examination by the IRS. As of February 28, 2018 and February 28, 2017, there were no uncertain tax positions. The Company is not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change significantly in the next 12 months.

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 the DRIP by the dividend record date will have their cash dividends automatically reinvested into 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 net realized and unrealized gain on its investments exceed all net realized and unrealized 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 net of realized and unrealized losses for the period.

Regulatory Matters

In October 2016, the SEC adopted new rules and amended existing rules (together, "final rules") intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. Management has adopted the amendments to Regulation S-X and included required disclosures in the Company's consolidated financial statements and related disclosures.

New Accounting Pronouncements

In March 2017, the FASB issued ASU 2017-08, *Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20)*, *Premium Amortization on Purchased Callable Debt Securities* ("ASU 2017-08") which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. ASU 2017-08 does not require any accounting change for debt securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management has assessed these changes and does not believe they would have a material impact on the Company's consolidated financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, *Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein. Early adoption is permitted. Management has assessed these changes and does not believe they would have a material impact on the Company's consolidated financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Amendments to the Leases* ("ASU Topic 842"), which will require for all operating leases the recognition of a right-of-use asset and a lease liability, in the statement of financial position. The lease cost will be allocated over the lease term on a straight-line basis. This guidance is effective for annual and interim periods beginning after December 15, 2018. Management is currently evaluating the impact these changes will have on the Company's consolidated financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity's accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. Management has assessed these changes and does not believe they would have a material impact on the Company's consolidated financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In May 2016, ASU 2016-12 amended ASU 2014-09 and deferred the effective period for annual periods beginning after December 15, 2017. Management has concluded that the majority of its revenues associated with financial instruments are scoped out of ASC 606, and has concluded that the only significant impact relates to the timing of the recognition of the CLO incentive fee income.

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.

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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 a disclaimer would result in classification as a Level 3 asset, assuming no additional corroborating evidence.

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the board of directors that is consistent with ASC 820 and the 1940 Act (see Note 2). Consistent with our 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, 2018 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Syndicated loans	\$ —	\$ —	\$ 4,106	\$ 4,106
First lien term loans	—	—	197,359	197,359
Second lien term loans	—	—	95,075	95,075
Structured finance securities	—	—	16,374	16,374
Equity interests	—	—	29,780	29,780
Total	\$ —	\$ —	\$342,694	\$342,694

The following table presents fair value measurements of investments, by major class, as of February 28, 2017 (dollars in thousands), according to the fair value hierarchy:

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	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Syndicated loans	\$ —	\$ —	\$ 9,823	\$ 9,823
First lien term loans	—	—	159,097	159,097
Second lien term loans	—	—	87,750	87,750
Structured finance securities	—	—	15,450	15,450
Equity interests	—	—	20,541	20,541
Total	\$ —	\$ —	\$292,661	\$292,661

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, 2018 (dollars in thousands):

	Syndicated loans	First lien term loans	Second lien term loans	Structured finance securities	Equity interests	Total
Balance as of February 28, 2017	\$ 9,823	\$159,097	\$ 87,750	\$ 15,450	\$20,541	\$292,661
Net change in unrealized appreciation (depreciation) on investments	(82)	1,790	2,242	1,948	4,927	10,825
Purchases and other adjustments to cost	65	93,061	14,982	104	3,185	111,397
Sales and repayments	(5,642)	(14,124)	(42,023)	(1,137)	(3,386)	(66,312)
Net realized gain (loss) from investments	(58)	(11)	(7,713)	9	1,896	(5,877)
Restructures in	—	—	39,837	—	2,617	42,454
Restructures out	—	(42,454)	—	—	—	(42,454)
Balance as of February 28, 2018	\$ 4,106	\$197,359	\$ 95,075	\$ 16,374	\$29,780	\$342,694
Net change in unrealized appreciation (depreciation) for the year relating to those Level 3 assets that were still held by the Company at the end of the year	\$ (25)	\$ 1,867	\$ (575)	\$ 1,947	\$ 5,579	\$ 8,793

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 repayments represent net proceeds received from investments sold, and principal paydowns received, during the year.

Transfers and restructurings, if any, are recognized at the beginning of the year in which they occur. Restructures in and out for the year ended February 28, 2018 included a restructure of Easy Ice, LLC of \$26.7 million from a first lien term loan to a second lien term loan; a restructure of Mercury Funding, LLC's first lien term loan of approximately \$15.7 million to a second lien term loan; and a restructure of My Alarm Center, LLC's second lien term loan of approximately \$2.6 million to an equity interest.

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, 2017 (dollars in thousands):

	Syndicated loans	First lien term loans	Second lien term loans	Structured finance securities	Equity interests	Total
Balance as of February 29, 2016	\$ 11,868	\$144,643	\$ 88,178	\$ 12,828	\$ 26,479	\$ 283,996
Net change in unrealized appreciation (depreciation) on investments	2,425	264	(1,597)	833	(12,566)	(10,641)
Purchases and other adjustments to cost	62	93,069	20,996	4,501	9,469	128,097
Sales and repayments	(4,585)	(78,805)	(20,501)	(2,712)	(14,556)	(121,159)
Net realized gain from investments	53	364	236	—	11,715	12,368
Restructures in	—	—	438	—	—	438

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	<u>Syndicated loans</u>	<u>First lien term loans</u>	<u>Second lien term loans</u>	<u>Structured finance securities</u>	<u>Equity interests</u>	<u>Total</u>
Restructures out	—	(438)	—	—	—	(438)
Balance as of February 28, 2017	<u>\$ 9,823</u>	<u>\$159,097</u>	<u>\$ 87,750</u>	<u>\$ 15,450</u>	<u>\$20,541</u>	<u>\$292,661</u>
Net change in unrealized appreciation (depreciation) for the year relating to those Level 3 assets that were still held by the Company at the end of the year	<u>\$ 1,279</u>	<u>\$ (427)</u>	<u>\$ (2,387)</u>	<u>\$ 833</u>	<u>\$ (1,462)</u>	<u>\$ (2,164)</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 repayments represent net proceeds received from investments sold, and principal paydowns received, during the year.

Transfers and restructurings, if any, are recognized at the beginning of the year in which they occur. During the year ended February 28, 2017, \$0.4 million of Elyria Foundry Company, L.L.C. first lien term loan was restructured into a second lien term loan.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2018 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	\$ 4,106	Market Comparables	Third-Party Bid (%)	100.0%
First lien term loans	197,359	Market Comparables	Market Yield (%)	7.3% - 13.4%
			EBITDA Multiples (x)	3.0x
			Third-Party Bid (%)	97.6% - 100.1%
Second lien term loans	95,075	Market Comparables	Market Yield (%)	10.0% - 16.5%
			Third-Party Bid (%)	100.0% - 100.0%
			EBITDA Multiples (x)	5.0x
Structured finance securities	16,374	Discounted Cash Flow	Discount Rate (%)	8.5% - 15.0%
Equity interests	29,780	Market Comparables	EBITDA Multiples (x)	4.0x - 14.0x

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2017 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	\$ 9,823	Market Comparables	Third-Party Bid (%)	100.5% - 101.1%
First lien term loans	159,097	Market Comparables	Market Yield (%)	6.3% - 39.0%
			EBITDA Multiples (x)	3.0x - 10.3x
			Third-Party Bid (%)	100.0% - 100.2%
Second lien term loans	87,750	Market Comparables	Market Yield (%)	10.1% - 26.4%
			Third-Party Bid (%)	97.6% - 99.9%
Structured finance securities	15,450	Discounted Cash Flow	Discount Rate (%)	8.5% - 13.0%
Equity interests	20,541	Market Comparables	EBITDA Multiples (x)	3.7x - 12.0x

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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 earnings before interest, tax, depreciation and amortization (“EBITDA”) or revenue 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. For investments utilizing a market quote in deriving a value, a significant increase (decrease) in the market quote, in isolation, would result in a significantly higher (lower) fair value measurement.

The composition of our investments as of February 28, 2018, at amortized cost and fair value was 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
Syndicated loans	\$ 4,033	1.2%	\$ 4,106	1.2%
First lien term loans	197,253	58.1	197,359	57.6
Second lien term loans	95,392	28.1	95,075	27.7
Structured finance securities	13,796	4.0	16,374	4.8
Equity interests	29,216	8.6	29,780	8.7
Total	<u>\$ 339,690</u>	<u>100.0%</u>	<u>\$ 342,694</u>	<u>100.0%</u>

The composition of our investments as of February 28, 2017, at amortized cost and fair value was 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
Syndicated loans	\$ 9,669	3.2%	\$ 9,823	3.4%
First lien term loans	160,436	53.4	159,097	54.3
Second lien term loans	90,655	30.2	87,750	30.0
Structured finance securities	14,819	4.9	15,450	5.3
Equity interests	24,903	8.3	20,541	7.0
Total	<u>\$ 300,482</u>	<u>100.0%</u>	<u>\$ 292,661</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

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assumptions including projected default rates, recovery rates, reinvestment rates 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. 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 flow analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO at February 28, 2018. The significant inputs at February 28, 2018 for the valuation model include:

- Default rate: 2.0%
- Recovery rate: 35-70%
- Discount rate: 15.0%
- Prepayment rate: 20.0%
- Reinvestment rate / price: L+330bps / \$99.875

Note 4. Investment in Saratoga Investment Corp. CLO 2013-1, Ltd. ("Saratoga CLO")

On January 22, 2008, the Company 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 the Company that invests primarily in senior secured loans. Additionally, the Company 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 initially refinanced in October 2013 and its reinvestment period ended in October 2016. On November 15, 2016, the Company completed the second refinancing of the Saratoga CLO. The Saratoga CLO refinancing, among other things, extended its reinvestment period to October 2018, and extended its legal maturity date to October 2025. Following the refinancing, the Saratoga CLO portfolio remained at the same size and with a similar capital structure of approximately \$300.0 million in aggregate principal amount of predominantly senior secured first lien term loans. In addition to refinancing its liabilities, we also purchased \$4.5 million in aggregate principal amount of the Class F notes tranche of the Saratoga CLO at par, with a coupon of LIBOR plus 8.5%.

The Saratoga CLO remains 100.0% owned and managed by Saratoga Investment Corp. Following the refinancing, the Company receives a base management fee of 0.10% and a subordinated management fee of 0.40% of the fee basis amount at the beginning of the collection period, paid quarterly to the extent of available proceeds. The Company is 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 paid in cash equal to or greater than 12.0%. For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, we accrued \$1.5 million, \$1.5 million and \$1.5 million in management fee income, respectively, and \$2.4 million, \$1.9 million and \$2.7 million in interest income, respectively, from Saratoga CLO. For the year ended February 28, 2018, we accrued \$0.6 million related to the incentive management fee from Saratoga CLO. For the years ended February 28, 2017 and February 29, 2016, we did not accrue any amounts related to the incentive management fee from Saratoga CLO as the 12.0% hurdle rate had not yet been achieved.

As of February 28, 2018, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$11.9 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, 2018, Saratoga CLO had investments with a principal balance of \$310.4 million and a weighted average spread over LIBOR of 3.9%, and had debt with a principal balance of \$282.4 million with a weighted average spread over LIBOR of 2.4%. 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, 2018, the present value of the projected future cash flows of the subordinated notes, was approximately \$12.2 million, using a 15.0% discount rate. Saratoga Investment Corp. invested \$32.8 million into the CLO since January 2008, and to date has since received distributions of \$52.7 million, management fees of \$18.0 million and incentive fees of \$0.5 million.

At February 28, 2017, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$11.0 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, 2017, Saratoga CLO had investments with a principal balance of \$297.1 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 2.4%. 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, 2017, the present value of the projected future cash flows of the subordinated notes, was approximately \$11.1 million, using a 13.0% discount rate.

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The separate audited financial statements of Saratoga CLO as of February 28, 2018 and February 28, 2017, pursuant to Rule 3-09 of SEC rules Regulation S-X, and for the years ended February 28, 2018, February 28, 2017 and February 29, 2016, 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 IRS 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, 2018 and February 28, 2017, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to expired capital losses, nondeductible excise tax, reversal of blocker income earned, market discount and interest income with respect to the Saratoga CLO which is consolidated for tax purposes as follows (dollars in thousands):

	February 28, 2018	February 28, 2017
Accumulated net investment income (loss)	\$ (1,481)	\$ (123)
Accumulated net realized gains on investments	13,082	168
Additional paid-in-capital	(11,601)	(45)

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, 2018, February 28, 2017 and February 29, 2016 was as follows (dollars in thousands):

	February 28, 2018	February 28, 2017	February 29, 2016
Ordinary income	\$ 11,376	\$ 11,057	\$ 13,045
Capital gains	—	—	—
Return of capital	—	—	—
Total	<u>\$ 11,376</u>	<u>\$ 11,057</u>	<u>\$ 13,045</u>

For federal income tax purposes, as of February 28, 2018, the aggregate net unrealized depreciation for all securities is \$2.0 million. The aggregate cost of securities for federal income tax purposes is \$638.6 million.

For federal income tax purposes, as of February 28, 2017, the aggregate net unrealized depreciation for all securities is \$12.4 million. The aggregate cost of securities for federal income tax purposes is \$586.6 million.

At February 28, 2018 and February 28, 2017, 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 and partnership interests (dollars in thousands).

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	February 28, 2018	February 28, 2017
Post October loss deferred	\$ —	\$ —
Accumulated capital losses	(38,474)	(46,338)
Other temporary differences	(649)	(56)
Undistributed ordinary income	2,351	1,472
Unrealized appreciation (depreciation)	(1,980)	(12,372)
Total components of accumulated losses	<u>\$ (38,752)</u>	<u>\$ (57,294)</u>

The Company had incurred capital losses of \$19.3 million for the year ended February 28, 2011. Such capital losses will be available to offset future capital gains if any and if unused, will expire on February 28, 2019. The company had incurred capital losses of \$13.0 million for year ended February 28, 2010 that expired as of February 28, 2018.

At February 28, 2018, the Company had a short-term capital loss of \$11.2 million and a long-term capital loss of \$7.9 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.

The Company is subject to a nondeductible U.S. federal excise tax of 4.0% on undistributed income if it does not distribute at least 98% 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 of such calendar year. Depending on the level of Investment Company Taxable Income ("ICTI") earned in a tax year, the Company may choose to carry forward ICTI 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. Any such carryover ICTI must be distributed before the end of that next tax year through a dividend declared prior to filing the final tax return related to the year which generated such ICTI.

Management has analyzed the Company's tax positions taken on federal income tax returns for all open years (fiscal years 2015-2018), and has concluded that no provision for uncertain income tax positions is required in the Company's consolidated 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.

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.

SIA Avionte, Inc., SIA Easy Ice, LLC, SIA GH Inc., SIA MAC, Inc., SIA TT, Inc., and SIA Vector, Inc., 100% owned by the Company, are each filing standalone C Corporation tax returns for federal and state purposes. As separately regarded entities for tax purposes, these entities are taxed at normal corporate rates. For tax purposes, any distributions by the entities to the parent company would generally need to be distributed to the Company's shareholders. Generally, such distributions of the entities' income to the Company's shareholders will be considered as qualified dividends for tax purposes. The entities taxable net income will differ from U.S. GAAP net income because of deferred tax temporary differences adjustments. Deferred tax temporary differences may include differences for state taxes and joint venture interests.

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 was two years, with automatic, one-year renewals at the end of each year, subject to certain approvals by our board of directors and/or the Company's stockholders. On July 11, 2017, 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.

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 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; 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. There is no accumulation of amounts on the hurdle rate from quarter to quarter, and accordingly there is no claw back of amounts previously paid if subsequent quarters are below the quarterly hurdle rate, and there is no delay of payment if prior quarters are below the quarterly hurdle rate.

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 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, 2018, February 28, 2017 and February 29, 2016, the Company incurred \$5.8 million, \$4.9 million and \$4.5 million in base management fees, respectively. For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, the Company incurred \$3.4 million, \$2.8 million and \$2.3 million in incentive fees related to pre-incentive fee net investment income. For the years ended February 28, 2018 and February 28, 2017, we accrued \$0.9 million and \$0.1 million, respectively, in incentive fees related to capital gains. For the year ended February 29, 2016, there was a reduction of \$0.05 million in incentive fees related to capital gains. The accrual is calculated using both realized and unrealized capital gains for the period. The actual incentive fee related to capital gains will be determined and payable in arrears at the end of the fiscal year and will include only realized capital gains for the period. As of February 28, 2018, the base management fees accrual was \$1.5 million and the incentive fees accrual was \$4.3 million and is included in base management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 28, 2017, the base management fees accrual was \$1.2 million and the incentive fees accrual was \$4.6 million and is included in base management and incentive fees payable in the accompanying consolidated statements of assets and liabilities.

On July 30, 2010, the Company entered into a separate administration agreement (the "Administration Agreement") with our Manager, pursuant to which our Manager, as our administrator, has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide managerial assistance on our behalf to those portfolio companies to which we are required to provide such assistance. The initial term of the Administration Agreement was two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. The amount of expenses payable or reimbursable thereunder by the Company was capped at \$1.0 million for the initial two year term of the Administration Agreement and subsequent renewals. On July 8, 2015, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to increase the cap on the payment or reimbursement of expenses by the Company thereunder, which had not been increased since the inception of the agreement, to \$1.3 million. On July 7, 2016, our board of directors approved the renewal of the Administration Agreement for an additional one-year term. On October 5, 2016, our board of directors determined to increase the cap on the payment or reimbursement of expenses by the Company under the Administration Agreement, from \$1.3 million to \$1.5 million, effective November 1, 2016. On July 11, 2017, our board of directors approved the renewal of the Administration Agreement for an additional one-year term, and determined to increase the cap on the payment or reimbursement of expenses by the Company from \$1.5 million to \$1.75 million, effective August 1, 2017.

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For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, we recognized \$1.6 million, \$1.4 million and \$1.2 million in administrator expenses, 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, 2018, \$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, 2017, \$0.4 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, 2018, February 28, 2017 and February 29, 2016, the Company neither bought nor sold any investments from the Saratoga CLO.

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, or, if we obtain the required approvals from our independent directors and/or stockholders, 150.0%. 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. Our asset coverage ratio, as defined in the 1940 Act, was 293.0% as of February 28, 2018 and 271.0% as of February 28, 2017. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, our non-interested Board of Directors approved of our becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

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 were 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%.

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, 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, be terminated. 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.

On September 17, 2014, we entered into a second amendment to the Credit 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 Credit 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%.

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On May 18, 2017, we entered into a third amendment to the Credit Facility with Madison Capital Funding LLC to, among other things:

- extend the commitment termination date from September 17, 2017 to September 17, 2020;
- extend the final maturity date of the Credit Facility from September 17, 2022 to September 17, 2025 (unless terminated sooner upon certain events);
- reduce the floor on base rate borrowings from 2.25% to 2.00%;
- reduce the floor on LIBOR borrowings from 1.25% to 1.00%; and
- reduce the commitment fee rate from 0.75% to 0.50% for any period during which the ratio of advances outstanding to aggregate commitments, expressed as a percentage, is greater than or equal to 50%.

In addition to any fees or other amounts payable under the terms of the Credit Facility agreement with Madison Capital Funding LLC, an administrative agent fee per annum equal to \$0.1 million is payable in equal monthly installments in arrears.

As of February 28, 2018 and February 28, 2017, there were no outstanding borrowings under the Credit Facility and the Company was in compliance with all of the limitations and requirements of the Credit Facility. Financing costs of \$3.1 million related to the Credit Facility have been capitalized and are being amortized over the term of the facility. For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, we recorded \$0.8 million, \$0.4 million and \$0.7 million of interest expense, respectively, which includes commitment and administrative agent fees.

For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, we recorded \$0.1 million, \$0.1 million and \$0.1 million of amortization of deferred financing costs related to the Credit Facility and Revolving Facility, respectively. Interest expense and amortization of deferred financing costs are reported as interest and debt financing expense on the consolidated statements of operations. For the fiscal year ended February 28, 2018, the average borrowings outstanding and the weighted average interest rate on outstanding borrowings under the Credit Facility was approximately \$7.1 million and 6.02%, respectively. For the fiscal year ended February 28, 2017, there were no outstanding borrowings under the Credit Facility. For the fiscal year ended February 29, 2016, the average borrowings outstanding under the Credit Facility was approximately \$4.4 million and the weighted average interest rate on the outstanding borrowings was 6.00%.

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 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 one-month LIBOR rate and 1.00%, plus an applicable margin of 4.75%. At the Company's option, funds may be borrowed based on an alternative base rate, which in no event will be less than 2.00%, and the applicable margin over such alternative base rate is 3.75%. In addition, the Company will pay the lenders a commitment fee of 0.75% per year (or 0.50% if the ratio of advances outstanding to aggregate commitments is greater than or equal to 50%) on the unused amount of the Credit Facility for the duration of the Revolving Period.

Our borrowing base under the Credit Facility was \$27.4 million subject to the Credit Facility cap of \$45.0 million at February 28, 2018. 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 Securities and Exchange Commission ("SEC"). Accordingly, the February 28, 2018 borrowing base relies upon the valuations set forth in the Quarterly Report on Form 10-Q for the period ended November 30, 2017, as filed with the SEC on January 10, 2018. 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, 2018, we have funded SBIC LP with \$75.0 million of equity capital, and have \$137.7 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.

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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 \$19.5 million and have average annual fully taxed net income not exceeding \$6.5 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 SEC 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. On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, the non-interested Board of Directors of the Company approved of the Company becoming subject to a minimum asset coverage ratio of 150.0% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150.0% asset coverage ratio will become effective on April 16, 2019.

As of February 28, 2018 and February 28, 2017, there was \$137.7 million and \$112.7 million outstanding of SBA debentures, respectively. The carrying amount of the amount outstanding of SBA debentures approximates its fair value, which is based on a waterfall analysis showing adequate collateral coverage, \$4.7 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, 2018, February 28, 2017 and February 29, 2016, we recorded \$4.1 million, \$3.4 million and \$2.6 million of interest expense related to the SBA debentures, respectively. For the years ended February 28, 2018, February 28, 2017 and February 29, 2016, we recorded \$0.5 million, \$0.5 million and \$0.4 million of amortization of deferred financing costs related to the SBA debentures, respectively. Interest expense and amortization of deferred financing costs are reported as interest and debt financing expense on the consolidated statements of operations. The weighted average interest rate during the years ended February 28, 2018, February 28, 2017 and February 29, 2016 on the outstanding borrowings of the SBA debentures was 3.14%, 3.13% and 3.12%, respectively. During the years ended February 28, 2018 and February 28, 2017, the average dollar amount of SBA debentures outstanding was \$130.1 million and \$107.6 million, respectively.

In December 2015, the 2016 omnibus spending bill approved by Congress and signed into law by the President increased the amount of SBA-guaranteed debentures that affiliated SBIC funds can have outstanding from \$225.0 million to \$350.0 million, subject to SBA approval. SBA regulations currently limit the amount of SBA-guaranteed debentures that an SBIC may issue to \$150.0 million when it has at least \$75.0 million in regulatory capital. Affiliated SBICs are permitted to issue up to a combined maximum amount of \$350.0 million in SBA-guaranteed debentures when they have at least \$175.0 million in combined regulatory capital.

On April 2, 2015, the SBA issued a “green light” letter inviting the Company to continue the application process to obtain a license to form and operate its second SBIC subsidiary. On September 27, 2016, the SBA informed us that as part of their continued review of our application for a second license, and in order to ensure that they were reviewing the most current information available, we would need to update all previously submitted materials and invited us to reapply. As a result of this request, with which we are in the process of complying, the existing “green light” letter that the SBA issued to us has expired. If approved in the future, a second SBIC license would provide us an incremental source of long-term capital by permitting us to issue up to \$150.0 million of additional SBA-guaranteed debentures in addition to the \$150.0 million already approved under the first license.

Notes

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

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On May 17, 2013, the Company closed an additional \$6.3 million in aggregate principal amount of the 2020 Notes, pursuant to the full exercise of the underwriters' option to purchase additional 2020 Notes. On May 29, 2015, the Company entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. through which the Company may offer for sale, from time to time, up to \$20.0 million in aggregate principal amount of the 2020 Notes through an At-the-Market ("ATM") offering. As of February 28, 2018, the Company sold 539,725 bonds with a principal of \$13.5 million at an average price of \$25.31 for aggregate net proceeds of \$13.4 million (net of transaction costs).

On December 21, 2016, the Company issued \$74.5 million in aggregate principal amount of our 6.75% fixed-rate notes due 2023 (the "2023 Notes") for net proceeds of \$71.7 million after deducting underwriting commissions of approximately \$2.3 million and offering costs of approximately \$0.5 million. The issuance included the exercise of substantially all of the underwriters' option to purchase an additional \$9.8 million aggregate principal amount of 2023 Notes within 30 days. Interest on the 2023 Notes is paid quarterly in arrears on March 15, June 15, September 15 and December 15, at a rate of 6.75% per year, beginning March 30, 2017. The 2023 Notes mature on December 30, 2023, and commencing December 21, 2019, may be redeemed in whole or in part at any time or from time to time at our option. The net proceeds from the offering were used to repay all of the outstanding indebtedness under the 2020 Notes, which amounted to \$61.8 million, and for general corporate purposes in accordance with our investment objective and strategies. The 2023 Notes are listed on the NYSE under the trading symbol "SAB" with a par value of \$25.00 per share. The remaining unamortized deferred debt financing costs of \$1.5 million (including underwriting commissions and net of issuance premiums), was recorded within loss on debt extinguishment in the consolidated statements of operations in the fourth quarter of the fiscal year ended February 28, 2017, when the related 2020 Notes were extinguished. As of February 28, 2018, \$2.8 million of financing costs related to the 2023 Notes have been capitalized and are being amortized over the term of the 2023 Notes.

As of February 28, 2018, the carrying amount and fair value of the 2023 Notes was \$74.5 million and \$76.5 million, respectively. The fair value of the 2023 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. For the year ended February 28, 2018, we recorded \$5.0 million of interest expense and \$0.4 million of amortization of deferred financing costs related to the 2023 Notes. As of February 28, 2017, the carrying amount and fair value of the 2023 Notes was \$74.5 million and \$77.1 million, respectively. For the year ended February 28, 2017, we recorded \$4.0 million of interest expense and \$0.3 million of amortization of deferred financing costs related to the 2020 Notes, and \$1.0 million of interest expense and \$0.1 million of amortization of deferred financing costs related to the 2023 Notes. Interest expense and amortization of deferred financing costs are reported as interest and debt financing expense on the consolidated statements of operations. As of February 29, 2016, \$2.7 million of financing costs related to the 2020 Notes (including underwriting commissions and net of issuance premiums) had been capitalized and were being amortized over the term of the 2020 Notes. For the year ended February 29, 2016, we recorded \$4.3 million of interest expense and \$0.4 million of amortization of deferred financing costs related to the 2020 Notes. During the years ended February 28, 2018 and February 28, 2017, the average dollar amount of 2023 Notes outstanding was \$74.5 million and \$74.5 million, respectively. During the years ended February 28, 2017 and February 29, 2016, the average dollar amount of 2020 Notes outstanding was \$61.8 million and of \$55.9 million, respectively.

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, 2018:

Total	Payment Due by Period			
	Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(\$ in thousands)			
Long-Term Debt Obligations	<u>\$212,111</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 212,111</u>

Off-balance sheet arrangements

The Company's off-balance sheet arrangements consisted of \$4.9 million and \$2.0 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of February 28, 2018 and February 28, 2017, 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 statements of assets and liabilities and are not reflected in the Company's consolidated statements of assets and liabilities.

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A summary of the composition of the unfunded commitments as of February 28, 2018 and February 28, 2017 is shown in the table below (dollars in thousands):

	As of	
	February 28, 2018	February 28, 2017
CLEO Communications Holding, LLC	\$ 2,000	\$ —
GreyHeller LLC	2,000	2,000
Pathway Partners Vet Management Company LLC	917	—
Total	<u>\$ 4,917</u>	<u>\$ 2,000</u>

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, 2018, February 28, 2017 and February 29, 2016, we incurred \$0.2 million, \$0.2 million and \$0.2 million for directors' fees and expenses, respectively. As of February 28, 2018 and February 28, 2017, \$0.04 million and \$0.05 million in directors' fees and expenses were accrued and unpaid, respectively. As of February 28, 2018, 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.

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.

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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.

On September 24, 2014, the Company declared a dividend of \$0.18 per share payable on November 28, 2014. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.6 million in cash and 22,283 newly issued shares of common stock.

On September 24, 2014, the Company declared a dividend of \$0.22 per share payable on February 27, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.8 million in cash and 26,858 newly issued shares of common stock.

On April 9, 2015, the Company declared a dividend of \$0.27 per share payable on May 29, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.9 million in cash and 33,766 newly issued shares of common stock.

On May 14, 2015, the Company declared a special dividend of \$1.00 per share payable on June 5, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$3.4 million in cash and 126,230 newly issued shares of common stock.

On July 8, 2015, the Company declared a dividend of \$0.33 per share payable on August 31, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 47,861 newly issued shares of common stock.

On October 7, 2015, the Company declared a dividend of \$0.36 per share payable on November 30, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 61,029 newly issued shares of common stock.

On January 12, 2016, the Company declared a dividend of \$0.40 per share payable on February 29, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,765 newly issued shares of common stock.

On March 31, 2016, the Company declared a dividend of \$0.41 per share payable on April 27, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 56,728 newly issued shares of common stock.

On July 7, 2016, the Company declared a dividend of \$0.43 per share payable on August 9, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,167 newly issued shares of common stock.

On August 8, 2016, the Company declared a special dividend of \$0.20 per share payable on September 5, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$0.7 million in cash and 24,786 newly issued shares of common stock.

On October 5, 2016, the Company declared a dividend of \$0.44 per share payable on November 9, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,548 newly issued shares of common stock.

On January 12, 2017, the Company declared a dividend of \$0.45 per share payable on February 9, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.6 million in cash and 50,453 newly issued shares of common stock.

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On February 28, 2017, the Company declared a dividend of \$0.46 per share payable on March 28, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 29,096 newly issued shares of common stock.

On May 30, 2017, the Company declared a dividend of \$0.47 per share payable on June 27, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.3 million in cash and 26,222 newly issued shares of common stock.

On August 28, 2017, the Company declared a dividend of \$0.48 per share payable on September 26, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.2 million in cash and 33,551 newly issued shares of common stock.

On November 29, 2017, the Company declared a dividend of \$0.49 per share payable on December 27, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 25,435 newly issued shares of common stock.

On September 24, 2014, the Company announced the approval of an open market share repurchase plan that allowed 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 consolidated financial statements. On October 7, 2015, the Company's board of directors extended the open market share repurchase plan for another year and increased the number of shares the Company is permitted to repurchase at prices below its NAV, as reported in its then most recently published consolidated financial statements, to 400,000 shares of its common stock. On October 5, 2016, the Company's board of directors extended the open market share repurchase plan for another year to October 15, 2017 and increased the number of shares the Company is permitted to repurchase at prices below its NAV, as reported in its then most recently published consolidated financial statements, to 600,000 shares of its common stock. On October 10, 2017, the Company's board of directors extended the open market share repurchase plan for another year to October 15, 2018, leaving the number of shares unchanged at 600,000 shares of its common stock. As of February 28, 2018, the Company purchased 218,491 shares of common stock, at the average price of \$16.87 for approximately \$3.7 million pursuant to this repurchase plan.

On March 16, 2017, we entered into an equity distribution agreement with Ladenburg Thalmann & Co. Inc., through which we may offer for sale, from time to time, up to \$30.0 million of our common stock through an ATM offering. As of February 28, 2018, the Company sold 348,123 shares for gross proceeds of \$7.8 million at an average price of \$22.52 for aggregate net proceeds of \$7.8 million (net of transaction costs).

Note 11. Summarized Financial Information of Our Unconsolidated Subsidiary

In accordance with SEC Regulation S-X Rules 3-09 and 4-08(g), the Company must determine which of its unconsolidated controlled portfolio companies, if any, are considered "significant subsidiaries." After performing this analysis, the Company determined that one of its portfolio companies, Easy Ice, LLC ("Easy Ice") is not a significant subsidiary for the year ended February 28, 2018 under at least one of the significance conditions of Rule 4-08(g) of SEC Regulation S-X, but was a significant subsidiary for the year ended February 28, 2017. Accordingly, audited financial information as of December 31, 2016 and for the years ended December 31, 2016 and 2015 have been included as follows (in thousands):

Balance Sheet – Easy Ice, LLC	As of	
	December 31, 2016	
Current assets	\$	1,058
Noncurrent assets	\$	18,245
Current liabilities	\$	3,473
Noncurrent liabilities	\$	23,113
Total deficit	\$	(7,283)

Statement of Operations – Easy Ice, LLC	For the years ended	
	December 31, 2016	December 31, 2015
Rental income	\$ 14,463	\$ 11,984
Rental expenses	\$ 8,463	\$ 7,238
Gross margin	\$ 6,000	\$ 4,746
Operating expenses	\$ 5,123	\$ 4,235
Income (loss) from operations	\$ 877	\$ 602
Net loss	\$ (1,356)	\$ (1,629)

Note 12. 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 resulting from operations per share for the years ended February 28, 2018, February 28, 2017 and February 29, 2016 (dollars in thousands except share and per share amounts):

<u>Basic and diluted</u>	<u>February 28, 2018</u>	<u>February 28, 2017</u>	<u>February 29, 2016</u>
Net increase in net assets resulting from operations	\$ 17,679	\$ 11,387	\$ 11,645
Weighted average common shares outstanding	6,024,040	5,740,450	5,582,453
Weighted average earnings per common share	\$ 2.93	\$ 1.98	\$ 2.09

Note 13. Dividend

On November 29, 2017, the Company declared a dividend of \$0.49 per share payable on December 27, 2017, to common stockholders of record on December 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to the Company's DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 25,435 newly issued shares of common stock, or 0.4% 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 \$21.14 per share, which equaled the volume weighted average trading price per share of the common stock on December 13, 14, 15, 18, 19, 20, 21, 22, 26 and 27, 2017.

On August 28, 2017, the Company declared a dividend of \$0.48 per share which was paid on September 26, 2017, to common stockholders of record as of September 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.2 million in cash and 33,551 newly issued shares of common stock, or 0.6% 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 \$20.19 per share, which equaled the volume weighted average trading price per share of the common stock on September 13, 14, 15, 18, 19, 20, 21, 22, 25 and 26, 2017.

On May 30, 2017, the Company declared a dividend of \$0.47 per share which was paid on June 27, 2017, to common stockholders of record as of June 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.3 million in cash and 26,222 newly issued shares of common stock, or 0.4% 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 \$20.04 per share, which equaled the volume weighted average trading price per share of the common stock on June 14, 15, 16, 19, 20, 21, 22, 23, 26 and 27, 2017.

On February 28, 2017, the Company declared a dividend of \$0.46 per share which was paid on March 28, 2017, to common stockholders of record as of March 15, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 29,096 newly issued shares of common stock, or 0.5% 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 \$21.38 per share, which equaled the volume weighted average trading price per share of the common stock on March 15, 16, 17, 20, 21, 22, 23, 24, 27 and 28, 2017.

On January 12, 2017, the Company declared a dividend of \$0.45 per share, which was paid on February 9, 2017, to common stockholders of record as of January 31, 2017. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

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Based on shareholder elections, the dividend consisted of approximately \$1.6 million in cash and 50,453 newly issued shares of common stock, or 0.9% 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 \$20.25 per share, which equaled the volume weighted average trading price per share of the common stock on January 27, 30, 31 and February 1, 2, 3, 6, 7, 8 and 9, 2017.

On October 5, 2016, the Company declared a dividend of \$0.44 per share, which was paid on November 9, 2016, to common stockholders of record as of October 31, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,548 newly issued shares of common stock, or 1.0% 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 \$17.12 per share, which equaled the volume weighted average trading price per share of the common stock on October 27, 28, 31 and November 1, 2, 3, 4, 7, 8 and 9, 2016.

On August 8, 2016, the Company declared a special dividend of \$0.20 per share, which was paid on September 5, 2016, to common stockholders of record as of August 24, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.7 million in cash and 24,786 newly issued shares of common stock, or 0.4% 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 \$17.06 per share, which equaled the volume weighted average trading price per share of the common stock on August 22, 23, 24, 25, 26, 29, 30, 31 and September 1 and 2, 2016.

On July 7, 2016, the Company declared a dividend of \$0.43 per share, which was paid on August 9, 2016, to common stockholders of record as of July 29, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 58,167 newly issued shares of common stock, or 1.0% 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 \$16.32 per share, which equaled the volume weighted average trading price per share of the common stock on July 27, 28, 29 and August 1, 2, 3, 4, 5, 8 and 9, 2016.

On March 31, 2016, the Company declared a dividend of \$0.41 per share, which was paid on April 27, 2016, to common stockholders of record as of April 15, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.5 million in cash and 56,728 newly issued shares of common stock, or 1.0% 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 \$15.43 per share, which equaled the volume weighted average trading price per share of the common stock on April 14, 15, 18, 19, 20, 21, 22, 25, 26 and 27, 2016.

On January 12, 2016, the Company declared a dividend of \$0.40 per share, which was paid on February 29, 2016, to common stockholders of record on February 1, 2016. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,765 newly issued shares of common stock, or 1.2% of the Company's 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 \$13.11 per share, which equaled the volume weighted average trading price per share of the common stock on February 16, 17, 18, 19, 22, 23, 24, 25, 26 and 29, 2016.

On October 7, 2015, the Company declared a dividend of \$0.36 per share, which was paid on November 30, 2015, to common stockholders of record on November 2, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 61,029 newly issued shares of common stock, or 1.1% of the Company's 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 \$14.53 per share, which equaled the volume weighted average trading price per share of the common stock on November 16, 17, 18, 19, 20, 23, 24, 25, 27 and 30, 2015.

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On July 8, 2015, the Company declared a dividend of \$0.33 per share, which was paid on August 31, 2015, to common stockholders of record on August 3, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.1 million in cash and 47,861 newly issued shares of common stock, or 0.9% of the Company's 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 \$15.28 per share, which equaled the volume weighted average trading price per share of the common stock on August 18, 19, 20, 21, 24, 25, 26, 27, 28 and 31, 2015.

On May 14, 2015, the Company declared a special dividend of \$1.00 per share, which was paid on June 5, 2015, to common stockholders of record on May 26, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$3.4 million in cash and 126,230 newly issued shares of common stock, or 2.3% of the Company's 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 \$16.47 per share, which equaled the volume weighted average trading price per share of the common stock on May 22, 26, 27, 28, 29 and June 1, 2, 3, 4, and 5, 2015.

On April 9, 2015, the Company declared a dividend of \$0.27 per share, which was paid on May 29, 2015, to common stockholders of record on May 4, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant to our DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.9 million in cash and 33,766 newly issued shares of common stock, or 0.6% of the Company's 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 \$16.78 per share, which equaled the volume weighted average trading price per share of the common stock on May 15, 18, 19, 20, 21, 22, 26, 27, 28 and 29, 2015.

On September 24, 2014, the Company declared a dividend of \$0.22 per share, which was paid on February 27, 2015. Shareholders have the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.8 million in cash and 26,858 newly issued shares of common stock, or 0.5% 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 \$14.97 per share, which equaled the volume weighted average trading price per share of the common stock on February 13, 17, 18, 19, 20, 23, 24, 25, 26 and 27, 2015.

On September 24, 2014, the Company declared a dividend of \$0.18 per share, which was paid on November 28, 2014. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's DRIP.

Based on shareholder elections, the dividend consisted of approximately \$0.6 million in cash and 22,283 newly issued shares of common stock, or 0.4% 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 \$14.37 per share, which equaled the volume weighted average trading price per share of the common stock on November 14, 17, 18, 19, 20, 21, 24, 25, 26 and 28, 2014.

On October 30, 2013, the Company declared a dividend of \$2.65 per share, which was paid 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. This dividend was declared in reliance on certain private letter rulings issued by the IRS 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.

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, which was paid 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.

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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, and 19, 2012.

On November 15, 2011, the Company declared a dividend of \$3.00 per share, which was paid 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, the Company declared a dividend of \$4.40 per share, which was paid 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, 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 consolidated 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 for the years ended February 28, 2018, February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014 (dollars in thousands except per share amounts):

Date Declared	Record Date	Payment Date	Amount Per Share*	Total Amount
November 29, 2017	December 15, 2017	December 27, 2017	\$ 0.49	\$ 3,052
August 28, 2017	September 15, 2017	September 26, 2017	0.48	2,866
May 30, 2017	June 15, 2017	June 27, 2017	0.47	2,792
February 28, 2017	March 15, 2017	March 28, 2017	0.46	2,666
Total dividends declared			\$ 1.90	\$11,376

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<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
January 12, 2017	January 31, 2017	February 9, 2017	\$ 0.45	\$ 2,585
October 5, 2016	October 31, 2016	November 9, 2016	0.44	2,509
August 8, 2016	August 24, 2016	September 5, 2016	0.20	1,151
July 7, 2016	July 29, 2016	August 9, 2016	0.43	2,466
March 31, 2016	April 15, 2016	April 27, 2016	0.41	2,346
Total dividends declared			<u>\$ 1.93</u>	<u>\$11,057</u>

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
January 12, 2016	February 1, 2016	February 29, 2016	\$ 0.40	\$ 2,278
October 7, 2015	November 2, 2015	November 30, 2015	0.36	2,028
July 8, 2015	August 3, 2015	August 31, 2015	0.33	1,844
May 14, 2015	May 26, 2015	June 5, 2015	1.00	5,429
April 9, 2015	May 4, 2015	May 29, 2015	0.27	1,466
Total dividends declared			<u>\$ 2.36</u>	<u>\$13,045</u>

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
September 24, 2014	November 3, 2014	November 28, 2014	\$ 0.18	\$ 968
September 24, 2014	February 2, 2015	February 27, 2015	0.22	1,189
Total dividends declared			<u>\$ 0.40</u>	<u>\$2,157</u>

<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>

* Amount per share is calculated based on the number of shares outstanding at the date of declaration.

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Note 14. Financial Highlights

The following is a schedule of financial highlights for the years ended February 28, 2018, February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014:

	February 28, 2018	February 28, 2017	February 29, 2016	February 28, 2015	February 28, 2014
Per share data:					
Net asset value at beginning of period	\$ 21.97	\$ 22.06	\$ 22.70	\$ 21.08	\$ 22.71
Net investment income(1)	2.11	1.68	1.91	1.80	1.80
Net realized and unrealized gains and losses on investments(1)	0.82	0.30	0.18	0.24	(0.07)
Net increase in net assets resulting from operations	2.93	1.98	2.09	2.04	1.73
Distributions declared from net investment income	(1.90)	(1.93)	(2.36)	(0.40)	(2.65)
Total distributions to stockholders	(1.90)	(1.93)	(2.36)	(0.40)	(2.65)
Dilution(2)	(0.04)	(0.14)	(0.37)	(0.02)	(0.71)
Net asset value at end of period	\$ 22.96	\$ 21.97	\$ 22.06	\$ 22.70	\$ 21.08
Net assets at end of period	\$143,691,367	\$127,294,777	\$125,149,875	\$122,598,742	\$113,427,929
Shares outstanding at end of period	6,257,029	5,794,600	5,672,227	5,401,899	5,379,616
Per share market value at end of period	\$ 21.86	\$ 22.74	\$ 14.22	\$ 15.76	\$ 15.85
Total return based on market value(3)	5.28%	80.83%	4.27%	1.63%	9.11%
Total return based on net asset value(4)	14.45%	12.62%	11.10%	10.09%	8.75%
Ratio/Supplemental data:					
Ratio of net investment income to average net assets	9.37%	7.57%	8.52%	8.11%	7.97%
Ratio of operating expenses to average net assets	7.81%	7.21%	6.93%	6.52%	6.28%
Ratio of incentive management fees to average net assets	3.19%	2.31%	1.78%	2.14%	0.84%
Ratio of interest and debt financing expenses to average net assets	8.05%	7.75%	6.75%	6.19%	5.46%
Ratio of total expenses to average net assets	19.05%	18.41%	15.46%	14.85%	12.59%
Portfolio turnover rate(5)	19.73%	43.76%	26.22%	31.28%	37.82%
Asset coverage ratio per unit(6)	2,930	2,710	3,025	3,117	3,348
Average market value per unit:					
Credit Facility(7)	N/A	N/A	N/A	N/A	N/A
SBA Debentures(7)	N/A	N/A	N/A	N/A	N/A
2020 Notes	N/A	N/A	\$ 25.24	\$ 25.46	\$ 25.18
2023 Notes	\$ 26.05	\$ 25.89	N/A	N/A	N/A

As described in the Company's February 29, 2016 Annual Report, we identified errors that impacted the year ended February 28, 2014. The corrections for the errors, which we have concluded are immaterial to all prior period consolidated financial statements, are reflected in the selected financial data included in this Form 10-K.

- (1) Per share amounts are calculated using the weighted average shares outstanding during the period.
- (2) 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 13, Dividend.
- (3) 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 DRIP. Total investment return does not reflect brokerage commissions.
- (4) 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 DRIP. Total investment return does not reflect brokerage commissions.

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- (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.
- (6) Asset coverage ratio per unit is the ratio of the carrying value of our total consolidated assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage ratio per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness. Asset coverage ratio per unit does not include unfunded commitments. The inclusion of unfunded commitments in the calculation of the asset coverage ratio per unit would not cause us to be below the required amount of regulatory coverage.
- (7) The Credit Facility and SBA Debentures are not registered for public trading.

Note 15. Selected Quarterly Data (Unaudited)

(\$ in thousands, except per share numbers)	2018			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Total investment income	\$ 10,128	\$ 9,526	\$ 10,254	\$ 8,707
Net investment income	3,321	3,016	2,891	3,504
Net realized and unrealized gain (loss)	2,211	1,247	3,979	(2,490)
Net increase in net assets resulting from operations	5,532	4,263	6,870	1,014
Net investment income per common share at end of each quarter	\$ 0.53	\$ 0.50	\$ 0.49	\$ 0.60
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.35	\$ 0.21	\$ 0.67	\$ (0.42)
Dividends declared per common share	\$ 0.49	\$ 0.48	\$ 0.47	\$ 0.46
Net asset value per common share	\$ 22.96	\$ 22.58	\$ 22.37	\$ 21.69

(\$ in thousands, except per share numbers)	2017			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Total investment income	\$ 8,359	\$ 8,442	\$ 8,448	\$ 7,908
Net investment income	1,099	3,419	2,604	2,539
Net realized and unrealized gain (loss)	155	(1,845)	2,668	749
Net increase in net assets resulting from operations	1,254	1,574	5,272	3,288
Net investment income per common share at end of each quarter	\$ 0.19	\$ 0.60	\$ 0.45	\$ 0.44
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.03	\$ (0.32)	\$ 0.46	\$ 0.13
Dividends declared per common share	\$ 0.45	\$ 0.44	\$ 0.63	\$ 0.41
Net asset value per common share	\$ 21.97	\$ 22.21	\$ 22.39	\$ 22.11

(\$ in thousands, except per share numbers)	2016			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Total investment income	\$ 7,795	\$ 6,936	\$ 7,758	\$ 7,561
Net investment income	3,100	2,150	3,657	1,771
Net realized and unrealized gain (loss)	(3,503)	1,271	(2,415)	5,614
Net increase in net assets resulting from operations	(404)	3,421	1,243	7,385
Net investment income per common share at end of each quarter	\$ 0.54	\$ 0.38	\$ 0.65	\$ 0.33
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ (0.62)	\$ 0.23	\$ (0.43)	\$ 1.03
Dividends declared per common share	\$ 0.40	\$ 0.36	\$ 0.33	\$ 1.27
Net asset value per common share	\$ 22.06	\$ 22.59	\$ 22.42	\$ 22.75

Note 16. Subsequent Events

The Company has evaluated subsequent events through the filing of this Form 10-K and determined that there have been no events that have occurred that would require adjustments to the Company's consolidated financial statements and disclosures in the consolidated financial statements except for the following:

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On February 26, 2018, the Company declared a dividend of \$0.50 per share payable on March 26, 2018, to common stockholders of record on March 14, 2018. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant the Company's DRIP. Based on shareholder elections, the dividend consisted of approximately \$2.6 million in cash and 25,354 newly issued shares of common stock, or 0.4% 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 \$19.91 per share, which equaled 95.0% of the volume weighted average trading price per share of the common stock on March 13, 14, 15, 16, 19, 20, 21, 22, 23 and 26, 2018.

On April 16, 2018, as permitted by the Small Business Credit Availability Act, which was signed into law on March 23, 2018, the non-interested Board of Directors of the Company approved of the Company becoming subject to a minimum asset coverage ratio of 150% under Sections 18(a)(1) and 18(a)(2) of the Investment Company Act, as amended. The 150% asset coverage ratio will become effective on April 16, 2019.

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Saratoga Investment Corp. CLO 2013-1, Ltd.

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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,
Saratoga Investment Corp. CLO 2013-1, Ltd.

We have audited the accompanying financial statements of Saratoga Investment Corp. CLO 2013-1, Ltd., which comprise the statements of assets and liabilities, including the schedules of investments, as of February 28, 2018 and 2017, and the related statements of operations, changes in net assets, and cash flows for each of the three years in the period ended February 28, 2018, 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 entity'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 entity'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, 2018 and 2017, and the results of its operations, changes in net assets and its cash flows for each of the three years in the period ended February 28, 2018, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

New York, New York
May 14, 2018

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Assets and Liabilities

	As of	
	February 28, 2018	February 28, 2017
ASSETS		
Investments		
Fair Value Loans (amortized cost of \$307,926,355 and \$294,270,284, respectively)	\$305,823,704	\$292,437,930
Fair Value Other/Structured finance securities (amortized cost of \$3,531,218 and \$3,531,218, respectively)	6,599	22,718
Total investments at fair value (amortized cost of \$311,457,573 and \$297,801,502, respectively)	305,830,303	292,460,648
Cash and cash equivalents	5,769,820	13,046,555
Receivable from open trades	12,395,571	1,505,000
Interest receivable	1,653,928	1,443,865
Other assets	—	6,049
Total assets	<u>\$325,649,622</u>	<u>\$308,462,117</u>
LIABILITIES		
Interest payable	\$ 1,190,428	\$ 1,031,457
Payable from open trades	24,471,358	9,431,552
Accrued base management fee	33,545	34,221
Accrued subordinated management fee	134,179	136,885
Accrued incentive fee	65,300	—
Class A-1 Notes—SIC CLO 2013-1, Ltd.	170,000,000	170,000,000
Class A-2 Notes—SIC CLO 2013-1, Ltd.	20,000,000	20,000,000
Class B Notes—SIC CLO 2013-1, Ltd.	44,800,000	44,800,000
Class C Notes—SIC CLO 2013-1, Ltd.	16,000,000	16,000,000
Discount on Class C Notes—SIC CLO 2013-1, Ltd.	(68,370)	(77,383)
Class D Notes—SIC CLO 2013-1, Ltd.	14,000,000	14,000,000
Discount on Class D Notes—SIC CLO 2013-1, Ltd.	(317,409)	(359,249)
Class E Notes—SIC CLO 2013-1, Ltd.	13,100,000	13,100,000
Class F Notes—SIC CLO 2013-1, Ltd.	4,500,000	4,500,000
Deferred debt financing costs, SIC CLO 2013-1, Ltd. Notes	(1,014,090)	(1,161,590)
Subordinated Notes	30,000,000	30,000,000
Total liabilities	<u>\$336,894,941</u>	<u>\$321,435,893</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 loss	(12,974,026)	(21,557,618)
Net gain	1,728,457	8,583,592
Total net assets	<u>(11,245,319)</u>	<u>(12,973,776)</u>
Total liabilities and net assets	<u>\$325,649,622</u>	<u>\$308,462,117</u>

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1, Ltd.**Statements of Operations**

	For the Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
INVESTMENT INCOME			
Interest from investments	\$ 17,435,371	\$ 15,443,693	\$ 14,372,377
Interest from cash and cash equivalents	14,644	11,216	1,213
Other income	415,428	643,457	316,187
Total investment income	17,865,443	16,098,366	14,689,777
EXPENSES			
Interest expense	13,719,536	12,574,838	11,696,757
Professional fees	216,672	106,564	292,754
Miscellaneous fee expense	95,314	49,279	23,742
Base management fee	301,863	585,575	747,390
Subordinated management fee	1,207,454	913,426	747,390
Incentive fees	591,368	—	—
Trustee expenses	160,883	128,083	121,299
Amortization expense	177,011	829,475	955,858
Loss on extinguishment of debt	—	6,143,816	—
Total expenses	16,470,101	21,331,056	14,585,190
NET INVESTMENT INCOME (LOSS)	1,395,342	(5,232,690)	104,587
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain from investments	619,531	358,169	419,096
Net change in unrealized appreciation (depreciation) on investments	(286,416)	13,458,113	(16,277,895)
Net realized and unrealized gain (loss) on investments	333,115	13,816,282	(15,858,799)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,728,457	\$ 8,583,592	\$ (15,754,212)

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1 Ltd.

Schedule of Investments

February 28, 2018

Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Education Management II, LLC	Leisure Goods/Activities/Movies	A-1 Preferred Shares	Equity	0.00%	0.00%	0.00%		6,692	\$ 669,214	\$ 1,539
Education Management II, LLC	Leisure Goods/Activities/Movies	A-2 Preferred Shares	Equity	0.00%	0.00%	0.00%		18,975	1,897,538	4,364
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Common Stock	Equity	0.00%	0.00%	0.00%		14,813	964,466	696
24 Hour Holdings III, LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	5.44%	5/28/2021	\$ 1,974,768	1,973,979	1,992,047
ABB Con-Cise Optical Group, LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 5.00%	1.00%	6.59%	6/15/2023	1,975,000	1,955,672	1,979,938
Acosta Holdco, Inc.	Media	Term Loan B1	Loan	1M USD LIBOR + 3.25%	1.00%	4.90%	9/26/2021	1,935,275	1,926,742	1,703,042
Advantage Sales & Marketing, Inc.	Services: Business	Term Loan B2	Loan	3M USD LIBOR + 3.25%	1.00%	5.02%	7/23/2021	500,000	490,000	492,190
Advantage Sales & Marketing, Inc.	Services: Business	Delayed Draw Term Loan	Loan	3M USD LIBOR + 3.25%	1.00%	5.02%	7/23/2021	2,421,181	2,419,247	2,383,362
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term B Loan	Loan	3M USD LIBOR + 4.50%	1.00%	6.17%	2/24/2021	2,438,282	2,339,957	2,412,387
Agrofresh, Inc.	Food Services	Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	6.44%	7/30/2021	1,950,000	1,943,994	1,936,194
AI MISTRAL T/L (V. GROUP)	Utilities	Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.65%	3/11/2024	496,250	496,250	493,148
AI Aqua Merger Inc	Utilities	Incremental Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	12/13/2023	498,750	498,189	499,787
AI Aqua Merger Inc	Conglomerate	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	12/13/2023	2,029,500	2,031,000	2,033,316
Akorn, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 4.25%	1.00%	5.94%	4/16/2021	398,056	397,217	394,573
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	1M USD LIBOR + 2.75%	0.75%	4.40%	8/25/2021	2,654,315	2,640,406	2,617,447
Alion Science and Technology Corporation	High Tech Industries	Term Loan B (First Lien)	Loan	3M USD LIBOR + 4.50%	1.00%	6.15%	8/19/2021	2,826,521	2,817,880	2,826,521
ALPHA 3 T/L B1 (ATOTECH)	Chemicals/Plastics	Term Loan B 1	Loan	1M USD LIBOR + 3.00%	1.00%	4.69%	1/31/2024	248,750	248,218	250,367
Anchor Glass T/L (11/16)	Containers/Glass Products	Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	4.40%	12/7/2023	495,013	492,821	495,785
APCO Holdings, Inc.	Automotive	Term Loan	Loan	1M USD LIBOR + 6.00%	1.00%	7.65%	1/31/2022	1,833,243	1,796,705	1,778,246
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	1M USD LIBOR + 2.00%	0.00%	3.65%	3/28/2024	1,612,143	1,612,143	1,621,219
Arctic Glacier U.S.A., Inc.	Beverage, Food & Tobacco	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	5.90%	3/20/2024	496,250	494,091	497,079
Argon Medical Devices, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	5.40%	1/23/2025	1,000,000	997,625	1,003,750
ASG Technologies Group, Inc.	High Tech Industries	Term Loan	Loan	1M USD LIBOR + 4.75%	1.00%	6.40%	7/31/2024	498,750	496,441	499,373
Aspen Dental Management, Inc.	Healthcare & Pharmaceuticals	Term Loan Initial	Loan	3M USD LIBOR + 3.75%	1.00%	5.52%	4/29/2022	1,964,792	1,961,139	1,986,896
Astoria Energy T/L B	Utilities	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.65%	12/24/2021	1,436,736	1,425,004	1,439,135
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B4 (First Lien)	Loan	1M USD LIBOR + 2.75%	0.00%	4.40%	8/4/2022	2,373,759	2,363,315	2,384,156
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B6	Loan	1M USD LIBOR + 2.75%	1.00%	4.40%	11/3/2023	518,207	513,568	520,798
ATS Consolidated, Inc.	Construction & Building	Term Loan	Loan	1M USD LIBOR + 3.75%	0.00%	5.40%	2/21/2025	500,000	497,500	502,500
Avantor, Inc.	Chemicals/Plastics	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.65%	11/21/2024	1,500,000	1,478,028	1,514,370
Avaya, Inc.	Services: Business	Exit Term Loan	Loan	1M USD LIBOR + 4.75%	1.00%	6.34%	12/16/2024	1,000,000	990,313	1,004,220
AVOLON TLB BORROWER 1 LUXEMBOURG S.A.R.L.	Capital Equipment	Term Loan B-2	Loan	3M USD LIBOR + 2.25%	0.75%	3.84%	3/21/2022	995,000	990,660	993,468
Blackboard	High Tech Industries	Term Loan B4	Loan	3M USD LIBOR + 5.00%	1.00%	6.73%	6/30/2021	2,962,500	2,944,423	2,868,085
Blount International, Inc.	Forest Products & Paper	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	5.83%	4/12/2023	500,000	498,863	506,875
Blucora, Inc.	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 3.00%	1.00%	4.69%	5/22/2024	920,000	915,553	924,600
BMC Software	Technology	Term Loan B	Loan	1M USD LIBOR + 3.25%	0.00%	4.90%	9/12/2022	584,031	574,236	585,491
Brickman Group Holdings, Inc.	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.65%	12/18/2020	1,420,433	1,412,065	1,427,975
Broadstreet Partners, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B-1	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	11/8/2023	997,481	995,151	1,006,628
Cable & Wireless Communications Ltd.	Telecommunications	Term Loan B4	Loan	1M USD LIBOR + 3.25%	0.00%	4.89%	1/30/2026	2,500,000	2,496,875	2,494,800
Cable One, Inc.	Telecommunications	Term Loan B	Loan	3M USD LIBOR + 2.25%	0.00%	3.95%	5/1/2024	497,500	496,959	498,744
Caesars Entertainment Corporation	Hotel, Gaming & Leisure	Term Loan	Loan	1M USD LIBOR + 2.50%	0.00%	4.15%	10/7/2024	1,000,000	1,000,000	1,006,250
Canyon Valor Companies, Inc. 1	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 3.25%	0.00%	4.94%	6/16/2023	997,500	995,006	1,003,116
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	1M USD LIBOR + 2.50%	1.00%	4.15%	3/25/2024	482,931	480,703	485,143
Caraustar Industries Inc.	Forest Products & Paper	Term Loan B	Loan	1M USD LIBOR + 5.50%	1.00%	7.19%	3/14/2022	496,250	495,182	496,950
CareerBuilder, LLC 1	Services: Business	Term Loan	Loan	3M USD LIBOR + 6.75%	1.00%	8.44%	7/31/2023	2,468,750	2,402,343	2,440,977
CASA SYSTEMS T/L	Telecommunications	Term Loan	Loan	2M USD LIBOR + 4.00%	1.00%	5.69%	12/20/2023	1,485,000	1,472,299	1,490,569
Catalent Pharma Solutions, Inc	Drugs	Initial Term B Loan	Loan	1M USD LIBOR + 2.25%	1.00%	3.90%	5/20/2024	419,775	418,723	421,219
Cengage Learning Acquisitions, Inc.	Publishing	Term Loan	Loan	2M USD LIBOR + 4.25%	1.00%	5.84%	6/7/2023	1,464,371	1,449,727	1,343,970
CenturyLink, Inc.	Telecommunications	Term Loan B	Loan	1M USD LIBOR + 2.75%	0.00%	4.40%	1/31/2025	3,000,000	2,993,287	2,946,750
CH HOLD (CALIBER COLLISION) T/L	Automotive	Term Loan	Loan	1M USD LIBOR + 3.00%	0.00%	4.65%	2/1/2024	246,674	246,237	247,907
Charter Communications Operating, LLC	Cable and Satellite Television	Term Loan	Loan	1M USD LIBOR + 2.00%	0.00%	3.65%	4/30/2025	1,600,000	1,598,246	1,603,200
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term G Loan	Loan	3M USD LIBOR + 2.75%	1.00%	4.73%	12/31/2019	612,172	603,886	606,705
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term H Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.98%	1/27/2021	1,133,925	1,104,984	1,106,870
Concordia Healthcare Corporation	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	5.90%	10/21/2021	1,930,000	1,860,229	1,723,895
Consolidated Aerospace Manufacturing, LLC	Aerospace & Defense	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	8/11/2022	1,418,750	1,413,829	1,417,870

Consolidated Communications, Inc.	Telecommunications	Term Loan B-2	Loan	1M USD LIBOR + 3.00%	1.00%	4.65%	10/5/2023	498,130	495,839	489,502
CPI Acquisition Inc.	Technology	Term Loan B (First Lien)	Loan	6M USD LIBOR + 4.50%	1.00%	6.36%	8/17/2022	1,436,782	1,421,670	1,109,196
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 4.25%	1.00%	5.90%	12/1/2021	1,455,188	1,446,213	1,448,829
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	3M USD LIBOR + 3.25%	1.00%	4.90%	12/23/2020	448,889	446,919	385,820
Daseke Companies, Inc.	Transportation	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.65%	2/27/2024	1,995,607	1,983,119	2,010,574
Dell International L.L.C.	High Tech Industries	Term Loan (01/17)	Loan	1M USD LIBOR + 2.00%	0.75%	3.65%	9/7/2023	1,496,250	1,495,193	1,496,130
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B	Loan	1M USD LIBOR + 2.50%	1.00%	4.15%	2/1/2024	1,318,289	1,314,108	1,315,323
DEX MEDIA, INC.	Media	Term Loan (07/16)	Loan	1M USD LIBOR + 10.00%	1.00%	11.65%	7/29/2021	29,843	29,843	30,664
DHX Media Ltd.	Media	Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	12/29/2023	497,500	495,234	498,122
Digital Room, Inc.	Publishing	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.65%	12/29/2023	2,500,000	2,475,000	2,481,250
Dole Food Company, Inc.	Beverage, Food & Tobacco	Term Loan B	Loan	2M USD LIBOR + 2.75%	1.00%	4.40%	4/8/2024	493,750	491,561	495,513
Drew Marine Group, Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.25%	1.00%	4.90%	11/19/2020	2,863,470	2,844,335	2,856,311
DTZ U.S. Borrower, LLC	Construction & Building	Term Loan B Add-on	Loan	3M USD LIBOR + 3.25%	1.00%	5.23%	11/4/2021	1,942,632	1,935,162	1,938,591
DUKE FINANCE (OM GROUP/VECTRA) T/L	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 4.25%	1.00%	5.94%	2/21/2024	1,477,584	1,381,067	1,478,515
Eaglepicher Technologies, LLC	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	1M USD LIBOR + 4.00%	1.00%	5.69%	2/21/2025	500,000	498,750	500,315
Eagletree-Carbide Acquisition Corp.	High Tech Industries	Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	6.44%	8/28/2024	1,995,000	1,976,445	2,007,469
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan A	Loan	Prime 5.50%	1.00%	10.00%	7/2/2020	423,861	415,813	103,846
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan B (2.00% Cash/6.50% PIK)	Loan	Prime 2.00%	1.00%	13.00%	7/2/2020	954,307	939,748	7,759
EIG Investors Corp.	High Tech Industries	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.96%	2/9/2023	473,057	471,875	475,593
Emerald 2 Limited	Chemicals/Plastics	Term Loan B1A	Loan	3M USD LIBOR + 4.00%	1.00%	5.69%	5/14/2021	991,629	986,286	988,852
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	8/1/2021	480,141	478,874	484,141
Endo International plc	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 4.25%	0.75%	5.94%	4/29/2024	995,000	990,482	992,513
Engility Corporation	Aerospace & Defense	Term Loan B-1	Loan	3M USD LIBOR + 2.75%	0.00%	4.40%	8/12/2020	218,750	218,055	220,117
Equian, LLC	Services: Business	Term Loan B	Loan	3M USD LIBOR + 3.25%	1.00%	5.15%	5/20/2024	1,990,000	1,980,110	1,998,716
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	3M USD LIBOR + 3.75%	1.25%	5.49%	7/9/2019	945,131	942,746	902,940
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.69%	12/20/2024	2,838,093	2,824,632	2,864,714
Extreme Reach, Inc.	Media	Term Loan B	Loan	3M USD LIBOR + 6.25%	1.00%	7.95%	2/7/2020	2,662,500	2,645,825	2,672,484
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	4/15/2021	2,296,974	2,290,825	2,309,424
FinCo I LLC	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	1M USD LIBOR + 2.75%	0.00%	4.40%	6/14/2022	498,580	497,495	503,192
First Data Corporation	Financial Intermediaries	First Data T/L Ext (2021)	Loan	1M USD LIBOR + 2.25%	0.00%	3.87%	4/26/2024	1,741,492	1,661,950	1,744,400
First Eagle Holdings, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	3M USD LIBOR + 3.00%	0.75%	4.69%	12/1/2022	1,471,350	1,462,612	1,483,856
Fitness International, LLC	Leisure Goods/Activities/Movies	Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.19%	7/1/2020	1,409,751	1,394,961	1,423,144
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	FILO Term Loan	Loan	1M USD LIBOR + 7.00%	0.00%	8.65%	12/30/2022	585,849	583,668	597,935
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Term Loan B2	Loan	Prime 10.51%	0.00%	12.25%	3/4/2019	1,461,320	1,455,880	1,431,641
Gigamon	Services: Business	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.15%	12/27/2024	2,000,000	1,980,289	1,992,500

See accompanying notes to financial statements.

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Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	3M USD LIBOR + 4.00%	1.25%	5.69%	5/26/2020	3,116,081	3,110,498	3,128,732
GlobalLogic Holdings, Inc.	Services: Business	Term Loan B	Loan	1M USD LIBOR + 3.75%	1.00%	5.44%	6/20/2022	496,250	491,702	498,731
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	1M USD LIBOR + 2.00%	0.00%	3.59%	4/30/2019	1,833,333	1,826,354	1,832,765
GoWireless, Inc.	Telecommunications	Term Loan	Loan	3M USD LIBOR + 6.50%	1.00%	8.16%	12/22/2024	2,000,000	1,980,568	2,005,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	1M USD LIBOR + 3.00%	1.00%	4.65%	8/18/2023	992,443	988,008	996,472
Hargray Communications Group, Inc.	Media	Term Loan B	Loan	1M USD LIBOR + 3.00%	1.00%	4.65%	2/9/2022	995,000	992,659	996,990
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	6.44%	11/3/2023	1,943,418	1,931,468	1,961,123
HD Supply Waterworks, Ltd.	Construction & Building Services: Consumer	Term Loan	Loan	6M USD LIBOR + 3.00%	1.00%	4.57%	8/1/2024	498,750	497,642	499,583
Heartland Dental, LLC	Services: Consumer	Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	6.45%	7/31/2023	2,992,500	2,978,722	3,044,869
Helix Acquisition Holdings, Inc.	Utilities	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.69%	9/30/2024	997,500	992,861	1,002,488
Helix Gen Funding, LLC	Utilities	Term Loan B	Loan	3M USD LIBOR + 3.75%	1.00%	5.44%	6/3/2024	462,388	460,553	466,263
Help/Systems Holdings, Inc.	High Tech Industries	Term Loan	Loan	1M USD LIBOR + 4.50%	1.00%	6.19%	10/8/2021	1,342,543	1,296,984	1,346,463
Hemisphere Media Holdings, LLC	Media	Term Loan B	Loan	3M USD LIBOR + 3.50%	0.00%	5.15%	2/14/2024	2,475,000	2,485,950	2,422,406
Herbalife T/L B (HLF Financing)	Drugs	Term Loan B	Loan	1M USD LIBOR + 5.50%	0.75%	7.15%	2/15/2023	1,887,500	1,876,579	1,898,127
Highline Aftermarket Acquisition, LLC	Automotive	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	6.00%	3/15/2024	954,698	949,925	957,085
Hoffmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	3M USD LIBOR + 4.50%	1.00%	6.19%	11/21/2023	990,000	993,228	998,663
Hostess Brands, LLC		Term Loan B (First Lien)	Loan	1M USD LIBOR + 2.25%	0.75%	3.90%	8/3/2022	1,482,559	1,479,227	1,486,532
HUB International Limited	Beverage, Food & Tobacco Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.84%	10/2/2022	215	215	216
Husky Injection Molding Systems Ltd.	Services: Business	Term Loan B	Loan	1M USD LIBOR + 3.25%	1.00%	4.90%	6/30/2021	402,099	400,605	402,855
Hyland Software, Inc.	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 3.25%	0.75%	4.90%	7/1/2022	994,987	992,624	1,001,624
Hyperion Refinance T/L	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.19%	12/20/2024	2,000,000	1,990,289	2,017,000
Idera, Inc.	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.15%	6/28/2024	1,682,535	1,665,834	1,693,051
IG Investments Holdings, LLC	Services: Business	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.19%	10/29/2021	3,423,936	3,405,707	3,459,613
Inmar, Inc.	Services: Business	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	5.15%	5/1/2024	497,500	492,933	499,520
IRB Holding Corp.	Beverage, Food & Tobacco	Term Loan B	Loan	2M USD LIBOR + 3.25%	1.00%	4.94%	2/5/2025	500,000	498,913	504,645
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	3M USD LIBOR + 3.22%	1.00%	4.91%	3/5/2021	830,284	830,284	573,676
J.Jill Group, Inc.	Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	3M USD LIBOR + 5.00%	1.00%	6.77%	5/9/2022	872,065	869,192	863,344
Kinetic Concepts, Inc.	Healthcare & Pharmaceuticals	Term Loan F-1	Loan	3M USD LIBOR + 3.25%	1.00%	4.94%	2/2/2024	2,388,000	2,377,873	2,393,373
Koosharem, LLC	Services: Business	Term Loan	Loan	3M USD LIBOR + 6.50%	1.00%	8.19%	5/15/2020	2,905,150	2,893,037	2,865,204
Lakeland Tours, LLC	Services: Business	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.59%	12/16/2024	1,847,826	1,843,674	1,868,041
Lannett Company, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 5.38%	1.00%	7.03%	11/25/2022	2,700,436	2,656,597	2,693,685
LEARFIELD COMMUNICATIONS INITIAL T/L (A-L PARENT)	Healthcare & Pharmaceuticals	Initial Term Loan (A-L Parent)	Loan	1M USD LIBOR + 3.25%	1.00%	4.90%	12/1/2023	495,000	493,040	499,950
Legalzoom.com, Inc.	Services: Consumer	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.09%	11/21/2024	1,000,000	990,210	1,005,000
Lighthouse Network	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.15%	11/29/2024	1,000,000	995,138	1,009,380
Lightstone Generation	Utilities	Term Loan B	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	1/30/2024	912,971	912,971	918,047
Lightstone Generation	Utilities	Term Loan C	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	1/30/2024	57,971	57,971	58,293
Liquidnet Holdings, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	7/15/2024	487,500	482,947	488,719
LPL Holdings, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B (2022)	Loan	3M USD LIBOR + 2.25%	0.00%	3.89%	9/23/2024	1,741,261	1,737,339	1,743,977
Mayfield Holdings T/L (FeeCo)	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 4.50%	0.00%	6.15%	1/31/2025	500,000	497,500	501,250
McAfee, LLC	Services: Business	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.15%	9/30/2024	2,245,000	2,225,301	2,255,821
McGraw-Hill Global Education Holdings, LLC	Publishing	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.65%	5/4/2022	985,000	981,596	969,693
Meredith Corporation	Publishing	Term Loan B	Loan	3M USD LIBOR + 3.00%	0.00%	4.66%	1/31/2025	1,000,000	997,611	1,005,470
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B1	Loan	3M USD LIBOR + 2.75%	1.00%	4.40%	1/30/2023	2,658,469	2,646,849	2,669,927
Micro Holding Corporation	High Tech Industries	Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	5.34%	9/13/2024	1,471,995	1,466,585	1,471,627
Midas Intermediate Holdco II, LLC	Automotive	Term Loan (Initial)	Loan	1M USD LIBOR + 2.75%	1.00%	4.44%	8/18/2021	241,931	241,246	242,838
Midwest Physician Administrative Services LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 2.75%	0.75%	4.35%	8/15/2024	997,500	992,551	995,635
Milk Specialties Company	Beverage, Food & Tobacco	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.69%	8/16/2023	987,500	979,118	988,734
Mister Car Wash T/L	Automotive	Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.90%	8/20/2021	1,583,528	1,578,798	1,592,443
MRC Global (US) Inc.	Metals & Mining	Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	9/20/2024	500,000	498,823	503,440
Navistar, Inc.	Automotive	Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.08%	11/6/2024	2,000,000	1,990,461	2,005,620
NCI Building Systems, Inc.	Building & Development	Term Loan	Loan	1M USD LIBOR + 2.00%	0.00%	3.65%	2/7/2025	500,000	498,814	500,625
New Media Holdings II T/L (NEW)	Retailers (Except Food and Drugs)	Term Loan	Loan	2M USD LIBOR + 6.25%	1.00%	7.90%	6/4/2020	5,631,193	5,606,694	5,655,858
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 6.50%	1.00%	8.15%	12/21/2020	1,910,035	1,806,090	649,412
Novetta Solutions		Term Loan (200MM)	Loan	3M USD LIBOR + 5.00%	1.00%	6.70%	10/16/2022	1,960,000	1,946,082	1,890,792
Novetta Solutions		Term Loan (2nd Lien)	Loan	3M USD LIBOR + 8.50%	1.00%	10.20%	10/16/2023	1,000,000	992,243	890,000
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	4/19/2024	497,500	496,902	501,644
NXT Capital T/L (11/16)	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	11/23/2022	1,238,120	1,233,635	1,256,692
Office Depot, Inc.	Retailers (Except Food and Drugs)	Term Loan B	Loan	1M USD LIBOR + 7.00%	1.00%	8.58%	11/8/2022	2,500,000	2,430,480	2,527,500
Onex Carestream Finance LP	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	3M USD LIBOR + 4.00%	1.00%	5.69%	6/7/2019	3,037,274	3,033,839	3,049,939

OpenLink International, LLC	Services: Business	Term B Loan	Loan	3M USD LIBOR + 6.50%	1.25%	8.27%	7/29/2019	2,883,152	2,881,467	2,886,756
P.F. Chang's China Bistro, Inc.	Food/Drug Retailers	Term B Loan	Loan	6M USD LIBOR + 5.00%	1.00%	6.51%	9/1/2022	1,995,000	1,978,916	1,962,581
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Services: Business	Term Loan (First Lien)	Loan	6M USD LIBOR + 4.00%	1.00%	5.80%	10/30/2020	955,558	953,277	943,614
Peraton	Aerospace & Defense	Term Loan	Loan	1M USD LIBOR + 5.25%	1.00%	6.95%	4/29/2024	1,990,000	1,980,795	2,007,413
Petsmart, Inc. (Argos Merger Sub, Inc.)	Retailers (Except Food and Drugs)	Term Loan B1	Loan	2M USD LIBOR + 3.00%	1.00%	4.57%	3/11/2022	972,500	968,851	792,344
PGX Holdings, Inc.	Financial Intermediaries	Term Loan	Loan	3M USD LIBOR + 5.25%	1.00%	6.90%	9/29/2020	2,754,229	2,743,573	2,664,717
PI US HOLDCO II T/L (PAYSAFE)	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.17%	12/20/2024	1,000,000	995,000	1,002,080
Pike Corporation	Construction & Building	Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	9/20/2024	497,503	495,186	501,443
Ping Identity Corporation	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 3.75%	1.00%	5.37%	1/24/2025	500,000	497,525	501,875
Planet Fitness Holdings LLC	Leisure	Term Loan	Loan	1M USD LIBOR + 3.00%	0.75%	4.65%	3/31/2021	2,368,358	2,363,020	2,392,042
Plastipak Packaging, Inc	Containers/Glass Products	Term Loan B	Loan	1M USD LIBOR + 2.75%	1.00%	4.45%	10/14/2024	997,500	992,752	1,002,986
Polycom Term Loan (9/16)	Telecommunications	Term Loan	Loan	2M USD LIBOR + 5.25%	1.00%	6.90%	9/27/2023	1,508,167	1,490,507	1,513,506
PrePaid Legal Services, Inc.	Services: Business	Term Loan B	Loan	3M USD LIBOR + 5.25%	1.25%	6.90%	7/1/2019	2,944,950	2,947,124	2,948,631
Presidio, Inc.	Services: Business	Term Loan B 2017	Loan	3M USD LIBOR + 2.75%	1.00%	4.45%	2/2/2024	1,882,977	1,837,433	1,887,289
Prestige Brands T/L B4	Drugs	Term Loan B4	Loan	1M USD LIBOR + 2.75%	0.75%	4.40%	1/26/2024	428,171	427,260	430,543
Prime Security Services (Protection One)	Services: Business	Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	4.40%	5/2/2022	1,970,162	1,961,794	1,985,825
Project Accelerate	Services: Business	Term Loan	Loan	3M USD LIBOR + 4.25%	1.00%	5.94%	1/2/2025	2,000,000	1,990,187	2,020,000
Project Leopard Holdings, Inc.	High Tech Industries	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.78%	7/7/2023	498,750	497,506	500,466
Prometric	Services: Business	Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.77%	1/29/2025	500,000	497,522	503,750
Rackspace Hosting, Inc.	High Tech Industries	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.79%	11/3/2023	498,747	497,557	500,059
Radio Systems Corporation	Leisure	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	5/2/2024	1,492,500	1,492,500	1,498,097
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.90%	10/1/2021	906,723	904,457	910,694
Red Ventures, LLC	High Tech Industries	Term Loan	Loan	1M USD LIBOR + 4.00%	0.00%	5.65%	11/8/2024	997,500	987,986	1,003,525
Research Now Group, Inc	Media	Term Loan	Loan	3M USD LIBOR + 5.50%	1.00%	7.13%	12/20/2024	3,000,000	2,853,582	2,966,250
Resolute Investment Managers, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	3M USD LIBOR + 3.25%	1.00%	4.94%	4/29/2022	722,738	722,738	732,676
Reynolds Group Holdings Inc.	Industrial Equipment	Term Loan	Loan	1M USD LIBOR + 2.75%	0.00%	4.40%	2/3/2023	1,743,523	1,743,523	1,750,968
RGIS Services, LLC	Services: Business	Term Loan	Loan	1M USD LIBOR + 7.50%	1.00%	9.15%	3/31/2023	496,250	489,372	468,956
Robertshaw US Holding Corp.	Consumer Goods: Durable	Term Loan B	Loan	1M USD LIBOR + 3.50%	1.00%	5.19%	2/14/2025	1,000,000	997,500	1,008,750
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	1M USD LIBOR + 2.50%	0.75%	4.15%	7/2/2021	1,447,500	1,443,827	1,455,418
Russell Investment Management T/L B	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	3M USD LIBOR + 4.25%	1.00%	5.94%	6/1/2023	2,217,487	2,120,560	2,229,129
Sally Holdings, LLC	Retail	Term Loan B1	Loan	1M USD LIBOR + 2.50%	0.00%	4.19%	7/5/2024	1,000,000	995,387	996,670
Sally Holdings, LLC	Retail	Term Loan (Fixed)	Loan	Fixed 4.50%	0.00%	4.50%	7/5/2024	997,500	992,929	1,002,069
SBP Holdings LP	Industrial Equipment	Term Loan (First Lien)	Loan	3M USD LIBOR + 4.00%	1.00%	5.65%	3/27/2021	962,500	960,161	943,250
SCS Holdings (Sirius Computer)	High Tech Industries	Term Loan (First Lien)	Loan	1M USD LIBOR + 4.25%	1.00%	5.90%	10/31/2022	2,266,208	2,236,571	2,282,253
Seadrill Operating LP	Oil & Gas	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.69%	2/21/2021	967,254	925,524	835,224

See accompanying notes to financial statements.

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Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/Number of Shares	Cost	Fair Value
SG Acquisition, Inc. (Safe Guard)	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	3M USD LIBOR + 5.00%	1.00%	6.69%	3/29/2024	1,892,500	1,875,697	1,892,500
Shearers Foods LLC	Food Services	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.94%	1.00%	5.63%	6/30/2021	967,500	966,193	972,947
Sitel Worldwide	Telecommunications	Term Loan	Loan	6M USD LIBOR + 5.50%	1.00%	7.25%	9/18/2021	1,955,000	1,942,489	1,955,978
SMB Shipping Logistics T/L B (REP WWEX Acquisition)	Transportation	Term Loan B	Loan	6M USD LIBOR + 4.00%	1.00%	5.48%	2/2/2024	1,989,987	1,988,148	1,990,823
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.75%	1.00%	5.40%	12/10/2020	205,858	205,602	206,887
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	5.40%	12/10/2020	1,166,529	1,165,079	1,172,362
Sophia, L.P.	Electronics/Electric	Term Loan (Closing Date)	Loan	3M USD LIBOR + 3.25%	1.00%	4.94%	9/30/2022	1,905,528	1,897,798	1,907,376
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	2M USD LIBOR + 3.25%	1.00%	4.88%	3/15/2024	2,417,405	2,398,260	2,432,514
SS&C Technologies	Services: Business	Term Loan B3	Loan	N/A 2.50%	0.00%	4.27%	2/28/2025	737,000	735,158	740,228
SS&C Technologies	Services: Business	Term Loan B4	Loan	N/A 2.50%	0.00%	4.27%	2/28/2025	263,000	262,343	264,152
Staples, Inc.	Retail	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.79%	8/15/2024	1,995,000	1,990,091	1,981,294
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	5.40%	3/19/2021	844,991	840,948	737,255
Sybil Software LLC	High Tech Industries	Term Loan B	Loan	3M USD LIBOR + 2.75%	1.00%	4.44%	9/29/2023	950,777	946,662	956,177
Syncsort, Inc.	Services: Business	Term Loan	Loan	3M USD LIBOR + 5.00%	1.00%	6.69%	8/16/2024	1,995,000	1,975,954	1,995,618
Ten-X, LLC	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.65%	9/30/2024	2,000,000	1,997,922	1,991,260
Townsquare Media, Inc.	Media	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.65%	4/1/2022	911,712	908,025	913,991
TransDigm, Inc.	Aerospace & Defense	Term Loan G	Loan	1M USD LIBOR + 2.50%	0.00%	4.10%	8/22/2024	4,190,095	4,197,662	4,205,808
Travel Leaders Group, LLC	Hotel, Gaming and Leisure	Term Loan B	Loan	3M USD LIBOR + 4.50%	0.00%	6.35%	1/25/2024	1,985,025	1,976,475	2,007,357
TRC Companies, Inc.	Services: Business	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	5.15%	6/21/2024	2,992,500	2,978,644	2,999,981
TRICO Group	Containers & Glass Products	Term Loan	Loan	3M USD LIBOR + 6.50%	1.00%	8.48%	2/2/2024	3,000,000	2,940,000	2,996,250
Truck Hero, Inc. (Tectum Holdings)	Transportation	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.64%	4/22/2024	2,987,494	2,964,391	3,001,505
Trugreen Limited Partnership	Services: Business	Term Loan B	Loan	1M USD LIBOR + 4.00%	1.00%	5.54%	4/13/2023	493,763	486,986	498,701
Twin River Management Group, Inc.	Lodging & Casinos	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	4.83%	7/10/2020	785,346	786,226	792,218
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	1M USD LIBOR + 2.50%	0.00%	4.15%	7/1/2024	2,546,644	2,534,633	2,558,919
Uniti Group, Inc.	Telecommunications	Term Loan B (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.65%	10/24/2022	1,950,362	1,940,540	1,881,280
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	4.40%	3/15/2024	2,854,711	2,838,791	2,818,627
UOS, LLC (Utility One Source)	Capital Equipment	Term Loan B	Loan	1M USD LIBOR + 5.50%	1.00%	7.15%	4/18/2023	597,249	595,209	613,673
UPC Broadband Holding B.V.	Media	Term Loan	Loan	1M USD LIBOR + 2.50%	0.00%	4.09%	1/15/2026	1,000,000	998,817	998,750
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	1M USD LIBOR + 3.50%	0.75%	5.08%	4/1/2022	848,566	848,566	858,019
Virtus Investment Partners, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	3M USD LIBOR + 2.50%	0.75%	4.09%	6/3/2024	497,500	495,337	499,366
Vizient Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	4.40%	2/13/2023	313,725	306,705	315,686
Washington Inventory Service	High Tech Industries	U.S. Term Loan (First Lien)	Loan	3M USD LIBOR + 6.00%	0.00%	7.52%	6/8/2020	1,111,056	1,122,315	833,292
Weight Watchers International, Inc.	Services: Consumer	Term Loan B	Loan	1M USD LIBOR + 4.75%	0.75%	6.33%	11/29/2024	2,000,000	1,960,950	2,022,500
Western Dental Services, Inc.	Retail	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	6.15%	6/30/2023	2,488,747	2,472,078	2,505,870
Western Digital Corporation	High Tech Industries	Term Loan B (USD)	Loan	1M USD LIBOR + 2.00%	0.75%	3.60%	4/28/2023	1,309,443	1,272,149	1,315,335
Windstream Services, LLC	Telecommunications	Term Loan B6	Loan	1M USD LIBOR + 4.00%	0.75%	5.59%	3/29/2021	886,317	879,389	835,354
Wirepath LLC	Consumer Goods: Non-durable	Term Loan	Loan	3M USD LIBOR + 4.50%	1.00%	6.17%	8/5/2024	997,500	997,055	997,500
Xerox Business Services T/L B (Conduent)	Services: Business	Term Loan	Loan	2M USD LIBOR + 3.00%	0.00%	4.65%	12/7/2023	742,500	731,992	748,069
ZEP, Inc.	Chemicals/Plastics	Term Loan B	Loan	1M USD LIBOR + 4.00%	1.00%	5.77%	8/12/2024	2,493,750	2,482,111	2,508,289
Zest Holdings 1st Lien T/L (2014 Replacement)	Healthcare & Pharmaceuticals	Term Loan	Loan	2M USD LIBOR + 4.25%	1.00%	5.90%	8/16/2023	992,500	988,063	991,885
									<u>\$311,457,573</u>	<u>\$305,830,303</u>
								Number of Shares	Cost	Fair Value
Cash and cash equivalents										
U.S. Bank Money Market (a)								5,769,820	\$ 5,769,820	\$ 5,769,820
Total cash and cash equivalents								<u>5,769,820</u>	<u>\$ 5,769,820</u>	<u>\$ 5,769,820</u>

(a) Included within cash and cash equivalents in Saratoga CLO's Statements of Assets and Liabilities as of February 28, 2018.

LIBOR—London Interbank Offered Rate

1M USD LIBOR—The 1 month USD LIBOR rate as of February 28, 2018 was 1.67%.

2M USD LIBOR—The 2 month USD LIBOR rate as of February 28, 2018 was 1.81%.

3M USD LIBOR—The 3 month USD LIBOR rate as of February 28, 2018 was 2.02%.

6M USD LIBOR—The 6 month USD LIBOR rate as of February 28, 2018 was 2.22%.

Prime—The Prime Rate as of February 28, 2018 was 4.50%.

PIK—Payment-in-Kind (see Note 2 to the financial statements)

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1 Ltd.
Schedule of Investments
February 28, 2017

Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Education Management II, LLC	Leisure Goods/Activities/Movies	A-1 Preferred Shares	Equity	0.00%	0.00%	0.00%		6,692	\$ 669,214	\$ 6,725
Education Management II, LLC	Leisure Goods/Activities/Movies	A-2 Preferred Shares	Equity	0.00%	0.00%	0.00%		18,975	1,897,538	247
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Common Stock	Equity	0.00%	0.00%	0.00%		14,813	964,466	15,746
24 Hour Holdings III, LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	5/28/2021	\$ 487,500	484,284	476,127
ABB Con-Cise Optical Group, LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 5.00%	1.00%	6.00%	6/15/2023	1,995,000	1,975,193	2,009,963
Acosta Holdco, Inc.	Media	Term Loan B1	Loan	1M USD LIBOR + 3.25%	1.00%	4.29%	9/26/2021	1,940,025	1,929,297	1,893,348
Advantage Sales & Marketing, Inc.	Services: Business	Delayed Draw Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	7/25/2021	2,446,206	2,443,710	2,438,574
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term B Loan	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	2/24/2021	2,463,550	2,337,204	2,412,234
Agrofresh, Inc.	Food Services	Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	5.75%	7/30/2021	1,970,000	1,962,367	1,898,587
AI MISTRAL T/L (V. GROUP)	Utilities	Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	3/11/2024	500,000	500,000	500,940
Akorn, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 4.25%	1.00%	5.25%	4/16/2021	398,056	396,948	403,529
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	1M USD LIBOR + 3.00%	0.75%	3.78%	8/25/2021	2,896,193	2,879,009	2,931,179
Alere Inc. (fka IM US Holdings, LLC)	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	6/20/2022	917,946	916,144	919,479
Alion Science and Technology Corporation	High Tech Industries	Term Loan B (First Lien)	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	8/19/2021	2,955,000	2,943,621	2,951,306
Alliance Healthcare Services, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 3.25%	1.00%	4.29%	6/3/2019	984,570	981,094	977,184
ALPHA 3 T/L B1 (ATOTECH)	Chemicals/Plastics	Term Loan B 1	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	1/31/2024	250,000	249,377	252,500
Anchor Glass T/L (11/16)	Containers/Glass Products	Term Loan	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	12/7/2023	500,000	497,626	505,780
APCO Holdings, Inc.	Automotive	Term Loan	Loan	1M USD LIBOR + 6.00%	1.00%	7.00%	1/31/2022	1,933,919	1,887,037	1,885,571
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3M USD LIBOR + 2.50%	0.75%	3.50%	2/24/2021	3,118,358	3,118,358	3,147,327
Aspen Dental Management, Inc.	Healthcare & Pharmaceuticals	Term Loan Initial	Loan	3M USD LIBOR + 4.25%	1.00%	5.25%	4/29/2022	1,484,941	1,481,061	1,491,446
Astoria Energy T/L B	Utilities	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	12/24/2021	1,495,307	1,480,354	1,499,045
Asurion, LLC (fka Asurion Corporation)	Insurance	Replacement Term Loan B-2	Loan	1M USD LIBOR + 3.25%	0.75%	4.03%	7/8/2020	531,422	526,976	537,024
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B4 (First Lien)	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	8/4/2022	2,434,375	2,422,950	2,463,661
Auction.com, LLC	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.00%	5/13/2019	2,718,634	2,718,434	2,739,024
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.00%	6/21/2022	2,784,429	2,760,689	2,819,234
AVOLON TLB BORROWER 1 LUXEMBOURG S.A.R.L.		Term Loan B-2	Loan	3M USD LIBOR + 2.75%	0.75%	3.50%	3/20/2022	1,000,000	995,000	1,017,300
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	Term Loan	Loan	1M USD LIBOR + 3.25%	0.75%	4.02%	6/5/2020	1,473,750	1,471,637	1,411,116
Belmond Interfin Ltd.	Lodging & Casinos	Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	3/19/2021	2,481,122	2,484,502	2,488,888
BJ's Wholesale Club, Inc.		New 2013 (November) Replacement Loan (First Lien)	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	2/2/2024	1,500,000	1,496,335	1,487,385
Blackboard T/L B4	High Tech Industries	Term Loan B4	Loan	3M USD LIBOR + 5.00%	1.00%	6.02%	6/30/2021	2,992,500	2,969,529	3,008,390
BMC Software	Technology	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	9/10/2020	1,959,596	1,917,256	1,965,729
BMC Software T/L US	Technology	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	9/10/2020	676,193	665,400	679,607
Brickman Group Holdings, Inc.	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	12/18/2020	1,461,186	1,451,382	1,467,952
BWAY Holding Company	Leisure Goods/Activities/Movies	Term Loan B	Loan	3M USD LIBOR + 3.25%	0.00%	4.75%	8/14/2023	1,189,327	1,179,242	1,189,826
Candy Intermediate Holdings, Inc.	Beverage, Food & Tobacco	Term Loan	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	6/15/2023	497,500	495,317	500,609
Capital Automotive L.P.		Tranche B-1 Term Loan Facility	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	4/10/2019	1,487,353	1,489,058	1,500,829
CASA SYSTEMS T/L	Telecommunications	Term Loan	Loan	2M USD LIBOR + 4.00%	1.00%	5.00%	12/20/2023	1,500,000	1,485,318	1,500,000
Catalent Pharma Solutions, Inc	Drugs	Initial Term B Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	5/20/2021	424,821	423,456	429,953
Cengage Learning Acquisitions, Inc.	Publishing	Term Loan	Loan	2M USD LIBOR + 4.25%	1.00%	5.25%	6/7/2023	1,492,500	1,477,575	1,411,965
CH HOLD (CALIBER COLLISION) T/L	Automotive	Term Loan	Loan	1M USD LIBOR + 3.00%	0.00%	4.00%	2/1/2024	227,273	226,758	229,545
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	1M USD LIBOR + 2.00%	0.00%	2.79%	1/3/2021	1,609,533	1,603,525	1,617,130
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term G Loan	Loan	3M USD LIBOR + 2.75%	1.00%	3.80%	12/31/2019	981,177	960,939	972,866
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term H Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.05%	1/27/2021	1,805,352	1,763,950	1,773,940
CITGO Petroleum Corporation	Oil & Gas	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	7/29/2021	1,964,874	1,946,245	1,976,172
Communications Sales & Leasing, Inc.	Telecommunications	Term Loan B (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	10/24/2020	1,970,062	1,958,282	1,980,405
Concordia Healthcare Corporation	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	5.25%	10/21/2021	1,980,000	1,891,488	1,615,522
Consolidated Aerospace Manufacturing, LLC	Aerospace and Defense	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	8/11/2022	1,418,750	1,412,839	1,365,547
Consolidated Communications, Inc.	Telecommunications	Term Loan B-2	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	10/5/2023	500,000	497,500	502,890
CPI Acquisition Inc.	Technology	Term Loan B (First Lien)	Loan	6M USD LIBOR + 4.50%	1.00%	5.83%	8/17/2022	1,436,782	1,418,783	1,289,511

CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	11/17/2017	2,462,342	2,461,490	2,457,934
Crosby US Acquisition Corporation	Industrial Equipment	Initial Term Loan (First Lien)	Loan	3M USD LIBOR + 3.00%	1.00%	4.05%	11/23/2020	727,500	726,911	667,329
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 4.25%	1.00%	5.25%	12/1/2021	1,470,113	1,458,924	1,389,256
Culligan International Company-T/L	Conglomerate	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.00%	12/13/2023	2,050,000	2,049,738	2,083,313
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	12/23/2020	470,093	467,345	342,580
DAE Aviation (StandardAero)	Aerospace and Defense	Term Loan	Loan	1M USD LIBOR + 4.25%	1.00%	5.25%	7/7/2022	1,975,000	1,967,190	1,987,838
DASEKE T/L (HENNESSY CAPITAL)	Transportation	Term Loan	Loan	1M USD LIBOR + 5.50%	1.00%	6.50%	2/27/2024	714,286	707,143	717,857
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	3M USD LIBOR + 7.25%	1.50%	8.75%	3/19/2018	2,101,458	2,096,045	2,101,458
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	3M USD LIBOR + 3.75%	1.00%	5.07%	7/30/2021	1,000,000	996,568	1,002,920
DELL INTERNATIONAL 1ST LIEN T/L	High Tech Industries	Term Loan (01/17)	Loan	1M USD LIBOR + 2.50%	0.75%	3.25%	9/7/2023	1,000,000	998,850	1,006,480
Deluxe Entertainment Service Group, Inc.	Leisure	Term Loan (Incremental)	Loan	3M USD LIBOR + 6.00%	1.00%	7.04%	2/28/2020	1,000,000	972,672	997,500
Deluxe Entertainment Service Group, Inc.	Goods/Activities/Movies	Term Loan (First Lien)	Loan	6M USD LIBOR + 5.50%	1.00%	6.54%	2/28/2020	1,868,084	1,869,141	1,864,199
DEX MEDIA, INC.	Media	Term Loan (07/16)	Loan	1M USD LIBOR + 10.00%	1.00%	11.00%	7/29/2021	43,444	43,444	44,041
Diebold, Inc.	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 4.50%	0.75%	5.31%	11/6/2023	398,750	395,190	404,731
DIGITALGLOBE T/L B (12/16)	Aerospace and Defense	Term Loan B	Loan	1M USD LIBOR + 2.75%	0.75%	3.53%	1/15/2024	500,000	498,815	502,030
DJO Finance, LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	6/8/2020	492,500	490,933	483,388
DPX Holdings B.V.	Healthcare & Pharmaceuticals	Term Loan 2015 Incr Dollar	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	3/11/2021	2,925,000	2,919,916	2,937,431
Drew Marine Group, Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	11/19/2020	2,950,591	2,923,591	2,928,461
DTZ U.S. Borrower, LLC	Construction & Building	Term Loan B Add-on	Loan	3M USD LIBOR + 3.25%	1.00%	4.30%	11/4/2021	1,962,557	1,954,741	1,973,703
DUKE FINANCE (OM GROUP/VECTRA) T/L	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.00%	2/21/2024	1,500,000	1,395,987	1,511,250
Edelman Financial Group, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6M USD LIBOR + 5.50%	1.00%	6.51%	12/19/2022	1,485,000	1,459,535	1,487,317
Education Management II, LLC	Leisure	Term Loan A	Loan	3M USD LIBOR + 4.50%	1.00%	5.51%	7/2/2020	501,970	488,778	177,446
Education Management II, LLC	Goods/Activities/Movies	Term Loan B (2.00% Cash/6.50% PIK)	Loan	3M USD LIBOR + 1.00%	1.00%	8.51%	7/2/2020	954,307	934,189	77,938
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.50%	1.00%	4.50%	8/1/2021	480,756	479,151	483,308
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	1M USD LIBOR + 7.75%	1.00%	8.75%	8/1/2022	500,000	498,153	498,595
Emerald 2 Limited	Chemicals/Plastics	Term Loan B1A	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	5/14/2021	1,000,000	994,172	950,000
Endo International plc	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 3.00%	0.75%	3.81%	9/26/2022	990,000	987,999	994,247
EnergySolutions, LLC	Environmental Industries	Term Loan B	Loan	1M USD LIBOR + 5.75%	1.00%	6.75%	5/29/2020	795,000	785,654	799,969
Engility Corporation	Aerospace and Defense	Term Loan B-1	Loan	3M USD LIBOR + 4.25%	0.70%	4.03%	8/12/2020	243,750	242,680	245,503
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	3M USD LIBOR + 3.75%	1.25%	5.00%	7/9/2019	955,106	954,175	846,224
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	1/15/2021	1,947,330	1,943,904	1,954,632
EWT Holdings III Corp.	Capital Equipment	Term Loan	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	1/15/2021	992,500	984,248	997,463
Extreme Reach, Inc.	Media	Term Loan B	Loan	3M USD LIBOR + 6.25%	1.00%	7.25%	2/7/2020	2,887,500	2,860,092	2,905,547
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	4/15/2021	2,925,000	2,915,873	2,894,434
First Data Corporation	Financial Intermediaries	First Data T/L Ext (2021)	Loan	1M USD LIBOR + 3.00%	0.70%	3.78%	3/24/2021	1,886,914	1,804,119	1,904,010

See accompanying notes to financial statements.

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Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/Number of Shares	Cost	Fair Value
First Eagle Investment Management	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	3M USD LIBOR + 4.00%	0.75%	5.00%	12/1/2022	1,485,000	1,460,081	1,493,361
Fitness International, LLC	Leisure Goods/Activities/Movies	Term Loan B	Loan	1M USD LIBOR + 5.00%	1.00%	6.00%	7/1/2020	1,929,311	1,905,661	1,947,793
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	6/28/2019	801,502	802,865	806,279
Garda World Security Corporation	Services: Business	Term B Delayed Draw Loan	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	11/6/2020	197,083	196,509	197,822
Garda World Security Corporation	Services: Business	Term B Loan	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	11/6/2020	770,417	768,226	773,306
Gardner Denver, Inc.	High Tech Industries	Initial Dollar Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.57%	7/30/2020	2,426,061	2,421,316	2,420,263
Gates Global LLC	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	7/5/2021	481,656	476,839	481,478
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	1M USD LIBOR + 2.50%	0.75%	3.29%	3/4/2019	2,121,102	2,117,573	1,765,817
GLOBALLOGIC HOLDINGS INC TERM LOAN B	Services: Business	Term Loan B	Loan	1M USD LIBOR + 4.50%	1.00%	5.50%	6/20/2022	500,000	495,133	501,250
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.75%	1.25%	5.00%	5/26/2020	2,667,633	2,661,035	2,654,962
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	1M USD LIBOR + 3.00%	0.75%	3.78%	4/30/2019	1,333,333	1,320,613	1,333,747
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	1/4/2021	1,014,560	1,011,573	1,010,755
GTCR Valor Companies, Inc.	Services: Business	Term Loan B	Loan	3M USD LIBOR + 6.00%	1.00%	7.00%	6/16/2023	1,492,500	1,436,528	1,501,201
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	3M USD LIBOR + 5.50%	1.00%	6.50%	2/9/2022	2,176,889	2,117,378	2,190,495
Headwaters Incorporated	Building & Development	Term Loan	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	3/24/2022	242,058	241,141	242,784
Help/Systems Holdings, Inc.	High Tech Industries	Term Loan	Loan	3M USD LIBOR + 5.25%	1.00%	6.25%	10/8/2021	1,485,000	1,433,886	1,485,000
Hemisphere Media Holdings, LLC	Media	Term Loan B	Loan	3M USD LIBOR + 3.50%	0.00%	4.27%	2/14/2024	2,500,000	2,512,500	2,493,750
Herbalife T/L B (HLF Financing)	Drugs	Term Loan B	Loan	1M USD LIBOR + 5.50%	0.75%	6.28%	2/15/2023	2,000,000	1,985,000	2,001,660
Hercules Achievement Holdings, Inc.	Retailers (Except Food and Drugs)	Term Loan B	Loan	1M USD LIBOR + 4.00%	1.00%	5.00%	12/10/2021	246,851	244,820	250,431
Hoffmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	11/21/2023	1,000,000	1,003,734	1,013,750
Hostess Brand, LLC	Beverage, Food & Tobacco	Term Loan B (First Lien)	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	8/3/2022	1,490,000	1,486,482	1,507,508
Huntsman International LLC	Chemicals/Plastics	Term Loan B (First Lien)	Loan	2M USD LIBOR + 3.00%	0.70%	3.78%	4/19/2019	1,518,031	1,510,811	1,525,150
Husky Injection Molding Systems Ltd.	Services: Business	Term Loan B	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	6/30/2021	469,398	467,182	472,158
Hyperion Refinance T/L	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	1M USD LIBOR + 4.50%	1.00%	5.50%	4/29/2022	1,994,924	1,971,849	1,998,675
Imagine! Print Solutions, Inc.	Media	Term Loan B	Loan	3M USD LIBOR + 6.00%	1.00%	7.00%	3/30/2022	496,250	489,837	499,972
Infor US (Lawson) T/L B-6	Services: Business	Term Loan B-6	Loan	3M USD LIBOR + 2.75%	1.00%	3.75%	2/1/2022	1,609,802	1,595,316	1,610,945
Infomatica Corporation	High Tech Industries	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	8/5/2022	493,750	492,732	490,664
Insight Global	Services: Business	Term Loan	Loan	3M USD LIBOR + 5.00%	1.00%	6.00%	10/29/2021	3,450,126	3,434,977	3,471,690
ION Media T/L B	Media	Term Loan B	Loan	2M USD LIBOR + 3.50%	1.00%	4.50%	12/18/2020	500,000	497,615	506,875
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	3/5/2021	945,756	945,756	540,660
Jazz Acquisition, Inc	Aerospace and Defense	First Lien 6/14	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	6/19/2021	487,879	487,106	471,208
J.Jill Group, Inc.	Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	3M USD LIBOR + 5.00%	1.00%	6.04%	5/9/2022	950,648	946,877	935,200
Kinetic Concepts, Inc.	Healthcare & Pharmaceuticals	Term Loan F-1	Loan	3M USD LIBOR + 4.00%	1.00%	4.28%	2/2/2024	2,400,000	2,388,246	2,399,496
Koosharem, LLC	Services: Business	Term Loan	Loan	3M USD LIBOR + 6.50%	1.00%	7.50%	5/15/2020	2,935,100	2,917,778	2,730,259
Kraton Polymers, LLC	Chemicals/Plastics	Term Loan (Initial)	Loan	1M USD LIBOR + 5.00%	1.00%	5.00%	1/6/2022	2,500,000	2,286,776	2,533,825
Lannett Company T/L A	Healthcare & Pharmaceuticals	Term Loan A	Loan	1M USD LIBOR + 4.75%	1.00%	5.75%	11/25/2020	1,000,000	970,576	985,000
Lannett Company, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	1M USD LIBOR + 5.38%	1.00%	6.38%	11/25/2022	1,900,000	1,842,852	1,885,750
LEARFIELD COMMUNICATIONS INITIAL T/L (A-L PARENT)	Healthcare & Pharmaceuticals	Initial Term Loan (A-L Parent)	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	12/1/2023	500,000	497,713	505,625
Lightstone Generation T/L B	Utilities	Term Loan B	Loan	3M USD LIBOR + 5.50%	1.00%	6.54%	1/30/2024	913,043	894,897	925,981
Lightstone Generation T/L C	Utilities	Term Loan C	Loan	3M USD LIBOR + 5.50%	1.00%	6.54%	1/30/2024	86,957	85,236	88,189
Limetree Bay Terminals T/L (01/17)	Oil & Gas	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	6.04%	2/15/2024	500,000	495,000	503,125
LPL Holdings	Banking, Finance, Insurance & Real Estate	Term Loan B (2022)	Loan	2M USD LIBOR + 4.00%	0.75%	4.78%	11/21/2022	1,980,000	1,963,355	2,007,225
Mauser Holdings, Inc.	Containers/Glass Products	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	4.50%	7/31/2021	488,750	487,123	488,647
McGraw-Hill Global Education Holdings, LLC	Publishing	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.00%	5/4/2022	995,000	990,840	977,468
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B1	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	1/30/2023	1,679,779	1,674,140	1,674,673
Micro Holding Corporation	High Tech Industries	Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	7/8/2021	982,378	978,629	985,079
Microsemi Corporation	Electronics/Electric	Term Loan B	Loan	1M USD LIBOR + 2.25%	0.00%	3.03%	1/17/2023	868,445	845,882	874,593
Midas Intermediate Holdco II, LLC	Automotive	Term Loan (Initial)	Loan	1M USD LIBOR + 3.50%	1.00%	3.75%	8/18/2021	244,375	243,499	246,005
Milacron T/L B	Capital Equipment	Term Loan B	Loan	1M USD LIBOR + 3.00%	0.00%	3.78%	9/28/2023	1,000,000	996,250	1,004,380
Milk Specialties Company	Beverage, Food & Tobacco	Term Loan	Loan	1M USD LIBOR + 5.00%	1.00%	5.00%	8/16/2023	997,500	987,646	1,004,562
Mister Car Wash T/L	Automotive	Term Loan	Loan	1M USD LIBOR + 4.25%	1.00%	5.25%	8/20/2021	831,203	825,179	832,931
MSC Software Corporation	Services: Business	Term Loan	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	5/29/2020	1,969,898	1,931,995	1,972,360
MWI Holdings, Inc.	Capital Equipment	Term Loan (First Lien)	Loan	3M USD LIBOR + 5.50%	1.00%	6.50%	6/29/2020	2,985,000	2,956,823	3,007,388
National Veterinary Associates, Inc	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	8/14/2021	977,543	974,893	982,430

National Vision, Inc.	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	1M USD LIBOR + 5.75%	1.00%	6.75%	3/11/2022	250,000	249,793	242,750
New Media Holdings II T/L (NEW)	Retailers (Except Food and Drugs)	Term Loan	Loan	2M USD LIBOR + 6.25%	1.00%	7.25%	6/4/2020	3,168,116	3,154,983	3,140,395
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 6.50%	1.00%	7.50%	12/21/2020	1,930,106	1,777,976	980,494
Novetta Solutions	Aerospace and Defense	Term Loan (200MM)	Loan	3M USD LIBOR + 5.00%	1.00%	6.00%	10/16/2022	1,980,000	1,963,361	1,890,900
Novetta Solutions	Aerospace and Defense	Term Loan (2nd Lien)	Loan	3M USD LIBOR + 8.50%	1.00%	9.50%	10/16/2023	1,000,000	991,237	930,000
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	12/28/2018	476,250	476,250	477,241
NVA Holdings (National Veterinary) T/L B2	Services: Consumer	Term Loan B2	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	8/14/2021	129,601	129,601	130,897
NVA Holdings, Inc.	Services: Consumer	Term Loan B1	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	8/14/2021	157,443	157,108	158,034
NXT Capital T/L (11/16)	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	2M USD LIBOR + 4.50%	1.00%	5.50%	11/23/2022	1,000,000	995,240	1,013,750
ON Semiconductor Corporation	High Tech Industries	Term Loan B	Loan	1M USD LIBOR + 3.25%	0.70%	4.03%	3/31/2023	498,750	491,370	503,204
Onex Carestream Finance LP	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	6/7/2019	3,613,555	3,606,228	3,490,297
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Term Loan B	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	10/1/2021	488,750	486,195	475,554
OpenLink International, LLC	Services: Business	Term B Loan	Loan	3M USD LIBOR + 6.50%	1.25%	7.75%	7/29/2019	2,913,824	2,913,362	2,938,096
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Borrowing	Loan	1M USD LIBOR + 3.25%	1.00%	4.54%	6/24/2019	1,417,598	1,413,680	1,389,245
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Services: Business	Term Loan (First Lien)	Loan	6M USD LIBOR + 4.00%	1.00%	5.25%	10/30/2020	970,000	966,928	933,625
Petsmart, Inc. (Argos Merger Sub, Inc.)	Retailers (Except Food and Drugs)	Term Loan B1	Loan	2M USD LIBOR + 3.00%	1.00%	4.00%	3/11/2022	982,500	977,998	967,183
PGX Holdings, Inc.	Financial Intermediaries	Term Loan	Loan	3M USD LIBOR + 5.25%	1.00%	6.25%	9/29/2020	2,891,464	2,876,188	2,889,671
Planet Fitness Holdings LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	1M USD LIBOR + 3.50%	0.75%	4.28%	3/31/2021	2,392,341	2,385,223	2,407,293
Polycom Term Loan (9/16)	Telecommunications	Term Loan	Loan	2M USD LIBOR + 5.25%	1.00%	6.25%	9/27/2023	1,894,167	1,868,863	1,907,426
PrePaid Legal Services, Inc.	Services: Business	Term Loan B	Loan	1M USD LIBOR + 5.25%	1.25%	6.50%	7/1/2019	3,328,536	3,330,285	3,335,825
Presidio, Inc.	Services: Business	Term Loan	Loan	1M USD LIBOR + 3.50%	1.00%	4.50%	2/2/2022	2,297,698	2,248,964	2,314,930
Prestige Brands T/L B4	Drugs	Term Loan B4	Loan	1M USD LIBOR + 2.75%	0.75%	3.53%	1/26/2024	500,000	498,779	506,040
Prime Security Services (Protection One)	Services: Business	Term Loan	Loan	2M USD LIBOR + 3.25%	1.00%	4.25%	5/2/2022	1,985,025	1,975,632	2,003,645
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	1M USD LIBOR + 3.25%	1.00%	4.25%	10/1/2021	916,047	913,757	918,337
Ranpak Holdings, Inc.	Services: Business	Term Loan (Second Lien)	Loan	1M USD LIBOR + 7.25%	1.00%	8.25%	10/3/2022	500,000	498,149	475,000
Redtop Acquisitions Limited	Electronics/Electric	Initial Dollar Term Loan (First Lien)	Loan	3M USD LIBOR + 3.50%	1.00%	4.54%	12/3/2020	485,019	483,001	486,634
Regal Cinemas Corporation	Services: Consumer	Term Loan	Loan	1M USD LIBOR + 2.50%	0.75%	3.28%	4/1/2022	495,009	493,772	499,573
Research Now Group, Inc	Media	Term Loan B	Loan	3M USD LIBOR + 4.50%	1.00%	5.50%	3/18/2021	2,037,705	2,029,696	2,002,045
Resolute Investment Managers, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	3M USD LIBOR + 4.25%	1.00%	5.25%	4/30/2022	240,815	239,883	241,518
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	8/21/2023	732,374	732,374	736,497
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	8/21/2023	641,402	641,402	645,013
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	1M USD LIBOR + 3.00%	0.00%	3.78%	2/3/2023	1,761,134	1,761,134	1,773,603
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	1M USD LIBOR + 2.50%	0.75%	3.29%	7/2/2021	1,462,500	1,457,765	1,467,984
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (Second Lien)	Loan	3M USD LIBOR + 7.50%	1.00%	8.50%	6/19/2023	275,862	274,109	276,552
Royal Holdings T/L (02/17)	Chemicals/Plastics	Term Loan (Second Lien)	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	6/17/2022	541,607	539,167	544,992
RPI Finance Trust	Financial Intermediaries	Term B-4 Term Loan	Loan	3M USD LIBOR + 2.50%	0.00%	3.50%	10/14/2022	2,554,764	2,554,764	2,580,848

See accompanying notes to financial statements.

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Issuer Name	Industry	Asset Name	Asset Type	LIBOR/Spread	LIBOR Floor	Current Rate (All In)	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Russell Investment Management T/L B	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	1M USD LIBOR + 5.75%	1.00%	6.75%	6/1/2023	2,240,000	2,127,043	2,259,600
Sable International Finance Ltd SBP Holdings LP	Telecommunications	Term Loan B2	Loan	1M USD LIBOR + 4.75%	0.75%	5.53%	12/30/2022	1,500,000	1,470,825	1,521,570
Scientific Games International, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	3/27/2021	972,500	969,442	870,388
SCS Holdings (Sirius Computer)	Electronics/Electric High Tech Industries	Term Loan B2	Loan	1M USD LIBOR + 4.00%	0.75%	4.85%	10/1/2021	769,549	762,102	781,416
Seadrill Operating LP	Oil & Gas	Term Loan B	Loan	1M USD LIBOR + 4.25%	1.00%	5.25%	10/31/2022	1,972,528	1,934,960	1,991,030
Shearers Foods LLC	Food Services	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	2/21/2021	977,330	922,444	729,635
Sitel Worldwide	Food Services	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.94%	1.00%	4.94%	6/30/2021	977,500	975,832	979,944
SMB Shipping Logistics T/L B (REP WWEX Acquisition)	Telecommunications	Term Loan	Loan	6M USD LIBOR + 5.50%	1.00%	6.56%	9/18/2021	1,975,000	1,959,274	1,961,432
Sonneborn, LLC	Transportation	Term Loan B	Loan	6M USD LIBOR + 4.50%	1.00%	5.53%	2/2/2024	1,000,000	995,095	1,008,330
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	12/10/2020	207,981	207,633	208,501
Sonia, L.P.	Chemicals/Plastics	Initial US Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	12/10/2020	1,178,561	1,176,588	1,181,508
SourceHOV LLC	Electronics/Electric	Term Loan B (First Lien)	Loan	3M USD LIBOR + 3.25%	1.00%	4.25%	9/30/2022	1,960,897	1,951,404	1,967,761
SRAM, LLC	Services: Business	Term Loan B (First Lien)	Loan	1M USD LIBOR + 6.75%	1.00%	7.75%	10/31/2019	1,837,500	1,804,647	1,808,412
Steak 'n Shake Operations, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	1M USD LIBOR + 3.00%	1.00%	4.00%	4/10/2020	2,725,103	2,719,454	2,718,289
Survey Sampling International	Food Services	Term Loan	Loan	1M USD LIBOR + 3.75%	1.00%	4.75%	3/19/2021	923,173	917,444	930,097
Sybil Finance BV	Services: Business	Term Loan B	Loan	3M USD LIBOR + 5.00%	1.00%	6.00%	12/16/2020	2,721,749	2,707,531	2,721,749
Syniverse Holdings, Inc.	High Tech Industries	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	9/30/2022	987,500	982,957	1,002,006
TaxACT, Inc.	Telecommunications	Initial Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.04%	4/23/2019	468,977	466,972	427,473
Tectum Holdings, Inc.	Services: Business	Term Loan B	Loan	1M USD LIBOR + 6.00%	1.00%	7.00%	1/3/2023	1,200,000	1,168,727	1,206,000
Tennessee Merger T/L (Team Health)	Transportation	Delayed Draw Term Loan (Initial)	Loan	3M USD LIBOR + 4.75%	1.00%	5.80%	8/24/2023	997,500	988,185	1,004,981
TGI Friday's, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 2.75%	1.00%	3.75%	2/6/2024	1,000,000	997,518	996,880
Townsquare Media, Inc.	Food Services	Term Loan B	Loan	3M USD LIBOR + 4.25%	1.00%	5.25%	7/15/2020	1,651,817	1,648,856	1,646,316
TPF II Power LLC and TPF II Covert Midco LLC	Media	Term Loan B	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	4/1/2022	932,522	927,933	937,185
TransDigm, Inc.	Utilities	Term Loan B	Loan	1M USD LIBOR + 4.00%	1.00%	5.00%	10/2/2021	1,413,873	1,364,619	1,426,683
Travel Leaders Group, LLC	Aerospace and Defense	Tranche C Term Loan	Loan	1M USD LIBOR + 3.00%	0.75%	3.78%	2/28/2020	4,233,198	4,238,155	4,249,920
Trugreen Limited Partnership	Hotel, Gaming and Leisure	Term Loan B	Loan	1M USD LIBOR + 5.25%	0.00%	6.03%	1/25/2024	2,000,000	1,990,095	2,025,000
Twin River Management Group, Inc.	Services: Business	Term Loan B	Loan	2M USD LIBOR + 5.50%	1.00%	6.50%	4/13/2023	497,500	490,931	503,719
Univar Inc.	Lodging & Casinos	Term Loan B	Loan	3M USD LIBOR + 3.50%	1.00%	4.50%	7/10/2020	809,438	810,684	819,556
Univision Communications Inc.	Chemicals/Plastics	Term B Loan	Loan	1M USD LIBOR + 2.75%	0.00%	3.61%	7/1/2022	2,962,500	2,948,361	2,971,565
Valeant Pharmaceuticals International, Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	3M USD LIBOR + 3.00%	1.00%	4.00%	3/1/2020	2,885,666	2,876,319	2,896,949
Verint Systems Inc.	Drugs	Series D2 Term Loan B	Loan	3M USD LIBOR + 4.25%	0.75%	5.03%	2/13/2019	2,445,056	2,437,788	2,456,890
Vistra Operations Company T/L B (12/16)	Services: Business	Term Loan	Loan	3M USD LIBOR + 2.75%	0.75%	3.53%	9/6/2019	1,006,278	1,003,396	1,010,554
Vizient Inc.	Utilities	Term Loan B	Loan	1M USD LIBOR + 3.25%	0.75%	4.02%	12/13/2023	500,000	498,784	502,970
Vouvray US Finance	Healthcare & Pharmaceuticals	Term Loan	Loan	1M USD LIBOR + 4.00%	1.00%	5.00%	2/13/2023	879,853	856,884	891,405
Washington Inventory Service	Industrial Equipment	Term Loan	Loan	2M USD LIBOR + 3.75%	1.00%	4.75%	6/27/2021	487,500	485,889	486,891
Western Digital Corporation	U.S. Term Loan (First Lien) (5.75% PIK)	Loan	Loan	1M USD LIBOR + 0.00%	0.00%	5.75%	12/20/2018	1,735,292	1,743,798	1,418,601
Windstream Services, LLC	High Tech Industries	Term Loan B (USD)	Loan	1M USD LIBOR + 3.75%	0.75%	4.53%	5/1/2023	1,592,000	1,547,312	1,602,396
Xerox Business Services T/L B (Conduent)	Telecommunications	Term Loan B6	Loan	1M USD LIBOR + 4.00%	0.75%	4.78%	3/29/2021	999,375	989,489	1,006,121
Zekelman Industries (JMC Steel) T/L (1/17)	Services: Business	Term Loan	Loan	2M USD LIBOR + 5.50%	0.75%	6.28%	12/7/2023	750,000	737,850	761,955
ZEP, Inc.	Nonferrous Metals/Minerals	Term Loan	Loan	3M USD LIBOR + 3.75%	1.00%	4.75%	6/14/2021	500,000	501,250	506,040
Zest Holdings 1st Lien T/L (2014 Replacement)	Chemicals/Plastics	Term Loan B	Loan	3M USD LIBOR + 4.00%	1.00%	5.00%	6/27/2022	2,955,000	2,941,390	2,984,550
	Healthcare & Pharmaceuticals	Term Loan	Loan	3M USD LIBOR + 4.75%	1.00%	5.75%	8/17/2020	1,000,000	995,523	1,012,500
									\$ 297,801,502	\$ 292,460,648
								Number of Shares	Cost	Fair Value
Cash and cash equivalents										
U.S. Bank Money Market (a)								13,046,555	\$ 13,046,555	\$ 13,046,555
Total cash and cash equivalents								13,046,555	\$ 13,046,555	\$ 13,046,555

(a) Included within cash and cash equivalents in Saratoga CLO's statements of assets and liabilities as of February 28, 2017.

LIBOR—London Interbank Offered Rate

1M USD LIBOR—The 1 month USD LIBOR rate as of February 28, 2017 was 0.77%.

2M USD LIBOR—The 2 month USD LIBOR rate as of February 28, 2017 was 0.86%.

3M USD LIBOR—The 3 month USD LIBOR rate as of February 28, 2017 was 1.05%.

6M USD LIBOR—The 6 month USD LIBOR rate as of February 28, 2017 was 1.37%.

PIK—Payment-in-Kind (see Note 2 to the financial statements)

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1, Ltd.**Statements of Changes in Net Assets**

	For the Year Ended		
	February 28, 2018	February 28, 2017	February 29, 2016
INCREASE (DECREASE) FROM OPERATIONS:			
Net investment income (loss)	\$ 1,395,342	\$ (5,232,690)	\$ 104,587
Net realized gain from investments	619,531	358,169	419,096
Net change in unrealized appreciation (depreciation) on investments	(286,416)	13,458,113	(16,277,895)
Net increase (decrease) in net assets resulting from operations	1,728,457	8,583,592	(15,754,212)
Total increase (decrease) in net assets	1,728,457	8,583,592	(15,754,212)
Net assets at beginning of period	(12,973,776)	(21,557,368)	(5,803,156)
Net assets at end of period	<u><u>\$ (11,245,319)</u></u>	<u><u>\$ (12,973,776)</u></u>	<u><u>\$ (21,557,368)</u></u>

See accompanying notes to financial statements.

Saratoga Investment Corp. CLO 2013-1, Ltd.

Statements of Cash Flows

	February 28, 2018	For the Year Ended February 28, 2017	February 29, 2016
Operating activities			
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 1,728,457	\$ 8,583,592	\$ (15,754,212)
ADJUSTMENTS TO RECONCILE NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Paid-in-kind interest income	(350,309)	(288,557)	(56,830)
Net accretion of discount on investments	(1,294,300)	(543,181)	(280,310)
Amortization of deferred debt financing costs	177,011	829,475	955,858
Loss on extinguishment of debt	—	6,143,816	—
Net realized gain from investments	(619,531)	(358,169)	(419,096)
Net change in unrealized (appreciation) depreciation on investments	286,416	(13,458,113)	16,277,895
Proceeds from sale and redemption of investments	150,035,021	161,551,546	142,862,138
Purchase of investments	(161,426,952)	(154,519,385)	(147,989,317)
(Increase) decrease in operating assets:			
Interest receivable	(210,063)	254,697	(407,925)
Receivable from open trades	(10,890,571)	1,186,831	(572,144)
Other assets	6,049	(6,049)	—
Increase (decrease) in operating liabilities:			
Interest payable	158,971	405,417	(5,846)
Payable for open trades	15,039,806	2,307,698	1,909,523
Accrued base management fee	(676)	(50,787)	(949)
Accrued subordinated management fee	(2,706)	51,877	(949)
Accrued incentive fee	65,300	—	—
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(7,298,077)</u>	<u>12,090,708</u>	<u>(3,482,164)</u>
Financing activities			
Borrowings on debt	—	282,320,000	—
Paydowns on debt	—	(282,457,781)	—
Deferred debt financing costs	21,342	(1,256,005)	—
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	<u>21,342</u>	<u>(1,393,786)</u>	<u>—</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,276,735)	10,696,922	(3,482,164)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,046,555	2,349,633	5,831,797
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 5,769,820</u>	<u>\$ 13,046,555</u>	<u>\$ 2,349,633</u>
Supplemental Information:			
Interest paid during the period	\$ 13,560,565	\$ 12,169,421	\$ 11,702,603
Supplemental non-cash information:			
Paid-in-kind interest income	\$ 350,309	\$ 288,557	\$ 56,830
Net accretion of discount on investments	1,294,300	543,181	280,310
Amortization of deferred debt financing costs	177,011	829,475	955,858

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.

On November 15, 2016, the Issuer completed the second refinancing and the Issuer issued \$282.4 million of notes (the “2013-1 Amended CLO Notes”), consisting of 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 Amended CLO Notes were issued pursuant to the Indenture with the same Trustee. Proceeds of the issuance of the 2013-1 Amended CLO Notes were used, along with existing assets held by the Trustee, to redeem all of the 2013-1 CLO Notes issued in 2013. As of February 28, 2018, Saratoga Investment Corp. owned 100% of the Subordinated Notes and Class F 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. The CLO remains 100.0% owned and managed by Saratoga Investment Corp.

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.

The Issuer is considered to be an investment company for financial reporting purposes and has applied the guidance in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946, “*Financial Services—Investment Companies*.” There has been no change to the Issuer’s status as an investment company during the year ended February 28, 2018.

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, 2018 and February 28, 2017, cash and cash equivalents amounted to \$5.8 million and \$13.0 million, respectively, and are swept on an overnight basis into a U.S. Bank money market deposit account held at the Trustee.

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In November 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* (“ASU 2016-18”). ASU 2016-18 requires that the statements of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statements of cash flows. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted and is to be applied on a retrospective basis. The Issuer has adopted the provisions of ASU 2016-18 as of November 30, 2016. The adoption of the provisions of ASU 2016-18 did not materially impact the Issuer’s financial position or results of operations. Prior period amounts were reclassified to conform to the current period presentation.

Valuation of Investments

The Issuer accounts for its investments at fair value in accordance with the FASB 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.

Payment-in-Kind Interest

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

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Deferred Debt Financing Costs, net

The Issuer presents deferred debt financing costs on the balance sheet as a contra-liability as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts.

Included in deferred debt financing costs of \$1.0 million as of February 28, 2018 and \$1.2 million as of February 28, 2017 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 \$1.5 million, incurred in connection with the issuance of the 2013-1 CLO Notes, were expensed when the 2013-1 CLO Notes were extinguished on November 15, 2016.

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")) and prior to the second refinancing and the issuance of the 2013-1 Amended CLO Notes, was payable 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) and prior to the second refinancing and the issuance of the 2013-1 Amended CLO Notes, was payable in an amount equal to 0.25% per annum of the fee basis amount at the beginning of the Collection Period. Subsequent to the second refinancing and the issuance of the 2013-1 Amended CLO Notes, the Base Management Fee was changed to be payable in an amount equal to 0.10% per annum of the fee basis amount at the beginning of the Collection period, and the Subordinated Management Fees was changed to be payable in an amount equal to 0.40% per annum of the fee basis amount at the beginning of the Collection period. Throughout, the Incentive Management Fee equals 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 year ended February 28, 2018, Incentive Management Fees of \$0.6 million were accrued. For the years ended February 28, 2017 and February 29, 2016, no Incentive Management Fees have been accrued or 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, 2018, February 28, 2017 and February 29, 2016, 2015, the Issuer paid \$0.2 million, \$0.1 million and \$0.1 million, respectively, for trustee services provided and is included on the statements 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, 2018, February 28, 2017 and February 29, 2016, \$3.3 million, \$4.7 million and \$5.6 million of payments to the Subordinated Notes were included in interest expense on the statements 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.

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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.

Regulatory Matters

In October 2016, the SEC adopted new rules and amended existing rules (together, “final rules”) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosures about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X was August 1, 2017. Management has adopted the amendments to Regulation S-X and included required disclosures in the Issuer’s financial statements and related disclosures.

New Accounting Pronouncements

In March 2017, the FASB issued ASU 2017-08, *Receivables — Nonrefundable Fees and Other Costs (Subtopic 310-20)*, *Premium Amortization on Purchased Callable Debt Securities* (“ASU 2017-08”) which amends the amortization period for certain purchased callable debt securities held at a premium, shortening such period to the earliest call date. ASU 2017-08 does not require any accounting change for debt securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Management has assessed these changes and does not believe they would have a material impact on the Issuer’s financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230)*, *Classification of Certain Cash Receipts and Cash Payments* (“ASU 2016-15”), which is intended to reduce the existing diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2017, and interim periods therein. Early adoption is permitted. Management has assessed these changes and does not believe they would have a material impact on the Issuer’s financial statements and disclosures.

In February 2016, the FASB issued ASU 2016-02, *Amendments to the Leases* (“ASU Topic 842”), which will require for all operating leases the recognition of a right-of-use asset and a lease liability, in the statement of financial position. The lease cost will be allocated over the lease term on a straight-line basis. This guidance is effective for annual and interim periods beginning after December 15, 2018. Management is currently evaluating the impact the adoption of this standard has on the Issuer’s financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments — Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 retains many current requirements for the classification and measurement of financial instruments; however, it significantly revises an entity’s accounting related to (1) the classification and measurement of investments in equity securities and (2) the presentation of certain fair value changes for financial liabilities measured at fair value. ASU 2016-01 also amends certain disclosure requirements associated with the fair value of financial instruments. This guidance is effective for annual and interim periods beginning after December 15, 2017, and early adoption is not permitted for public business entities. Management has assessed these changes and does not believe they would have a material impact on the Issuer’s financial statements and disclosures.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606), which supersedes the revenue recognition requirements in Revenue Recognition (Topic 605). Under the new guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In May 2016, ASU 2016-12 amended ASU 2014-09 and deferred the effective period for annual periods beginning after December 15, 2017. Management has assessed these changes and does not believe they would have a material impact on the Issuer’s financial statements and disclosures.

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.

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ASC 820 establishes a hierarchical 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 a 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 Investment Company Act of 1940 (“1940 Act”).

The following table presents fair value measurements of investments, by major class, as of February 28, 2018, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$260,462,293	\$45,361,411	\$305,823,704
Equity interests	—	2,235	4,364	6,599
Total	\$ —	\$260,464,528	\$45,365,775	\$305,830,303

The following table presents fair value measurements of investments, by major class, as of February 28, 2017, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$241,228,228	\$51,209,702	\$292,437,930
Equity interests	—	—	22,718	22,718
Total	\$ —	\$241,228,228	\$51,232,420	\$292,460,648

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, 2018:

	Term Loans	Equity Interests	Total
Balance as of February 28, 2017	\$ 51,209,702	\$ 22,718	\$ 51,232,420
Net change in unrealized appreciation	54,781	4,117	58,898
Purchases and other adjustments to cost	29,566,554	—	29,566,554
Sales and repayments	(25,412,198)	—	(25,412,198)
Net realized gain from investments	15,544	—	15,544
Transfers in (1)	8,778,388	—	8,778,388
Transfers out (2)	(18,851,360)	(22,471)	(18,873,831)
Balance as of February 28, 2018	\$ 45,361,411	\$ 4,364	\$ 45,365,775

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- (1) The Issuer's investment in Level 3 investments were classified as such during the year ended February 28, 2018, as market quotes for these investments are only provided by one trading desk.
- (2) The Issuer's investment in Level 2 investments were classified as such during the year ended February 28, 2018, as the number of observable market quotes for these investments increased.

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, 2017:

	<u>Term Loans</u>	<u>Equity Interests</u>	<u>Total</u>
Balance as of February 29, 2016	\$ 45,397,073	\$ 1,768	\$ 45,398,841
Net change in unrealized appreciation (depreciation)	2,181,976	(169,145)	2,012,831
Purchases and other adjustments to cost	23,317,031	—	23,317,031
Sales and repayments	(10,891,325)	—	(10,891,325)
Net realized gain from investments	95,892	—	95,892
Transfers in (1)	6,387,646	190,095	6,577,741
Transfers out (2)	(15,278,591)	—	(15,278,591)
Balance as of February 28, 2017	<u>\$ 51,209,702</u>	<u>\$ 22,718</u>	<u>\$ 51,232,420</u>

- (1) The Issuer's investment in Level 3 investments were classified as such during the year ended February 28, 2017, as market quotes for these investments are only provided by one trading desk.
- (2) The Issuer's investment in Level 2 investments were classified as such during the year ended February 28, 2017, as the number of observable market quotes for these investments increased.

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

The net change in unrealized appreciation on Level 3 investments held as of February 28, 2018 was \$0.3 million, and is included in net change in unrealized appreciation (depreciation) on investments in the statements of operations. The net change in unrealized appreciation on Level 3 investments held as of February 28, 2017 was \$2.1 million, and is included in net change in unrealized appreciation (depreciation) on investments in the statements of operations.

Significant unobservable inputs used in the fair value measurement of the Level 3 term loans and equity include market quotations available from multiple dealers. A significant increase (decrease) in the market quote, in isolation, would result in a significantly lower (higher) fair value measurement.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2018 were as follows:

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Term loans	\$45,361,411	Market Comparables	Third-Party Bid	89.00% - 102.75%
Equity interests	4,364	Market Comparables	Third-Party Bid	0.40%

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2017 were as follows:

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	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Term loans	\$51,209,702	Market Comparables	Third-Party Bid	93.00% - 101.63%
Equity interests	22,718	Market Comparables	Third-Party Bid	0.01% - 1.06%

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.

On November 15, 2016, the Issuer issued \$282.4 million of the 2013-1 Amended CLO Notes, consisting of 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 Amended CLO Notes were used along with existing assets held by the Trustee to redeem all of the 2013-1 CLO Notes issued in 2013. The Subordinated Notes were not included in the refinancing transaction.

The 2013-1 Amended 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 Amended 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 November 15, 2016, at February 28, 2018:

<u>Debt Security</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Principal Amount</u>	<u>Amount Outstanding</u>
Class A-1 Floating Rate Senior Notes	LIBOR + 1.55%	October 20, 2025	\$170,000,000	\$170,000,000
Class A-2 Floating Rate Senior Notes	LIBOR + 1.75%	October 20, 2025	20,000,000	20,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.70%	October 20, 2025	44,800,000	44,800,000
Class C Deferrable Floating Rate Notes	LIBOR + 3.36%	October 20, 2025	16,000,000	16,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	October 20, 2025	14,000,000	14,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 6.65%	October 20, 2025	13,100,000	13,100,000
Class F Deferrable Floating Rate Notes	LIBOR + 8.50%	October 20, 2025	4,500,000	4,500,000
Subordinated Notes	N/A	October 20, 2025	30,000,000	30,000,000
			<u>\$312,400,000</u>	<u>\$312,400,000</u>

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The table below sets forth certain information for each outstanding class of notes issued, pursuant to the Indenture on November 15, 2016, at February 28, 2017:

Debt Security	Interest Rate	Maturity	Principal Amount	Amount Outstanding
Class A-1 Floating Rate Senior Notes	LIBOR + 1.55%	October 20, 2025	\$170,000,000	\$170,000,000
Class A-2 Floating Rate Senior Notes	LIBOR + 1.75%	October 20, 2025	20,000,000	20,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.70%	October 20, 2025	44,800,000	44,800,000
Class C Deferrable Floating Rate Notes	LIBOR + 3.36%	October 20, 2025	16,000,000	16,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	October 20, 2025	14,000,000	14,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 6.65%	October 20, 2025	13,100,000	13,100,000
Class F Deferrable Floating Rate Notes	LIBOR + 8.50%	October 20, 2025	4,500,000	4,500,000
Subordinated Notes	N/A	October 20, 2025	30,000,000	30,000,000
			<u>\$312,400,000</u>	<u>\$312,400,000</u>

The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 28, 2018:

Debt Security	February 28, 2018
Class A-1 Floating Rate Senior Notes	\$ 170,737,343
Class A-2 Floating Rate Senior Notes	20,138,214
Class B Floating Rate Senior Notes	45,373,111
Class C Deferrable Floating Rate Notes	16,180,199
Class D Deferrable Floating Rate Notes	14,153,208
Class E Deferrable Floating Rate Notes	13,128,862
Class F Deferrable Floating Rate Notes	4,499,100
Subordinated Notes	11,874,704
	<u>\$ 296,084,741</u>

The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 28, 2017:

Debt Security	February 28, 2017
Class A-1 Floating Rate Senior Notes	\$ 171,229,950
Class A-2 Floating Rate Senior Notes	20,221,460
Class B Floating Rate Senior Notes	45,715,309
Class C Deferrable Floating Rate Notes	16,286,880
Class D Deferrable Floating Rate Notes	14,242,508
Class E Deferrable Floating Rate Notes	13,145,915
Class F Deferrable Floating Rate Notes	4,499,379
Subordinated Notes	10,950,249
	<u>\$ 296,291,650</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 tables provide the weighted average interest rate for the years ended February 28, 2018, February 28, 2017 and February 29, 2016:

February 28, 2018

Debt Security	Interest Rate	Weighted Average Interest Rate
2013-1 Amended CLO Notes		
Class A-1 Floating Rate Senior Notes	LIBOR + 1.55%	2.87%
Class A-2 Floating Rate Senior Notes	LIBOR + 1.75%	3.08%
Class B Floating Rate Senior Notes	LIBOR + 2.70%	4.04%
Class C Deferrable Floating Rate Notes	LIBOR + 3.36%	4.81%
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	6.08%
Class E Deferrable Floating Rate Notes	LIBOR + 6.65%	8.06%
Class F Deferrable Floating Rate Notes	LIBOR + 8.50%	9.94%
Subordinated Notes	N/A	N/A

February 28, 2017

Debt Security	Interest Rate	Weighted Average Interest Rate
2013-1 Amended CLO Notes		
Class A-1 Floating Rate Senior Notes	LIBOR + 1.55%	2.10%
Class A-2 Floating Rate Senior Notes	LIBOR + 1.75%	2.30%
Class B Floating Rate Senior Notes	LIBOR + 2.70%	2.96%
Class C Deferrable Floating Rate Notes	LIBOR + 3.36%	3.78%
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	4.64%
Class E Deferrable Floating Rate Notes	LIBOR + 6.65%	5.98%
Class F Deferrable Floating Rate Notes	LIBOR + 8.50%	7.45%
Subordinated Notes	N/A	N/A

February 29, 2016

Debt Security	Interest Rate	Weighted Average Interest Rate
2013-1 CLO Notes		
Class A-1 Floating Rate Senior Notes	LIBOR + 1.30%	1.62%
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	1.82%
Class B Floating Rate Senior Notes	LIBOR + 2.00%	2.32%
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	3.22%
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	3.82%
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	4.82%
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	6.07%
Subordinated Notes	N/A	N/A

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.

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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 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, 2018, the remaining unamortized discount on the 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, \$0.0 million, \$0.0 million, \$0.1 million, \$0.3 million, \$0.0 million and \$0.0 million, respectively.

As of February 28, 2017, the remaining unamortized discount on the 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, \$0.0 million, \$0.0 million, \$0.1 million, \$0.4 million, \$0.0 million and \$0.0 million, respectively.

The remaining unamortized deferred debt financing costs, on the 2013-1 CLO Notes, of \$1.5 million, and unamortized discount on the 2013-1 CLO Notes of \$4.6 million, were recognized as additional amortization expense when the related notes were extinguished and recorded within loss on extinguishment of debt in the statements of operations. As of February 28, 2018, \$1.3 million of financing costs related to the 2013-1 Amended CLO Notes have been capitalized and are being amortized over the term of the 2013-1 Amended CLO Notes.

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 the 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 (2015—2018). The Issuer identifies its major tax jurisdictions as U.S. Federal, state and foreign jurisdictions where the Issuer makes investments. As of February 28, 2018 and February 28, 2017, 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, 2018, February 28, 2017 and February 29, 2016. 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, 2018, February 28, 2017 and February 29, 2016.

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. Therefore, the Issuer has not accrued any liabilities in connection with such indemnifications.

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, 2018 and February 28, 2017, the Issuer is not subject to any material legal proceedings. Therefore, the Issuer has not accrued any liabilities in connection with such indemnifications.

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, 2018, the Issuer had \$0.2 million of unfunded commitments. At February 28, 2017, the Issuer had \$0.5 million of 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, 2018, February 28, 2017 and February 29, 2016, the Issuer neither bought nor sold investments from related parties.

The Subordinated Notes are wholly owned by the Investment Manager. The Subordinated Notes do not have a stated coupon rate, 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, 2018, February 28, 2017 and February 29, 2016, \$3.3 million, \$4.7 million and \$5.6

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million of payments to the Subordinated Notes were included in interest expense in the statements of operations, respectively. In addition to refinancing its liabilities, the Investment Manager owns \$4.5 million in aggregate principal amount of the Class F notes tranche of the CLO at par, with a coupon of LIBOR plus 8.5%. For the year ended February 28, 2018, \$0.4 million of payments to the Class F Notes are included in interest expense in the statements of operations.

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, 2018 and February 28, 2017, net assets were \$(11.2) million and \$(13.0) million, respectively. These amounts include accumulated losses of \$(13.0) million and \$(21.6) 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, 2018, February 28, 2017, February 29, 2016, February 28, 2015 and February 28, 2014:

	February 28, 2018	February 28, 2017	February 29, 2016	February 28, 2015	February 28, 2014
Average subordinated notes' capital balance(1)	\$17,262,714	\$15,113,353	\$18,382,072	\$25,077,372	\$28,471,910
Ratio and supplemental data:					
Total Return(2)	32.73%	162.55%	(49.59)%	5.34%	4.65%
Net investment income(3)	8.08%	(34.62)%	0.57%	3.17%	(7.53)%
Total expenses(3)	95.41%	141.14%	79.34%	49.79%	65.27%
Base management fee(3)	1.75%	3.87%	4.07%	3.03%	1.82%
Subordinated management fee(3)	6.99%	6.04%	4.07%	3.03%	4.42%

(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, 2018 through May 14, 2018, 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.

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

I, Christian L. Oberbeck, certify that:

1. I have reviewed this Annual Report on Form 10-K of Saratoga Investment Corp.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 14, 2018

/s/ CHRISTIAN L. OBERBECK

Christian L. Oberbeck

Chief Executive Officer

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

I, Henri J. Steenkamp, certify that:

1. I have reviewed this Annual Report on Form 10-K of Saratoga Investment Corp.;

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

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

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

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

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 14, 2018

/s/ HENRI J. STEENKAMP

Henri J. Steenkamp

Chief Financial Officer and Chief Compliance Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Saratoga Investment Corp. (the "Company") for the annual period ended February 28, 2018, as filed with the Securities Exchange Commission on the date hereof (the "Report"), I, Christian L. Oberbeck, Chief Executive Officer of the Company, and I, Henri J. Steenkamp, Chief Financial Officer of the Company, each certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to our knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 14, 2018

/s/ CHRISTIAN L. OBERBECK

Christian L. Oberbeck
Chief Executive Officer

/s/ HENRI J. STEENKAMP

Henri J. Steenkamp
Chief Financial Officer and Chief Compliance Officer