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

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**FORM N-2**

(Check appropriate box or boxes)

**REGISTRATION STATEMENT**  
*UNDER*  
**THE SECURITIES ACT OF 1933**

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Pre-Effective Amendment No. 2

Post-Effective Amendment No.

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**SARATOGA INVESTMENT CORP.**

(Exact Name of Registrant as Specified in Charter)

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

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

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

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

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

It is proposed that this filing will become effective (check appropriate box):

When declared effective pursuant to Section 8(c).

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**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

<b>Title of Securities Being Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price per Note</b>	<b>Proposed Maximum Aggregate Offering Price(1)(2)</b>	<b>Amount of Registration Fee</b>
% Notes due 20XX	\$63,250,000	100%	\$63,250,000	\$7,330.68(3)

- (1) Estimated solely for the purposes of determining the registration fee pursuant to Rule 457(o) under the Securities Act of 1933 (the "Securities Act").
- (2) Includes notes that may be issued pursuant to the underwriters' option to purchase additional notes.
- (3) In connection with the registration of \$17.25 million of additional notes hereunder (the "Additional Notes"), and pursuant to Rule 457(p), a filing fee of \$1,999.28 is being paid herewith to register the Additional Notes, and the remaining \$5,331.40 was previously paid in connection with the initial filing of this Registration Statement on October 20, 2016.

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

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**The information in this preliminary prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION DATED DECEMBER 9, 2016**

**PRELIMINARY PROSPECTUS**



**\$55,000,000**  
**% Notes due 20XX**

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, both through direct lending and through participation in loan syndicates. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We are an externally managed, closed end, non-diversified management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940.

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

We are offering \$55.0 million in aggregate principal amount of % notes due , which we refer to as the “20XX Notes.” The 20XX Notes will mature on . We will pay interest on the 20XX Notes on , , and of each year, beginning on , . We may redeem the 20XX Notes in whole or in part at any time, or from time to time on or after , at the redemption price of par, plus accrued interest, as discussed under the caption “Description of the 20XX Notes—Optional Redemption” in this prospectus. The 20XX Notes will be issued in minimum denominations of \$25 and integral multiples of \$25 in excess thereof.

The 20XX Notes will be our direct unsecured obligations and rank *pari passu*, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us, including our 7.50% fixed-rate notes due 2020 (the “2020 Notes”). The 20XX Notes will be effectively subordinated to all of the Company’s 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. The 20XX Notes will be structurally subordinated to all existing and future indebtedness and other obligations of any of the Company’s subsidiaries and financing vehicles since they are obligations exclusively of Saratoga Investment Corp. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the 20XX Notes and the 20XX Notes will not be required to be guaranteed by any subsidiary we may acquire or create in the future. Because the 20XX Notes will not be 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 20XX Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the 20XX Notes.

As of the offering date of the 20XX Notes, the 20XX Notes will rank *pari passu*, which means equal to, \$61.8 million principal amount of our 2020 Notes and our general liabilities, and will be structurally subordinated to both \$103.7 million of our SBA-guaranteed debentures and our \$45.0 million credit facility with Madison Capital Funding LLC, which has a current balance of \$0.0. The 20XX Notes will also rank *pari passu*, which means equal to, our general liabilities. In total, these general liabilities were \$10.3 million as of August 31, 2016. We currently do not have outstanding debt that is subordinated to the 20XX Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the 20XX Notes. Therefore, the 20XX Notes will not be senior to any indebtedness or obligations.

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We intend to list the 20XX Notes on the New York Stock Exchange and we expect trading to commence thereon within 30 days of the original issue date under the trading symbol “\_\_\_\_\_.” The 20XX Notes are expected to trade “flat.” This means that purchasers will not pay, and sellers will not receive, any accrued and unpaid interest on the 20XX Notes that is not included in the trading price. Currently, there is no public market for the 20XX Notes and there can be no assurance that one will develop.

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.” A majority of our debt portfolio consists of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, a majority of our debt investments had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

This prospectus contains important information about us that a prospective investor should know before investing in our 20XX Notes. We file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us at 535 Madison Avenue, New York, New York 10017, by telephone at (212) 906-7800, or on our website at <http://www.saratogainvestmentcorp.com>. The information on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus. The SEC also maintains a website at [www.sec.gov](http://www.sec.gov) that contains such information.

**Investing in the 20XX Notes involves a high degree of risk and should be considered speculative. For more information regarding the risks you should consider, including the risk of leverage, please see “Risk Factors” beginning on page 22 of this prospectus.**

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

	Per Note	Total
Public offering price	100%	\$
Underwriting discount (sales load)	3.125%	\$
Proceeds to us before expenses(1)	%	\$

(1) We estimate that we will incur approximately \$\_\_\_\_\_ in offering expenses in connection with this offering. See “Underwriting.”

Ladenburg Thalmann, acting as Sole Book-Running Manager may, as representative of the underwriters, exercise an option to purchase up to an additional \$8,250,000 total aggregate principal amount of 20XX Notes offered hereby, within 30 days of the date of this prospectus. If this option is exercised in full, the total public offering price will be \$\_\_\_\_\_, the total underwriting discount (sales load) paid by us will be \$\_\_\_\_\_, and total proceeds, before expenses, will be \$\_\_\_\_\_.

**THE 20XX NOTES ARE NOT DEPOSITS OR OTHER OBLIGATIONS OF A BANK AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION OR ANY OTHER GOVERNMENT AGENCY.**

Delivery of the 20XX Notes in book-entry form only through The Depository Trust Company will be made on or about \_\_\_\_\_, 2016.

*Underwriters (Joint Book-Running Managers)*

**Ladenburg Thalmann**

**BB&T Capital Markets**

**Compass Point**

**William Blair**

The date of this prospectus is \_\_\_\_\_, 2016

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

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## PROSPECTUS SUMMARY

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

### Overview

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

Our portfolio is comprised primarily of investments in leveraged loans (both first and second lien term loans) issued by middle market companies. Term loans are loans that do not allow the borrowers to repay all or a portion of the loans prior to maturity and then re-borrow such repaid amounts under the loan again. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt which are issued by companies with below investment grade or “junk” ratings or, if not rated, would be rated below investment grade or “junk” and, as a result, carry a higher risk of default. Leveraged loans also have the benefit of first or second lien security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. We also purchase mezzanine debt and make equity investments in middle market companies. Mezzanine debt is typically unsecured and subordinated to senior debt of the portfolio company. As of August 31, 2016, 72.2% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity.

Substantially all of the debt investments held in our portfolio hold a non-investment grade rating by one or more rating agencies (which non-investment grade debt is commonly referred to as “high yield” and “junk” debt) or, if not rated, would be rated below investment grade or “junk” if rated. In addition, 81.5% of our debt investments at August 31, 2016 had variable interest rates that reset periodically based on benchmarks such as LIBOR and the prime rate. As a result, significant increases in such benchmarks in the future may make it more difficult for these borrowers to service their obligations under the debt investments that we hold.

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, including securities of companies in bankruptcy, foreign debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds. 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.

The 20XX Notes are not secured by any of our assets or any of the assets of our subsidiaries. As a result, the 20XX 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 20XX Notes will not be 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 20XX Notes.

The Notes are obligations exclusively of Saratoga Investment Corp. and not of any of our subsidiaries. None of our subsidiaries is a guarantor of the 20XX Notes and the 20XX Notes are not required to be guaranteed by any subsidiary we may acquire or create in the future. Any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the 20XX 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 subsidiaries (and therefore the claims of our creditors, including holders of the 20XX) with respect to the assets of such subsidiaries. Even if we are recognized as a creditor of one or more of our subsidiaries, our claims would still be effectively subordinated to any security interests in the assets of any such subsidiary and to any indebtedness or other liabilities of any such subsidiary senior to our claims. Consequently, the 20XX Notes will be structurally subordinated to all indebtedness and other liabilities of any of our subsidiaries and any subsidiaries that we may in the future acquire or establish.

As of August 31, 2016, we had total assets of \$299.8 million and investments in 29 portfolio companies and an additional investment in the subordinated notes of one collateralized loan obligation fund, Saratoga Investment Corp. CLO 2013-1, Ltd. ("Saratoga CLO"), which investment had a fair value of \$11.9 million as of August 31, 2016. Our overall portfolio composition as of August 31, 2016 consisted of 3.5% of syndicated loans, 56.2% of first lien term loans, 31.9% of second lien term loans, 4.4% of subordinated notes of Saratoga CLO and 4.0% of common equity. As of August 31, 2016, the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately 11.1%. The weighted average yield of our debt investments is not the same as a return on investment for our stockholders and, among other things, is calculated before the payment of our fees and expenses. As of August 31, 2016, approximately 100.0% of our first lien debt investments, which comprises 56.2% of our portfolio, were fully collateralized in the sense that the portfolio companies in which we held such investments had an asset coverage equal to or greater than the principal amount of the related debt investment. 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 (earnings before interest, taxes, depreciation and amortization), 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. Even though these loans are fully collateralized as is the case with all of the liens on our debt investments, there can be no assurance that the value of collateral will be sufficient to allow the portfolio company to repay our first lien debt investments in the event of its default on our investment.

Saratoga CLO is an exempted company with limited liability incorporated under the laws of the Cayman Islands, which was established to acquire or participate in U.S. dollar-denominated corporate debt obligations. Saratoga CLO has issued various tranches of senior notes, held by numerous investors, and one tranche of subordinated notes, held entirely by us. As we own 100% of the subordinated notes issued by Saratoga CLO, which is junior to all of its other outstanding indebtedness, we are deemed to hold 100% of the equity interests in Saratoga CLO for tax purposes. Our investment in the subordinated notes of Saratoga CLO represents a first loss

position in a portfolio that, at August 31, 2016, was composed of \$299.5 million in aggregate principal amount of predominantly senior secured first lien term loans. A first loss position means that we will suffer the first economic losses if losses are incurred on loans held by the Saratoga CLO or losses otherwise incurred by Saratoga CLO, including its incurrence of operating expenses in excess of its operating income. As a result, this investment is subject to unique risks. See “Risk Factors—Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility” for information regarding the general risks related to our investment in Saratoga CLO. Although we believe that we have observed and will observe certain formalities and operating procedures that are generally recognized requirements for maintaining our separate existence and that our assets and liabilities can be readily identified as distinct from those of Saratoga CLO, there can be no assurance that a bankruptcy court, in the exercise of its broad equitable powers, would not order that our assets and liabilities be substantively consolidated with those of Saratoga CLO in connection with a bankruptcy proceeding involving us or Saratoga CLO, including for the purposes of making distributions under a plan of reorganization or liquidation. Substantive consolidation means that our assets are placed in a single bankruptcy estate with those of Saratoga CLO, rather than kept separate, and that the creditors of Saratoga CLO have a claim against that single estate (including our assets), as opposed to retaining their claims against only Saratoga CLO. See “Risk Factors—In the event that a bankruptcy court orders the substantive consolidation of us with Saratoga CLO, the creditors of Saratoga CLO, including the holders of \$299.5 million aggregate principal amount of debt, as of August 31, 2016, issued by Saratoga CLO, would have claims against the consolidated bankruptcy estate.”

On January 22, 2008, we entered into a collateral management agreement with Saratoga CLO, pursuant to which we act as its collateral manager. In addition, we purchased for \$30.0 million all of the outstanding subordinated notes of Saratoga CLO. 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 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 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 August 31, 2016 had a fair value of \$11.9 million, with respect to priority of payments in the event of a default or a liquidation.

The Saratoga CLO remains effectively 100% owned and managed by Saratoga Investment Corp. because the Company owns all of the outstanding subordinated notes of Saratoga CLO, which is the equivalent of an equity position, and the Company manages the portfolio of Saratoga CLO. 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 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% after such borrowing.



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

In addition, we have a wholly-owned subsidiary that is licensed as a small business investment company (“SBIC”) and regulated by the Small Business Administration (“SBA”). See “Regulation—Small Business Investment Company Regulations.” The SBIC license allows us, through our wholly-owned subsidiary, to issue SBA-guaranteed debentures. We received exemptive relief from the Securities and Exchange Commission to permit us to exclude the debt of our SBIC subsidiary guaranteed by the SBA from the definition of senior securities in the 200% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to \$150 million more than we would otherwise be able to absent the receipt of this exemptive relief.

### **Saratoga Investment Advisors**

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with 28, 26, 29 and 19 years of experience in leveraged finance, respectively. Our investment adviser is affiliated with Saratoga Partners, a middle market private equity investment firm. Saratoga Partners was established in 1984 to be the middle market private investment arm of Dillon Read & Co. Inc. and has been independent of Dillon Read since 1998. Saratoga Partners has a 28-year history of private investments in middle market companies and focuses on public and private equity, preferred stock, and senior and mezzanine debt investments.

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

We have entered into an investment advisory and management agreement (the “Management Agreement”) with Saratoga Investment Advisors. 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 investment-related functions, determining investment criteria, sourcing, analyzing and executing investments, asset sales, financings and performing asset management duties.

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

### **Investments**

Our portfolio is comprised primarily of investments in leveraged loans issued by middle market companies. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations. These investments are sourced in both the primary and secondary markets through a

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

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

In general, at least 70% of a BDC’s assets must be comprised of the type of assets that are listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets. Qualifying assets are generally securities of U.S. private operating companies, or listed operating companies with an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million. As of August 31, 2016, with the exception of our investment in the subordinated notes of Saratoga CLO and a first lien term loan to one other portfolio company, all of our equity and debt investments constituted qualifying assets under the 1940 Act. While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

#### ***Prospective portfolio company characteristics***

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

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

#### ***Investment selection***

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

- bottoms-up, company-specific research and analysis;

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

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

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

#### ***Investment structure***

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

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

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

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

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

#### ***Valuation process***

We carry our investments at fair value, as approved in good faith using written policies and procedures adopted by our board of directors.

Investments for which market quotations are readily available are recorded in our financial statements at such market quotations subject to any decision by our board of directors to approve a fair value determination to reflect significant events affecting the value of these investments. We value investments for which market quotations are not readily available at fair value as approved in good faith by our board of directors based on input from Saratoga Investment Advisors, our audit committee and, on a selected basis, a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments, the markets in which the portfolio company does business, market yield trend analysis, comparison to publicly traded companies, discounted cash flow and other relevant factors.

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

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

- each investment is initially valued by the responsible investment professionals of Saratoga Investment Advisors and preliminary valuation conclusions are documented and discussed with our senior management; and
- an independent valuation firm engaged by our board of directors independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an independent valuation firm at least annually.

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

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

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

***Ongoing relationships with and monitoring of portfolio companies***

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

**Risk Factors**

Investing in us involves significant risks. The following is a summary of certain risks that you should carefully consider before investing in us. For a further discussion of these risk factors, please see “Risk Factors” beginning on page 22.

***Risks Related to Our 20XX Notes***

- The 20XX Notes will be unsecured and therefore will be effectively subordinated to any secured indebtedness we have incurred or may incur in the future.
- The 20XX Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.
- The indenture under which the 20XX Notes will be issued contains limited protection for holders of the 20XX Notes, such as:
  - there are significant protections afforded our other creditors that are not provided to the holders of the 20XX Notes.
  - the issuance or incurrence of any debt with incremental protections which are not provided to the holders of the 20XX Notes could affect the market for and trading levels and prices of the 20XX Notes.
  - the 20XX Notes represent our unsecured obligations. If we are unable to repay debt, lenders having secured obligation, such as Madison Capital Funding LLC (“Madison Capital Funding”) under our senior secured revolving credit facility (“the Credit Facility”) and the SBA, could proceed against the collateral securing those secured obligations.

- There is no existing trading market for the 20XX Notes and, even if the NYSE approves the listing of the 20XX Notes, an active trading market for the 20XX Notes may not develop, which could limit your ability to sell the 20XX Notes or the market price of the 20XX Notes.
- We may choose to redeem the 20XX Notes when prevailing interest rates are relatively low.
- If we default on our obligations to pay our other indebtedness, we may not be able to make payments on the 20XX Notes.
- We may be unable to invest a significant portion of the net proceeds from this offering, which could harm our financial condition and operating results.

***Risks Related to Our Business and Structure***

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

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

- Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.
- Our investment in Saratoga CLO constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility.
- Our investment in Saratoga CLO has a different risk profile than would direct investments by us in the underlying loans of Saratoga CLO.
- Failure by Saratoga CLO to satisfy certain tests will harm our operating results.
- Available information about privately held companies is limited.
- When we are a debt or minority equity investor in a portfolio company, we may not be in a position to control the entity, and its management may make decisions that could decrease the value of our investment.
- Our portfolio companies may incur debt or issue equity securities that rank equally with, or senior to, our investments in such companies.
- There may be circumstances where our debt investments could be subordinated to claims of other creditors or we could be subject to lender liability claims.
- Investments in equity securities involve a substantial degree of risk.
- Our investments in foreign debt, including that of emerging market issuers, may involve significant risks in addition to the risks inherent in U.S. investments.
- We may expose ourselves to risks if we engage in hedging transactions.
- Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval, the effects of which may be adverse.
- We have no prior experience managing an SBIC and any failure to comply with SBA regulations, resulting from our lack of experience or otherwise, could have an adverse effect on our operations.
- Our investments may be risky, and you could lose all or part of your investment.
- Our independent auditors have not assessed our internal control over financial reporting. If our internal control over financial reporting is not effective, it could have a material adverse effect on our stock price and our ability to raise capital.

#### **Recent Developments**

On November 15, 2016, we completed the second refinancing of the Saratoga CLO. See “Prospectus Summary — Overview.”

#### **Corporate History and Information**

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

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



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

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

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

**SPECIFIC TERMS OF THE 20XX NOTES AND THE OFFERING**

Issuer	Saratoga Investment Corp.
Title of the Securities	% 20XX Notes due 20XX
Initial aggregate principal amount being offered	\$55.0 million
Option to purchase additional shares	The underwriters may also purchase from us from time to time up to an additional \$8.25 million aggregate principal amount of 20XX Notes within 30 days of the date of this prospectus.
Initial public offering price	100% of the aggregate principal amount
Principal payable at maturity	100% of the aggregate principal amount; the principal amount of each 20XX Note will be payable on its stated maturity date at the office of the Trustee, Paying Agent, Registrar and Transfer Agent for the 20XX Notes or at such other office in New York, New York as we may designate.
Type of note	Fixed rate note
Listing	We intend to list the 20XX Notes on the New York Stock Exchange, within 30 days of the original issue date under the trading symbol “[ ]”.
Interest Rate	% per year
Day count basis	360-day year of twelve 30-day months
Original issue date	, 2016
Stated maturity date	[ ]
Date interest starts accruing	, 2016
Interest payment dates	Every [ ], [ ], [ ], and [ ], beginning [ ]. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment.
Interest periods	The initial interest period will be the period from and including , 2016, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.
Regular record dates for interest	[ ], [ ], [ ], and [ ], beginning [ ].

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Specified Currency	U.S. Dollars
Place of Payment	New York City
Ranking of 20XX Notes	<p>The 20XX Notes will be our direct unsecured obligations and will rank:</p> <ul style="list-style-type: none"><li>• <i>pari passu</i> with, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us, including our 2020 Notes (which have an aggregate principal amount of \$61.8 million as of the offering date of the 20XX Notes). The 20XX Notes will also rank <i>pari passu</i> with, which means equal to, our general liabilities, which consist of any amounts we may be required to pay pursuant to our guaranty under the Credit Facility with Madison Capital Funding and of trade and other payables, including any outstanding dividend payable, base and incentive management fees payable, interest and debt fees payable, vendor payables and accrued expenses such as auditor fees, legal fees, director fees, etc. In total, these general liabilities were \$10.3 million as of August 31, 2016.</li><li>• senior to any of our future indebtedness that expressly provides it is subordinated to the 20XX Notes. We currently do not have outstanding debt that is subordinated to the 20XX Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the 20XX Notes. Therefore, the 20XX Notes will not be senior to any indebtedness or obligations.</li><li>• 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 20XX Notes will not be 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 20XX Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the 20XX Notes. Currently, we do not have any secured indebtedness at the Saratoga Investment Corp. level.</li><li>• structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries and financing vehicles since the 20XX Notes are obligations exclusively of Saratoga Investment Corp. and not of any of our subsidiaries. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity</li></ul>

with respect to the subsidiary's assets. As of the offering date of the 20XX Notes, the 20XX Notes will be structurally subordinated to both \$103.7 million of our SBA-guaranteed debentures and our \$45.0 million credit facility with Madison Capital Funding LLC, which has a current balance of \$0.0.

Except as described under the captions "Description of the 20XX Notes—Events of Default," "—Other Covenants," and "—Merger or Consolidation" in this prospectus, the indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

Denominations

We will issue the 20XX Notes in denominations of \$25 and integral multiples of \$25 in excess thereof.

Business Day

Each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York City are authorized or required by law or executive order to close.

Optional redemptions

The 20XX Notes may be redeemed in whole or in part at any time or from time to time at our option on or after [ ] upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the 20XX Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption.

You may be prevented from exchanging or transferring the 20XX Notes when they are subject to redemption. In case any 20XX Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such 20XX Note, you will receive, without a charge, a new 20XX Note or 20XX Notes of authorized denominations representing the principal amount of your remaining unredeemed 20XX Notes.

Any exercise of our option to redeem the 20XX Notes will be done in compliance with the 1940 Act. If we redeem only some of the 20XX Notes, the Trustee will determine the method for selection of the particular 20XX Notes to be redeemed, in accordance with the indenture and the 1940 Act, and in accordance with the rules of any national securities exchange or quotation system on which the 20XX Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the 20XX Notes called for redemption.

Sinking Fund

The 20XX Notes will not be subject to any sinking fund (i.e., no amounts will be set aside by us to ensure repayment of the 20XX Notes at maturity). As a result, our ability to repay the 20XX Notes at maturity will depend on our financial condition on the date that we are required to repay the 20XX Notes.

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Repayment at option of Holders	Holders will not have the option to have the 20XX Notes repaid prior to the stated maturity date.
Defeasance	The 20XX Notes are subject to defeasance by us. “Defeasance” means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the 20XX Notes when due and satisfying any additional conditions required under the indenture relating to the 20XX Notes, we will be deemed to have been discharged from our obligations under the 20XX Notes.
Covenant defeasance	The 20XX Notes are subject to covenant defeasance by us. In the event of a “covenant defeasance,” upon depositing such funds and satisfying similar conditions discussed below we would be released from the restrictive covenants under the indenture relating to the 20XX Notes. The consequences to the holders of the 20XX Notes is that, while they no longer benefit from the restrictive covenants under the indenture, and while the 20XX Notes may not be accelerated for any reason, the holders of 20XX Notes nonetheless are guaranteed to receive the principal and interest owed to them.
Form of 20XX Notes	The 20XX Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company (“DTC”) or its nominee. This means that, except in limited circumstances, you will not receive certificates for the 20XX Notes. Beneficial interests in the 20XX Notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the 20XX Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.
Trustee, Paying Agent, Registrar, and Transfer Agent	U.S. Bank National Association
Other covenants	In addition to any covenants described elsewhere in this prospectus, the following covenants shall apply to the 20XX Notes: <ul style="list-style-type: none"><li>• We agree that for the period of time during which the 20XX Notes are outstanding, we will not violate (whether or not we are subject to) Section 18(a)(1)(A) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but giving effect to any exemptive relief granted to us by the SEC. Currently, these provisions generally prohibit us from making additional borrowings, including through the issuance of additional debt or the sale of additional debt securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings. See “Risk Factors—Pending legislation may allow us to incur additional leverage.”</li></ul>

- We agree that, if, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, or the Exchange Act, to file any periodic reports with the SEC, we agree to furnish to holders of the 20XX Notes and the Trustee, for the period of time during which the 20XX Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

Events of Default

You will have rights if an Event of Default occurs with respect to the 20XX Notes.

The term “Event of Default” in respect of the 20XX Notes means any of the following:

- We do not pay the principal (or premium, if any) of any 20XX Note when due.
- We do not pay interest on any 20XX Note when due, and such default is not cured within 30 days.
- We remain in breach of any other covenant with respect to the 20XX Notes for 60 days after we receive a written notice of default stating we are in breach. The notice must be sent by either the Trustee or holders of at least 25.0% of the principal amount of the 20XX Notes.
- We file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and in the case of certain orders or decrees entered against us under any bankruptcy law, such order or decree remains undischarged or unstayed for a period of 60 days.
- On the last business day of each of twenty-four consecutive calendar months, the 20XX Notes have an asset coverage, as defined in the 1940 Act, of less than 100% after giving effect to any exemptive relief granted to us by the SEC.

Further Issuances

We have the ability to issue additional debt securities under the indenture with terms different from the 20XX Notes and, without consent of the holders thereof, to reopen the 20XX Notes and issue additional 20XX Notes. If we issue additional debt securities, these additional debt securities could rank higher in priority of payment or have a lien or other security interest greater than that accorded to the holders of the 20XX Notes.

Global Clearance and Settlement Procedures

Interests in the 20XX Notes will trade in DTC’s Same Day Funds Settlement System, and any permitted secondary market trading

activity in such 20XX Notes will, therefore, be required by DTC to be settled in immediately available funds. None of the Company, the Trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Use of Proceeds

We estimate that the net proceeds we receive from the sale of the 20XX Notes will be approximately \$[ ] million (\$[ ] million if the underwriters exercise their option to purchase additional 20XX Notes in full) after deducting underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use the net proceeds from this offering to repay a portion of the outstanding indebtedness under our 2020 Notes and for general corporate purposes (including investments made through our SBIC subsidiary) in accordance with our investment objective and strategies described in this prospectus. As of August 31, 2016, we had \$61.8 million outstanding under the 2020 Notes.

### SELECTED FINANCIAL AND OTHER DATA

The following selected financial and other data reflects the consolidated financial condition and the consolidated statement of operations of Saratoga as of and for the years ended February 29, 2016, February 28, 2015, February 28, 2014, February 28, 2013, and February 29, 2012. The selected financial and other data have been derived from our consolidated financial statements which have been audited by Ernst & Young LLP, an independent registered public accounting firm, whose report thereon is included in this registration statement. The financial information as of and for the six months ended August 31, 2016 and 2015 was derived from our unaudited financial statements and related notes. In the opinion of management, all adjustments, consisting solely of normal recurring accruals, considered necessary for the fair presentation of financial statements for the interim periods, have been included. The data should be read in conjunction with our financial statements and notes thereto and "Management's Discussion and Analysis of Financial Condition and Results of Operations," which are included in this prospectus. The historical data is not necessarily indicative of results to be expected for any future period.

	Six Months Ended August 31, 2016	Six Months Ended August 31, 2015	Year Ended February 29, 2016	Year Ended February 28, 2015	Year Ended February 28, 2014 <sup>(5)</sup>	Year Ended February 28, 2013 <sup>(5)</sup>	Year Ended February 29, 2012 <sup>(5)</sup>
(\$ in thousands, except share and per share numbers)							
<b>Income Statement Data:</b>							
Interest and related portfolio income:							
Interest	\$ 14,585	\$ 13,750	\$ 26,871	\$ 24,688	\$ 20,187	\$ 14,450	\$ 11,262
Management fee and other income	1,771	1,569	3,179	2,687	2,706	2,557	2,250
Total interest and related portfolio income	<u>16,356</u>	<u>15,319</u>	<u>30,050</u>	<u>27,375</u>	<u>22,893</u>	<u>17,007</u>	<u>13,512</u>
Expenses:							
Interest and debt financing expenses	4,738	4,112	8,456	7,375	6,084	2,540	1,298
Base management and incentive management fees <sup>(1)</sup>	4,367	4,031	6,761	6,705	4,266	4,710	3,339
Administrator expenses	650	525	1,175	1,000	1,000	1,000	1,000
Administrative and other	1,459	1,346	2,866	2,327	2,669	2,287	2,638
Expense reimbursement	—	—	—	—	—	—	—
Total operating expenses after reimbursements	<u>11,214</u>	<u>10,014</u>	<u>19,258</u>	<u>17,407</u>	<u>14,019</u>	<u>10,537</u>	<u>8,275</u>
Net investment income before income taxes	5,142	5,305	19,372	9,968	8,874	6,470	5,237
Income tax expenses, including excise tax expense (credit)	—	(123)	114	294	—	—	—
Net investment income	<u>\$ 5,142</u>	<u>\$ 5,428</u>	<u>\$ 10,678</u>	<u>\$ 9,674</u>	<u>\$ 8,874</u>	<u>\$ 6,470</u>	<u>\$ 5,237</u>



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	Six Months Ended August 31, 2016	Six Months Ended August 31, 2015	Year Ended February 29, 2016	Year Ended February 28, 2015	Year Ended February 28, 2014 <sup>(5)</sup>	Year Ended February 28, 2013 <sup>(5)</sup>	Year Ended February 29, 2012 <sup>(5)</sup>
(\$ in thousands, except share and per share numbers)							
Realized and unrealized gain (loss) on investments and derivatives:							
Net realized gain (loss)	\$ 12,040	\$ 3,783	\$ 226	\$ 3,276	\$ 1,271	\$ 431	\$ (12,186)
Net change in unrealized gain (loss)	(8,623)	(583)	741	(1,943)	(1,648)	7,143	19,760
Total net gain (loss)	3,417	3,200	967	1,333	(377)	7,574	7,574
Net increase (decrease) in net assets resulting from operations	\$ 8,559	\$ 8,628	\$ 11,645	\$ 11,007	\$ 8,497	\$ 14,044	\$ 12,811
<b>Per Share:</b>							
Earnings (loss) per common share—basic and diluted <sup>(2)</sup>	\$ 1.49	\$ 1.57	\$ 2.09	\$ 2.04	\$ 1.73	\$ 3.42	\$ 3.73
Net investment income per share—basic and diluted <sup>(2)</sup>	\$ 0.90	\$ 0.99	\$ 1.91	\$ 1.80	\$ 1.80	\$ 1.57	\$ 1.52
Net realized and unrealized gain (loss) per share—basic and diluted <sup>(2)</sup>	\$ 0.59	\$ 0.58	\$ 0.18	\$ 0.24	\$ (0.07)	\$ 1.85	\$ 2.21
Dividends declared per common share <sup>(3)</sup>	\$ 1.04	\$ 1.60	\$ 2.36	\$ 0.40	\$ 2.65	\$ 4.25	\$ 3.00
Dilutive impact of dividends paid in stock on net asset value per share <sup>(4)</sup>	\$ (0.12)	\$ (0.25)	\$ (0.37)	\$ (0.02)	\$ (0.71)	\$ (1.40)	\$ (1.99)
Net asset value per share	\$ 22.39	\$ 22.42	\$ 22.06	\$ 22.70	\$ 21.08	\$ 22.71	\$ 24.94
<b>Statement of Assets and Liabilities Data:</b>							
Investment assets at fair value	\$ 272,804	\$ 252,185	\$ 283,996	\$ 240,538	\$ 205,845	\$ 155,080	\$ 95,360
Total assets	299,847	268,313	295,047	263,560	215,168	172,321	124,291
Total debt outstanding	160,965	133,815	160,749	136,900	98,300	60,300	20,000
Stockholders' equity	128,564	125,258	125,150	122,599	113,428	107,438	96,689
Net asset value per common share	\$ 22.39	\$ 22.42	\$ 22.06	\$ 22.70	\$ 21.08	\$ 22.71	\$ 24.94
Common shares outstanding at end of period	5,740,810	5,586,254	5,672,227	5,401,899	5,379,616	4,730,116	3,876,661
<b>Other Data:</b>							
Investments funded	\$ 55,728	\$ 42,119	\$ 109,191	\$ 104,872	\$ 121,074	\$ 71,596	\$ 38,679
Principal collections related to investment repayments or sales	\$ 70,868	\$ 34,773	\$ 68,174	\$ 73,257	\$ 71,607	\$ 21,488	\$ 33,568
Number of investments at end of period	51	60	60	64	60	47	33
Weighted average yield of income producing debt investments—Non-control/ non-affiliate	10.68%	10.63%	10.82%	11.07%	10.62%	11.26%	11.88%
Weighted average yield on income producing debt investments—Control	19.41%	37.81%	16.40%	25.22%	18.55%	27.11%	20.17%

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- (1) See note 6 in consolidated financial statements contained elsewhere herein.
- (2) For the six months ended August 31, 2016 and August 31, 2015, amounts are calculated using weighted average common shares outstanding of 5,739,157 and 5,492,491, respectively. For the years ended February 29, 2016, February 28, 2015, February 28, 2014, February 28, 2013 and February 29, 2012, calculated using weighted average common shares outstanding of 5,582,453, 5,385,049, 4,920,517, 4,110,484, and 3,434,345, respectively.
- (3) Calculated using the shares outstanding at ex-dividend date.
- (4) Dilutive effect of the issuance of shares of common stock below net asset value per share in connection with the satisfaction of the Company's annual RIC distribution requirement. See "Price Range of Common Stock and Distributions—Dividend Policy."
- (5) During the year ended February 28, 2015, the Company identified errors related to the accounting for the capital gains portion of the incentive fee for the years ended February 28, 2014, February 28, 2013 and February 29, 2012, as well as the cumulative impact of these errors as of February 28, 2014. The Company assessed the materiality of these errors and concluded they were not material to any prior annual periods, but the cumulative impact of correcting them would be quantitatively material to the results of operations of the Company for the year ended February 28, 2015, if the entire adjustment was recorded in that period. The corrections for the errors are reflected in the selected financial and other data.

## RISK FACTORS

Investing in our securities involves a number of significant risks. You should carefully consider these risks, together with all of the other information included in this prospectus, 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 20XX Notes**

***The 20XX Notes will be unsecured and therefore are effectively subordinated to any secured indebtedness we have incurred or may incur in the future.***

The 20XX Notes will not be secured by any of our assets or any of the assets of our subsidiaries, including our wholly owned subsidiaries. As a result, the 20XX Notes will be 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 20XX Notes will not be 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 20XX Notes.

***The 20XX Notes will be structurally subordinated to the indebtedness and other liabilities of our subsidiaries.***

The 20XX Notes will be obligations exclusively of Saratoga Investment Corp., will not be of any of our subsidiaries. None of our subsidiaries will be a guarantor of the 20XX Notes and the 20XX 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 will not be directly available to satisfy the claims of our creditors, including holders of the 20XX 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 20XX 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 20XX Notes will be 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 20XX Notes. As of August 31, 2016, there was no outstanding balance 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 August 31, 2016, we had \$103.7 million in SBA-guaranteed debentures outstanding. The indebtedness under the Credit Facility and to SBA-guaranteed debentures is structurally senior to the 20XX Notes.

***The indenture under which the 20XX Notes are issued contains limited protection for holders of the 20XX Notes.***

The indenture under which the 20XX Notes are issued offers limited protection to holders of the 20XX Notes. The terms of the indenture and the 20XX 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

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a material adverse impact on your investment in the 20XX Notes. In particular, the terms of the indenture and the 20XX 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 20XX Notes, (2) any indebtedness or other obligations that would be secured and therefore rank effectively senior in right of payment to the 20XX 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 20XX 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 20XX 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;
- 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 20XX Notes in connection with a change of control or any other event.

Furthermore, the terms of the indenture and the 20XX Notes do not protect holders of the 20XX 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 20XX Notes may have important consequences for you as a holder of the 20XX Notes, including making it more difficult for us to satisfy our obligations with respect to the 20XX Notes or negatively affecting the trading value of the 20XX Notes.

Other debt we issue or incur in the future could contain more protections for its holders than the indenture and the 20XX Notes, including additional covenants and events of default. For example, the indenture under which the 20XX 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 20XX Notes.

***There is no existing trading market for the 20XX Notes, and, even if the NYSE approves the listing of the 20XX Notes, an active trading market for the 20XX Notes may not develop, which could limit your ability to sell the 20XX Notes or the market price of the 20XX Notes.***

The 20XX Notes will be a new issue of debt securities for which there initially will not be a trading market. We intend to list the 20XX Notes on the NYSE within 30 days of the original issue date under the symbol “[ ]”. However, there is no assurance that the 20XX Notes will be approved for listing on the NYSE.

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Moreover, even if the listing of the 20XX Notes is approved, we cannot provide any assurances that an active trading market will develop or be maintained for the 20XX Notes or that you will be able to sell your 20XX Notes. If the 20XX Notes are traded after their initial issuance, they may trade at a discount from their initial offering price depending on prevailing interest rates, the market for similar securities, our credit ratings, if any, general economic conditions, our financial condition, performance and prospects and other factors. The underwriters have advised us that they intend to make a market in the 20XX Notes, but they are not obligated to do so. The underwriters may discontinue any market-making in the 20XX Notes at any time at their sole discretion.

Accordingly, we cannot assure you that the 20XX Notes will be approved for listing on the NYSE, that a liquid trading market will develop for the 20XX Notes, that you will be able to sell your 20XX Notes at a particular time or that the price you receive when you sell will be favorable. To the extent an active trading market does not develop, the liquidity and trading price for the 20XX Notes may be harmed. Accordingly, you may be required to bear the financial risk of an investment in the 20XX Notes for an indefinite period of time.

### ***We may choose to redeem the 20XX Notes when prevailing interest rates are relatively low.***

On or after [                    ], we may choose to redeem the 20XX Notes from time to time, especially when prevailing interest rates are lower than the rate borne by the 20XX 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 20XX Notes being redeemed. Our redemption right also may adversely impact your ability to sell the 20XX 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 20XX 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 20XX Notes and substantially decrease the market value of the 20XX 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 20XX 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 20XX Notes, which could further limit our ability to repay our debt, including the 20XX 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 20XX Notes, the Credit Facility or under any future credit facility is accelerated, we may be unable to repay or finance the amounts due.

## 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.***

Beginning in 2007, global credit and other financial markets began to suffer substantial stress, volatility, illiquidity and disruption. These forces reached extraordinary levels in 2008, resulting in the bankruptcy of, the acquisition of, or government intervention in the affairs of several major domestic and international financial institutions. In particular, the financial services sector was negatively impacted by significant write-offs as the value of the assets held by financial firms declined, impairing their capital positions and abilities to lend and invest. We believe that such value declines were exacerbated by widespread forced liquidations as leveraged holders of financial assets, faced with declining prices, were compelled to sell to meet margin requirements and maintain compliance with applicable capital standards. Such forced liquidations also impaired or eliminated many investors and investment vehicles, leading to a decline in the supply of capital for investment and depressed pricing levels for many assets. These events significantly diminished overall confidence in the debt and equity markets, engendered unprecedented declines in the values of certain assets, and caused extreme economic uncertainty. If market conditions similar to these were to recur, our assets could experience a similar decline in value, among other negative impacts to the company.

Since 2009, the global credit and other financial market conditions have improved as stability has increased throughout the international financial system and many public market indices have experienced positive total returns. However, the global macroeconomic environment and recovery from the downturn has been challenging and inconsistent. Instability in the global credit markets, the impact of periodic uncertainty regarding the U.S. federal budget, the instability in the geopolitical environment in many parts of the world, sovereign debt conditions in Europe and other disruptions may continue to put pressure on economic conditions in the U.S. and abroad.

### ***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 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. In addition, if we repurchase our outstanding debt securities, including our 7.50% 2020 Notes and such repurchase results in our recording a net gain on the extinguishment of debt for financial reporting and tax purposes, such net gain will be included in our pre-incentive fee net investment income for purposes of determining the income incentive fee payable to our investment adviser under the Management Agreement.

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

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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 influence it to increase 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 20XX 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 August 31, 2016, we had \$103.7 million outstanding indebtedness guaranteed by the SBA and \$61.8 million of outstanding 2020 Notes. This debt requires periodic payments of interest. The weighted average interest rate charged on our borrowings as of August 31, 2016 was 4.94% per annum (exclusive of deferred financing costs). We will need to generate sufficient cash flow to make these required interest payments. In order for us to cover our annual interest payments on indebtedness, we must achieve annual returns on our August 31, 2016 total assets of at least 2.7%.

As of August 31, 2016, there was no outstanding balance under the Credit Facility. As of August 31, 2016, we had issued \$103.7 million SBA-guaranteed debentures and \$61.8 million of the 2020 Notes. We may incur additional indebtedness in the future, including, but not limited to, up to an additional \$45.0 million 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.



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

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

	<u>-10.0%</u>	<u>-5.0%</u>	<u>0.0%</u>	<u>5.0%</u>	<u>10.0%</u>
Corresponding net return to common stockholder	-30.5%	-18.8%	-7.1%	4.7%	16.4%

(1) Assumes \$297.4 million in average total assets, \$165.5 million in average debt outstanding, \$126.9 million in average net assets and an average interest rate of 5.41%. Actual interest payments may be different.

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

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

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

Substantially all of our assets are pledged as collateral under the Credit Facility or are subject to a superior claim over the holders of our common stock or the 20XX Notes by the SBA pursuant to the SBA-guaranteed debentures. If we default on our obligations under the Credit Facility or the SBA-guaranteed debentures, Madison Capital Funding and/or the SBA may have the right to foreclose upon and sell, or otherwise transfer, the collateral subject to their security interests or superior claim. In such event, we may be forced to sell our investments to raise funds to repay our outstanding borrowings in order to avoid foreclosure and these forced sales may be at times and at prices we would not consider advantageous. Moreover, such deleveraging of our company could significantly impair our ability to effectively operate our business in the manner in which we have historically operated.

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

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

General interest rate fluctuations and changes in credit spreads on floating rate loans may have a substantial negative impact on our investments and investment opportunities and, accordingly, may have a material adverse effect on our rate of return on invested capital. In addition, an increase in interest rates would make it more

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expensive to use debt to finance our investments. Decreases in credit spreads on debt that pays a floating rate of return would have an impact on the income generation of our floating rate assets. Trading prices for debt that pays a fixed rate of return tend to fall as interest rates rise. Trading prices tend to fluctuate more for fixed rate securities that have longer maturities. Although we have no policy governing the maturities of our investments, under current market conditions we expect that we will invest in a portfolio of debt generally having maturities of up to ten years. This means that we will be subject to greater risk (other things being equal) than an entity investing solely in shorter-term securities.

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

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

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

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

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

### ***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

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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.***

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 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.

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

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the current net asset value of the common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price which, in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). If our common stock trades at a discount to net asset value, this restriction could adversely affect our ability to raise capital. We do not currently have stockholder approval of issuances below net asset value.

### ***Pending legislation may allow us to incur additional leverage.***

As a business development company, we are generally not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our assets). We have agreed in the covenant in the indenture governing the 20XX Notes not to violate this section of the 1940 Act, whether or not we continue to be subject to such provision, but giving effect, in either case, to any exemptive relief granted to us by the SEC. Recent legislation, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur. As a result, we may be able to incur additional indebtedness in the future.

### ***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 distributions necessary to qualify as a RIC. In such case, if we are unable to obtain cash from other sources, we may fail to qualify as a RIC and, thus, may be subject to corporate-level 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.

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 20XX 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

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capital from other sources to grow our business. As a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which includes all of our borrowings and any outstanding preferred stock, of at least 200%. These requirements limit the amount that we may borrow. Because we will continue to need capital to grow our investment portfolio, these limitations may prevent us from incurring debt and require us to raise additional equity at a time when it may be disadvantageous to do so.

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

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

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

Because any original issue discount or other amounts accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the annual distribution requirement, even though we will not have received any corresponding cash amount. As a result, we may have difficulty meeting the annual distribution requirement necessary to obtain and 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 our securities) from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company, without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25.0% of our voting securities, we are prohibited from buying or selling any security (other than any security of which we are the issuer) from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such person, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers, directors or

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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

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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.



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***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 20XX Notes.

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

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

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

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

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

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

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

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

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

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

### ***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 August 31, 2016, our investment in the subordinated notes of Saratoga CLO, a collateralized loan obligation fund, had a fair value of \$11.9 million and constituted 4.4% of our portfolio. This investment constitutes a first loss position in a portfolio that, as of August 31, 2016, was composed of \$299.5 million in aggregate principal amount of primarily senior secured first lien term loans and \$5.2 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

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the cash flow available to pay these management fees and provide a return on, or repayment of, our investment. Depending on the amount and timing of such losses, we may experience smaller than expected returns and, potentially, the loss of our entire investment.

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

***In the event that a bankruptcy court orders the substantive consolidation of us with Saratoga CLO, the creditors of Saratoga CLO, including the holders of \$299.5 million aggregate principal amount of debt, as of August 31, 2016 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 \$299.5 million aggregate principal amount of debt, as of August 31, 2016 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 generally have a different risk profile than would investments by us outside the Saratoga CLO.***

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 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

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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.

### ***The application of the risk retention rules to CLOs may have broader effects on the CLO and loan markets in general, potentially resulting in fewer or less desirable investment opportunities for Saratoga CLO.***

Section 941 of the Dodd-Frank Act added a provision to the Securities Exchange Act of 1934, as amended, requiring the seller, sponsor or securitizer of a securitization vehicle to retain no less than five percent of the credit risk in assets it sells into a securitization and prohibits such securitizer from directly or indirectly hedging or otherwise transferring the retained credit risk. The responsible federal agencies adopted final rules implementing these restrictions on October 22, 2014. These rules will become effective with respect to CLOs two years after publication in the Federal Register. Under the final rules, the asset manager of a CLO would be considered the sponsor of a securitization vehicle and would be required to retain five percent of the credit risk in the CLO, which may be retained horizontally in the equity tranche of the CLO or vertically as a five percent interest in each tranche of the securities issued by the CLO. Although the final rules contain an exemption from such requirements for the asset manager of a CLO if, among other things, the originator or lead arranger of all of the loans acquired by the CLO retain such risk at the asset level and, at origination of such asset, takes a loan tranche of at least 20% of the aggregate principal balance, it is possible that the originators and lead arrangers of loans in this market will not agree to assume this risk or provide such retention at origination of the asset in a manner that would provide meaningful relief from the risk retention requirements for CLO managers.

We believe that the U.S. risk retention requirements imposed for CLO managers under Section 941 of the Dodd-Frank Act has created some uncertainty in the market in regard to future CLO issuance. Given that certain CLO managers may require capital provider partners to satisfy this requirement beginning on December 24, 2016, we believe that this may create additional opportunities (and additional risks) for us in the future.

### ***Failure by Saratoga CLO to satisfy certain tests will harm our operating results.***

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

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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
- 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

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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

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

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

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

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

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

Because we are a "non-accelerated filer" within the meaning of Rule 12b-2 under the Securities Exchange Act of 1934, our independent auditors are not required to assess our internal control over financial reporting or to provide a report thereon. Although our management determined that our internal control over financial reporting was effective at August 31, 2016 (the last date that such determination was required to be made by us), there can be no assurance that our independent auditors would agree with our management's conclusion. Furthermore, if our market capitalization, excluding affiliated stockholders, at August 31 of any fiscal year is greater than \$75 million, then we will be required to obtain independent auditor certification on the adequacy of our internal control over financial reporting for that fiscal year. If our internal control over financial reporting is determined in the future to not be effective, whether by our management or by our independent auditors, there could be an adverse reaction in the financial markets due to a loss of confidence in the reliability of our consolidated financial statements, which could materially adversely affect our stock price and our ability to raise capital necessary to operate our business. In addition, we may be required to incur costs in improving our internal control system and hiring additional personnel.



***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 August 31, 2016, our investments in the business services industry represented approximately 48.6% of the fair value of our portfolio and our investments in the healthcare industry represented approximately 10.4% 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.

## USE OF PROCEEDS

We intend to use substantially all of the net proceeds from the sale of our securities to repay a portion of our 2020 Notes and for general corporate purposes. As of August 31, 2016, there was \$61.8 million principal amount of 2020 Notes outstanding.

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

**CAPITALIZATION**

The following table sets forth our capitalization as of August 31, 2016, actual and as adjusted for the sale of \$55.0 million aggregate principal amount of the 20XX Notes offered hereby. This table should be read in conjunction with our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our financial statements and notes thereto included in this prospectus.

	As of August 31, 2016	
	Actual	As Adjusted
	(unaudited)	
Cash and cash equivalents	\$ 12,707,273	
Cash and cash equivalents, reserve accounts	10,173,549	
Total cash and cash equivalents	<u>22,880,822</u>	
Revolving Credit Facility	—	
SBA debentures payable	103,660,000	
2020 Notes	61,793,125	
20XX Notes offered hereby	—	
Stockholders’ equity		
Common stock, par value \$0.001 per share; 100,000,000 common shares authorized, 5,740,810 shares issued and outstanding	5,741	
Capital in excess of par value	189,532,044	
Distribution in excess of net investment income	(27,038,814)	
Accumulated net realized loss from investments and derivatives	(28,132,894)	
Net unrealized appreciation on investments and derivatives	<u>(5,802,455)</u>	
Total net assets	<u>\$ 128,563,622</u>	
Total liabilities and net assets	<u>\$ 299,847,182</u>	
Net Asset Value Per Share	<u>\$ 22.39</u>	

**RATIO OF EARNINGS TO FIXED CHARGES**

For six months ended August 31, 2016, and the fiscal years ended February 29, 2016, February 28, 2015, 2014 and 2013, February 29, 2012 and February 28, 2011 and 2010, the ratios of earnings to fixed charges of the Company, computed as set forth below, were as follows:

	<u>Six months ended August 31, 2016</u>	<u>Year ended February 29, 2016</u>	<u>Year ended February 28, 2015</u>	<u>Year ended February 28, 2014</u>	<u>Year ended February 28, 2013</u>	<u>Year ended February 29, 2012</u>	<u>Year ended February 28, 2011</u>	<u>Year ended February 28, 2010</u>
Earnings to Fixed Charges	2.81	2.39	2.53	2.40	6.53	10.87	7.41	(1.55)

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

## NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or are within our control. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

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

- market volatility and the condition of the debt and equity markets;
- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment, including our ability to operate as a business development company, a regulated investment company and a small business investment company;
- the adequacy of our cash resources and working capital;
- the timing of cash flows, if any, from the operations of our portfolio companies; and
- the ability of our investment adviser to locate suitable investments for us and to monitor and effectively administer our investments.

You should not place undue reliance on these forward-looking statements. The forward-looking statements made in this prospectus relate only to events as of the date on which the statements are made. We undertake no obligation to update any forward-looking statement to reflect events or circumstances occurring after the date of this prospectus.

You should understand that, under Sections 27A(b)(2)(B) of the Securities Act and Section 21E(b)(2)(B) of the Exchange Act, the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus. Any forward-looking statements contained in any reports that the Company may file under the Exchange Act will be excluded from the safe harbor protection provided by Section 21E of the Exchange Act.

## PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is traded on the NYSE under the symbol “SAR”. Prior to July 30, 2010, our common stock traded on the NYSE under the symbol “GNV.” The following table lists the high and low closing sales prices for the Company’s common stock and such closing sales prices’ percentage of premium or discount to NAV for the last four completed fiscal years and the current fiscal year to date. On December 8, 2016, the last reported closing sale price of our common stock was \$18.84 per share which represents a discount of approximately 15.9% to the NAV reported as of August 31, 2016.

	<u>Price Range</u>			Percentage of High Sales Price as a Premium (Discount) to NAV(2)	Percentage of Low Sales Price as a Premium (Discount) to NAV(2)
	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>		
<b>Fiscal Year ending February 28, 2017</b>					
First Quarter	\$22.11	\$16.84	\$14.03	(23.8)%	(36.5)%
Second Quarter	\$22.39	\$18.15	\$16.37	(18.9)%	(26.9)%
Third Quarter	*	\$20.24	\$17.20	*	*
Fourth Quarter (through December 8, 2016)	*	\$19.29	\$18.45	*	*
<b>Fiscal Year ended February 29, 2016</b>					
First Quarter	\$22.75	\$19.95	\$15.28	(12.3)%	(32.8)%
Second Quarter	\$22.42	\$17.68	\$16.83	(21.1)%	(24.9)%
Third Quarter	\$22.59	\$16.65	\$14.92	(26.3)%	(34.0)%
Fourth Quarter	\$22.06	\$15.93	\$13.50	(27.8)%	(38.8)%
<b>Fiscal Year ended February 28, 2015</b>					
First Quarter	\$21.41	\$15.91	\$15.05	(25.7)%	(29.7)%
Second Quarter	\$22.00	\$16.26	\$15.15	(26.1)%	(31.1)%
Third Quarter	\$22.45	\$16.32	\$15.00	(27.3)%	(33.2)%
Fourth Quarter	\$22.70	\$15.84	\$14.44	(30.2)%	(36.4)%
<b>Year ended February 28, 2014</b>					
First Quarter	\$23.48	\$19.08	\$16.35	(18.7)%	(30.4)%
Second Quarter	\$23.55	\$18.70	\$17.40	(20.6)%	(26.1)%
Third Quarter	\$20.39	\$19.55	\$15.40	(4.1)%	(24.5)%
Fourth Quarter	\$21.08	\$16.56	\$15.25	(21.4)%	(27.7)%
<b>Year ended February 28, 2013</b>					
First Quarter	\$25.74	\$18.29	\$15.15	(28.9)%	(41.1)%
Second Quarter	\$26.96	\$17.20	\$16.50	(36.2)%	(38.8)%
Third Quarter	\$21.52	\$19.97	\$15.17	(7.2)%	(29.5)%
Fourth Quarter	\$22.71	\$18.50	\$15.07	(18.5)%	(33.6)%
<b>Year ended February 29, 2012</b>					
First Quarter	\$27.89	\$18.26	\$16.69	(34.5)%	(40.2)%
Second Quarter	\$27.33	\$17.26	\$13.58	(36.8)%	(50.3)%
Third Quarter	\$24.17	\$13.82	\$12.35	(42.8)%	(48.9)%
Fourth Quarter	\$24.94	\$16.15	\$12.07	(35.2)%	(51.6)%

\* Net asset value has not yet been calculated for this period.

- (1) Net asset value 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 sales prices. The net asset values shown are based on outstanding shares at the end of each period.
- (2) Calculated as the respective high or low sales price less net asset value, divided by net asset value.

### Holders

The last reported price for our common stock on December 8, 2016 was \$18.84 per share. As of December 8, 2016, there were 21 holders of record of our common stock.

[Table of Contents](#)**Dividend Policy**

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount per Share</b>
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
<b>Total Dividends Declared for Fiscal 2009</b>			<u>\$ 10.30</u>
November 13, 2009	November 25, 2009	December 31, 2009	\$ 18.25(1)
<b>Total Dividends Declared for Fiscal 2010</b>			<u>\$ 18.25</u>
November 12, 2010	November 19, 2010	December 29, 2010	\$ 4.40(1)
<b>Total Dividends Declared for Fiscal 2011</b>			<u>\$ 4.40</u>
November 15, 2011	November 25, 2011	December 30, 2011	\$ 3.00(1)
<b>Total Dividends Declared for Fiscal 2012</b>			<u>\$ 3.00</u>
November 9, 2012	November 20, 2012	December 31, 2012	\$ 4.25(1)
<b>Total Dividends Declared for Fiscal 2013</b>			<u>\$ 4.25</u>
October 30, 2013	November 13, 2013	December 27, 2013	\$ 2.65(1)
<b>Total Dividends Declared for Fiscal 2014</b>			<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)
<b>Total Dividends Declared for Fiscal 2015</b>			<u>\$ 0.40</u>
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, 2015	February 1, 2016	February 29, 2016	\$ 0.40(1)
<b>Total Dividends Declared for Fiscal 2016</b>			<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
<b>Total Dividends Declared for Fiscal 2017 (through December 9, 2016)</b>			<u>\$ 1.48</u>

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

Our distributions, if any, will be determined by our board of directors and paid out of assets legally available for distribution. Any such distributions will be taxable to our stockholders, including to those stockholders who receive additional shares of our common stock pursuant to our dividend reinvestment plan. The reinvested dividends under our dividend reinvestment plan increase our gross assets, which will result in higher management fees, and potentially income incentive fees and capital gains incentive fees payable to Saratoga Investment Advisors. Prior to January 2009, we paid quarterly dividends to our stockholders. However, in January 2009, we suspended the practice of paying quarterly dividends to our stockholders and made five dividend distributions (in December 2013, 2012, 2011, 2010 and 2009) to our stockholders in the form of a combination of cash and the issuance of shares of our common stock as discussed more fully below. On September 24, 2014, our board of directors adopted a new dividend policy pursuant to which we will begin to again pay a regular quarterly cash

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dividend to our shareholders. In this regard, as noted in the table above, our board of directors has declared a regular quarterly cash dividends to our shareholders since adopting our new dividend policy.

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.

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

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

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

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

Although this Revenue Procedure is no longer available and did not apply to our distributions for our fiscal year ended February 28, 2014, the revenue procedure was based upon certain applicable provisions of the Code and the Treasury regulations pursuant to which distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable dividends. Consistent with these provisions, the IRS has issued private letter rulings concluding that a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20.0% of the aggregate declared distribution.

On October 30, 2013, our board of directors declared a dividend of \$2.65 per share payable on December 27, 2013, to common stockholders of record on November 13, 2013. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$2.5 million or \$0.53 per share.

Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock, or 13.7% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of



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

## 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 prospectus. In addition to historical information, the following discussion and other parts of this prospectus contain forward-looking information that involves risks and uncertainties. Our actual results could differ materially from those anticipated by such forward-looking information due to the factors discussed under "Risk Factors" and "Note about Forward-Looking Statements" appearing elsewhere in this prospectus.

### OVERVIEW

We are a Maryland corporation that has elected to be treated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments. We invest primarily in leveraged loans and mezzanine debt issued by private U.S. middle market companies, which we define as companies having EBITDA of between \$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. 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 January 22, 2008, we entered into a collateral management agreement with Saratoga CLO, pursuant to which we act as its collateral manager. In addition, we purchased for \$30.0 million all of the outstanding subordinated notes of Saratoga CLO. 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

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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 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 8.5%.

The Saratoga CLO remains effectively 100% owned and managed by Saratoga Investment Corp. 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%.

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.

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% unsecured notes due 2020 for net proceeds of \$46.1 million after deducting underwriting commissions of \$1.9 million and offering costs of \$0.3 million. The proceeds included the underwriters’ full exercise of their overallotment option. Interest on these 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. The 2020 Notes are listed on the NYSE under the trading symbol “SAQ” with a par value of \$25.00 per share.

On April 3, 2015, the SBA issued a “green light” or “go forth” letter inviting us to continue our application process to obtain a license to form and operate a 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 will expire. 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 \$75.0 million of additional SBA-guaranteed debentures in addition to the \$150.0 million already approved under the first license.

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On May 29, 2015, we entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. Inc. 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 August 31, 2016, the Company sold 2020 Notes with a principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (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 Advisers, the audit committee of our board of directors and a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments, market yield trend analysis, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.

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

- Each investment is initially valued by the responsible investment professionals of Saratoga Investment Advisers and preliminary valuation conclusions are documented and discussed with our senior management; and
- An independent valuation firm engaged by our board of directors reviews 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 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.

#### *Payment-in-Kind Interest*

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

## **Capital Gains Incentive Fee**

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

### ***Revenues***

We generate revenue in the form of interest income and capital gains on the debt investments that we hold and capital gains, if any, on equity interests that we may acquire. We expect our debt investments, whether in the form of leveraged loans or mezzanine debt, to have terms of up to ten years, and to bear interest at either a fixed or floating rate. Interest on debt will be payable generally either quarterly or semi-annually. In some cases, our debt investments may provide for a portion of the interest to be PIK. To the extent interest is paid-in-kind, it will be payable through the increase of the principal amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation. The principal amount of the debt and any accrued but unpaid interest will generally become due at the maturity date. In addition, we may generate revenue in the form of commitment, origination, structuring or diligence fees, fees for providing managerial assistance or investment management services and possibly consulting fees. Any such fees will be generated in connection with our investments and recognized as earned. We may also invest in preferred equity securities that pay dividends on a current basis.

On January 22, 2008, we entered into a collateral management agreement with Saratoga CLO, pursuant to which we act as its collateral manager. The Saratoga CLO was 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 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 8.5%. The Saratoga CLO remains effectively 100% owned and managed by Saratoga Investment Corp. 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;

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- calculating our net asset value (including the cost and expenses of any independent valuation firm);
- expenses incurred by our investment adviser payable to third parties, including agents, consultants or other advisers, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- investment advisory and management fees;
- fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;
- federal and state registration fees;
- all costs of registration and listing our common stock on any securities exchange;
- federal, state and local taxes;
- independent directors' fees and expenses;
- costs of preparing and filing reports or other documents required by governmental bodies (including the 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 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.

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- 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 Management Agreement. We commenced deferring cash payment of incentive fees during the quarterly period ended August 31, 2007, and continued to defer such payments through the quarterly period ended May 31, 2010. As of July 30, 2010, the date on which GSCP (NJ), L.P. ceased to be our investment adviser and administrator, we owed GSCP (NJ), L.P. \$2.9 million in fees for services previously provided to us; of which \$0.3 million has been paid by us. GSCP (NJ), L.P. agreed to waive payment by us of the remaining \$2.6 million in connection with the consummation of the stock purchase transaction with Saratoga Investment Advisors and certain of its affiliates described elsewhere in this Annual Report.

The terms of the Management Agreement with Saratoga Investment Advisors, our current investment adviser, are substantially similar to the terms of the 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 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 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 February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, *Amendments to the Leases* (“ASC Topic 842”), which will require for all operating leases the recognition of a right-of-use asset and



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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 Financial Accounting Standards Board ("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 is currently evaluating the impact the adoption of this standard has on our consolidated financial statements and disclosures.

In August 2014, the FASB issued new accounting guidance that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments provide a definition of the term "substantial doubt" and include principles for considering the mitigating effect of management's plans. The amendments also require an evaluation every reporting period, including interim periods for a period of one year after the date that the financial statements are issued (or available to be issued), and certain disclosures when substantial doubt is alleviated or not alleviated. The amendments in this update are effective for reporting periods ending after December 15, 2016. Management does not believe these changes will 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 periods to December 15, 2017. Management is currently evaluating the impact these changes will have on the Company's consolidated financial statements and disclosures.

**Portfolio and Investment Activity**
**Corporate Debt Portfolio Overview**

	At August 31, 2016	At February 29, 2016	At February 28, 2015	At February 28, 2014
	(\$ in millions)			
Number of investments(1)	50	59	63	59
Number of portfolio companies(1)	29	34	34	37
Average investment size(1)	\$ 5.2	\$ 4.6	\$ 3.5	\$ 3.2
Weighted average maturity(1)	3.5yrs	3.8yrs	3.7yrs	4.3yrs
Number of industries(1)	11	11	14	16
Average investment per portfolio company(1)	\$ 9.0	\$ 8.0	\$ 6.6	\$ 5.0
Non-performing or delinquent investments(1)	\$ 0.0	\$ 0.0	\$ 0.0	\$ 0.3
Fixed rate debt (% of interest bearing portfolio)(2)	\$ 46.3(18.5)%	\$ 97.9(40.0)%	\$ 82.5(40.6)%	\$ 70.6(40.1)%
Weighted average current coupon(2)	11.9%	11.5%	12.0%	12.5%
Floating rate debt (% of interest bearing portfolio)(2)	\$203.5(81.5)%	\$ 146.8(60.0)%	\$ 120.8(59.4)%	\$ 105.4(59.9)%
Weighted average current spread over LIBOR(2)	10.0%	9.1%	8.7%	7.3%

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

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

During the three months ended August 31, 2016, we invested \$55.7 million in new or existing portfolio companies and had \$50.3 million in aggregate amount of exits and repayments resulting in net investments of \$5.4 million for the period. During the three months ended August 31, 2015, we invested \$18.9 million in new or existing portfolio companies and had \$27.4 million in aggregate amount of exits and repayments resulting in net repayments of \$8.5 million for the period.

During the six months ended August 31, 2016, we invested \$55.7 million in new or existing portfolio companies and had \$70.9 million in aggregate amount of exits and repayments resulting in net repayments of \$15.2 million for the period. During the six months ended August 31, 2015, we invested \$42.1 million in new or existing portfolio companies and had \$34.8 million in aggregate amount of exits and repayments resulting in net investments of \$7.3 million for the period.

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.

During the fiscal year ended February 28, 2015, we invested \$104.9 million in new or existing portfolio companies and had \$73.3 million in aggregate amount of exits and repayments resulting in net investments of \$31.6 million for the year.

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

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Our portfolio composition at August 31, 2016, February 29, 2016, February 28, 2015 and February 28, 2014 at fair value was as follows:

**Portfolio Composition**

	At August 31, 2016		At February 29, 2016		At February 28, 2015		At February 28, 2014	
	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield
Syndicated loans	3.5%	5.3%	4.2%	8.2%	7.6%	6.2%	15.7%	6.2%
First lien term loans	56.2	10.6	50.9	10.6	60.3	11.0	53.6	11.5
Second lien term loans	31.9	11.5	31.1	11.5	14.8	11.2	13.5	11.1
Unsecured notes	—	—	—	—	1.8	13.7	2.7	15.2
Saratoga CLO subordinated notes	4.4	19.4	4.5	16.4	7.1	25.2	9.5	18.6
Equity interests	4.0	N/A	9.3	N/A	8.4	N/A	5.0	N/A
<b>Total</b>	<b>100.0%</b>	<b>11.1%</b>	<b>100.0%</b>	<b>11.1%</b>	<b>100.0%</b>	<b>11.8%</b>	<b>100.0%</b>	<b>11.8%</b>

Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at August 31, 2016, February 29, 2016, February 28, 2015 and February 28, 2014 was composed of \$299.5 million, \$302.7 million, \$296.9 million and \$301.3 million, respectively, in aggregate principal amount of predominantly senior secured first lien term loans. This investment is subject to unique risks. (See “Risk Factors—Our investment in 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 August 31, 2016 and February 29, 2016, \$289.5 million or 99.5% and \$283.3 million or 99.4%, respectively, of the Saratoga CLO portfolio investments in terms of market value had a CMR (as defined below) color rating of green or yellow and there were no Saratoga CLO portfolio investments in default and one Saratoga CLO portfolio investment was in default with a fair value of \$0.8 million, respectively. 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)—strong credit; (Yellow)—satisfactory credit; (Red)—payment default risk, in payment default and/or significant restructuring activity.

The CMR distribution of our investments at August 31, 2016, February 29, 2016 and February 28, 2015 was as follows:

**Portfolio CMR Distribution**

Color Score	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Green	\$ 249,808	91.6%	\$ 240,623	84.7%	\$ 191,606	79.7%
Yellow	—	—	4,058	1.4	11,635	4.8
Red	8	0.0	8	0.0	101	0.0
N/A(1)	22,988	8.4	39,307	13.9	37,196	15.5
<b>Total</b>	<b>\$ 272,804</b>	<b>100.0%</b>	<b>\$ 283,996</b>	<b>100.0%</b>	<b>\$ 240,538</b>	<b>100.0%</b>

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

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The CMR distribution of Saratoga CLO investments at August 31, 2016, February 29, 2016 and February 28, 2015 was as follows:

**Portfolio CMR Distribution**

Color Score	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Green	\$ 256,542	88.2%	\$ 251,570	88.3%	\$ 278,769	94.4%
Yellow	32,939	11.3	31,752	11.1	12,875	4.4
Red	1,463	0.5	1,331	0.5	2,978	1.0
N/A(1)	13	0.0	192	0.1	617	0.2
<b>Total</b>	<b>\$ 290,957</b>	<b>100.0%</b>	<b>\$ 284,845</b>	<b>100.0%</b>	<b>\$ 295,239</b>	<b>100.0%</b>

(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 August 31, 2016, February 29, 2016 and February 28, 2015:

	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Business Services	\$ 132,709	48.6%	\$ 88,596	31.2%	\$ 52,128	21.7%
Consumer Services	26,896	9.9	43,109	15.2	24,169	10.0
Software as a Service	—	—	39,187	13.8	53,525	22.3
Healthcare Services	28,249	10.4	24,635	8.7	20,641	8.6
Media	18,660	6.8	16,574	5.8	15,026	6.2
Automotive Aftermarket	—	—	14,707	5.2	10,980	4.6
Structured Finance Securities(1)	11,917	4.4	12,828	4.5	17,031	7.1
Education	10,942	4.0	10,694	3.8	101	0.0
Metals	8,814	3.2	10,526	3.7	15,262	6.3
Food and Beverage	9,277	3.4	9,131	3.2	10,348	4.3
Consumer Products	884	0.3	7,642	2.7	9,239	3.9
Building Products	2,000	0.7	6,367	2.2	3,436	1.4
Electronics	—	—	—	—	6,667	2.8
Publishing	—	—	—	—	1,985	0.8
Aerospace and Defense	997	0.4	—	—	—	—
<b>Total</b>	<b>\$ 272,804</b>	<b>100.0%</b>	<b>\$ 283,996</b>	<b>100.0%</b>	<b>\$ 240,538</b>	<b>100.0%</b>

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

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The following table shows Saratoga CLO's portfolio composition by industry grouping at fair value at August 31, 2016, February 29, 2016 and February 28, 2015:

	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Services: Business	\$ 40,272	13.7%	\$ 37,308	13.1%	\$ 42,751	14.5%
Healthcare & Pharmaceuticals	30,252	10.4	28,339	9.9	35,341	11.9
Chemicals/Plastics	25,190	8.7	24,714	8.7	25,758	8.7
Retailers (Except Food and Drugs)	12,211	4.2	18,898	6.6	22,026	7.4
Financial Intermediaries	8,760	3.0	13,559	4.8	10,806	3.7
Aerospace and Defense	12,987	4.5	12,580	4.4	7,287	2.5
Industrial Equipment	11,675	4.0	11,777	4.1	15,290	5.2
Conglomerate	12,676	4.4	11,770	4.1	19,928	6.7
Telecommunications	9,026	3.1	11,364	4.0	6,675	2.3
Banking, Finance, Insurance & Real Estate	12,553	4.3	10,175	3.6	—	—
High Tech Industries	14,919	5.1	9,451	3.3	—	—
Electronics/Electric	7,437	2.6	9,342	3.3	12,904	4.4
Leisure Goods/Activities/Movies	8,258	2.8	8,009	2.8	12,629	4.3
Technology	6,161	2.1	7,774	2.7	1,008	0.3
Utilities	4,339	1.5	6,975	2.4	6,281	2.1
Food Services	5,962	2.0	5,944	2.1	5,886	2.0
Food Products	3,143	1.1	5,694	2.0	5,856	2.0
Automotive	\$ 4,984	1.7%	\$ 5,470	1.9%	\$ 6,650	2.2%
Lodging and Casinos	4,270	1.5	4,958	1.8	5,826	2.0
Media	10,843	3.7	4,768	1.7	2,004	0.7
Insurance	5,031	1.7	4,712	1.7	5,425	1.8
Containers/Glass Products	5,270	1.8	4,168	1.5	4,313	1.5
Cable and Satellite Television	2,624	0.9	3,557	1.2	2,646	0.9
Publishing	4,994	1.7	3,029	1.1	5,627	1.9
Drugs	2,957	1.0	2,873	1.0	10,091	3.4
Construction & Building	1,962	0.7	2,869	1.0	—	—
Food/Drug Retailers	2,824	1.0	2,737	1.0	5,861	2.0
Brokers/Dealers/Investment Houses	2,463	0.8	2,618	0.9	4,832	1.6
Oil & Gas	2,411	0.8	2,273	0.8	6,070	2.1
Hotel, Gaming and Leisure	2,647	0.9	1,917	0.7	—	—
Nonferrous Metals/Minerals	1,482	0.5	1,505	0.5	1,835	0.6
Broadcast Radio and Television	1,319	0.5	1,258	0.4	467	0.2
Beverage, Food & Tobacco	2,498	0.9	984	0.3	—	—
Environmental Industries	787	0.3	732	0.3	250	0.1
Services: Consumer	747	0.3	496	0.2	—	—
Building and Development	248	0.1	248	0.1	485	0.2
Telecommunications/Cellular	—	—	—	—	2,431	0.8
Transportation	780	0.3	—	—	—	—
Capital	—	—	—	—	—	—
Equipment	3,995	1.4	—	—	—	—
<b>Total</b>	<b>\$ 290,957</b>	<b>100.0%</b>	<b>\$ 284,845</b>	<b>100.0%</b>	<b>\$ 295,239</b>	<b>100.0%</b>

**Portfolio composition by geographic location at fair value**

The following table shows our portfolio composition by geographic location at fair value at August 31, 2016, February 29, 2016 and February 28, 2015. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)					
Southeast	\$ 101,174	37.1%	\$ 108,661	38.3%	\$ 92,069	38.3%
Midwest	61,810	22.7	57,553	20.3	55,767	23.2
Northeast	53,888	19.7	52,875	18.6	34,412	14.3
Southwest	25,463	9.3	25,535	9.0	—	—
West	16,552	6.1	24,544	8.6	40,259	16.7
Other(1)	11,917	4.4	12,828	4.5	17,031	7.1
International	2,000	0.7	2,000	0.7	1,000	0.4
Total	<u>\$ 272,804</u>	<u>100.0%</u>	<u>\$ 283,996</u>	<u>100.0%</u>	<u>\$ 240,538</u>	<u>100.0%</u>

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

**Results of operations**

Operating results for the three and six months ended August 31, 2016 and the fiscal years ended February 29, 2016, February 28, 2015 and February 28, 2014 are as follows:

	For the three months ended	For the six months ended	For the Year Ended		
	August 31, 2016	August 31, 2016	February 29, 2016	February 28, 2015	February 28, 2014
	(\$ in thousands)				
Total investment income	\$ 8,448	\$ 16,356	\$ 30,050	\$ 27,375	\$ 22,893
Total expenses	5,844	11,214	19,372	17,701	14,019
Net investment income	2,604	5,142	10,678	9,674	8,874
Net realized gains	5,937	12,040	226	3,276	1,271
Net unrealized appreciation (depreciation) on investments	(3,269)	(8,623)	741	(1,943)	(1,648)
Net increase in net assets resulting from operations	<u>\$ 5,272</u>	<u>\$ 8,559</u>	<u>\$ 11,645</u>	<u>\$ 11,007</u>	<u>\$ 8,497</u>

As described in Note 2 to the consolidated financial statements and notes thereto, 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 consolidated financial statements and selected financial data included in this Form 10-K.

### Investment income

The composition of our investment income for the three and six months ended August 31, 2016 and the fiscal years ended February 29, 2016, February 28, 2015 and February 28, 2014 are as follows:

	For the three months ended	For the six months ended	For the Year Ended		
	August 31, 2016	August 31, 2016	February 29, 2016	February 28, 2015	February 28, 2014
	(\$ in thousands)				
Interest from investments	\$ 7,303	\$ 14,585	\$ 26,871	\$ 24,684	\$ 20,179
Management fee income	375	748	1,495	1,520	1,775
Interest from cash and cash equivalents and other income	770	1,023	1,684	1,171	939
Total	<u>\$ 8,448</u>	<u>\$ 16,356</u>	<u>\$ 30,050</u>	<u>\$ 27,375</u>	<u>\$ 22,893</u>

For the three months ended August 31, 2016, total investment income increased \$0.7 million, or 8.9% compared to the three months ended August 31, 2015. Interest income from investments increased \$0.5 million, or 7.1%, to \$7.3 million for the three months ended August 31, 2016 from \$6.8 million for the three months ended August 31, 2015. This reflects an increase of 8.2% in total investments to \$272.8 million at August 31, 2016 from \$252.2 million at August 31, 2015, with the weighted average current coupon increasing from 11.7% to 11.9%.

For the six months ended August 31, 2016, total investment income increased \$1.0 million, or 6.8% compared to the six months ended August 31, 2015. Interest income from investments increased \$0.8 million, or 6.1%, to \$14.6 million for the six months ended August 31, 2016 from \$13.8 million for the six months ended August 31, 2015. This reflects an increase of 8.2% in total investments to \$272.8 million at August 31, 2016 from \$252.2 million at August 31, 2015, with the weighted average current coupon increasing from 11.7% to 11.9%.

For the fiscal year ended February 29, 2016, total investment income increased \$2.7 million, or 9.8% compared to the fiscal year ended February 28, 2015. Interest income from investments increased \$2.2 million, or 8.9%, to \$26.9 million for the year ended February 29, 2016 from \$24.7 million for the fiscal year ended February 28, 2015. This reflects an increase of 18.1% in total investments to \$284.0 million at February 29, 2016 from \$240.5 million at February 28, 2015, offset by the weighted average current coupon reducing from 12.0% to 11.5%.

For the fiscal year ended February 28, 2015, total investment income increased \$4.5 million, or 19.6% compared to the fiscal year ended February 28, 2014. Interest income from investments increased \$4.5 million, or 22.3%, to \$24.7 million for the year ended February 28, 2015 from \$20.2 million for the fiscal year ended February 28, 2014. This reflects an increase of 16.9% in total investments to \$240.5 million at February 28, 2015 from \$205.8 million at February 28, 2014, offset by the weighted average current coupon reducing from 12.5% to 12.0%.

For the three and six months ended August 31, 2016, total PIK income was \$0.2 million and \$0.3 million, respectively. For the fiscal years ended February 29, 2016, February 28, 2015 and February 28, 2014, total PIK income was \$1.0 million, \$1.2 million, and \$0.9 million, respectively.

The Saratoga CLO was initially refinanced in October 2013, and again in November 2016. As a result, proceeds from principal payments in the loan portfolio of Saratoga CLO must now be used to paydown its outstanding notes. Thus, the management fee income and investment income that we receive from Saratoga CLO has declined from historical periods, decreasing \$0.03 million or 1.7% to \$1.5 million and \$0.3 million or 14.3% to \$1.5 million, for the years ended February 29, 2016 and February 28, 2015, respectively.

### Operating expenses

The composition of our operating expenses for the three and six months ended August 31, 2016 and the years ended February 29, 2016, February 28, 2015 and February 28, 2014 are as follows:

#### Operating Expenses

	For the three months ended	For the six months ended	For the Year Ended		
	August 31, 2016	August 31, 2016	February 29, 2016	February 28, 2015	February 28, 2014
			(\$ in thousands)		
Interest and debt financing expenses	\$ 2,370	\$ 4,738	\$ 8,456	\$ 7,375	\$ 6,084
Base management fees	1,203	2,430	4,529	4,157	3,327
Professional fees	302	662	1,336	1,302	1,212
Incentive management fees	1,208	1,937	2,232	2,548	939
Administrator expenses	325	650	1,175	1,000	1,000
Insurance	71	141	331	337	443
Directors fees and expenses	60	126	204	210	204
Excise tax expense	—	—	114	294	—
General & administrative and other expenses	305	530	995	478	810
Total expenses	<u>\$ 5,844</u>	<u>\$ 11,214</u>	<u>\$ 19,372</u>	<u>\$ 17,701</u>	<u>\$ 14,019</u>

For the three months ended August 31, 2016, total operating expenses increased \$1.7 million, or 42.5% compared to the three months ended August 31, 2015. For the six months ended August 31, 2016, total operating expenses increased \$1.3 million, or 13.4% compared to the six months ended August 31, 2015. For the year ended February 29, 2016, total operating expenses increased \$1.7 million, or 9.4% compared to the year ended February 28, 2015. For the year ended February 28, 2015, total operating expenses increased \$3.7 million, or 26.3% compared to the year ended February 28, 2014.

For the three and six months ended August 31, 2016 and the years ended February 29, 2016 and February 28, 2015, the increase in interest and debt financing expenses is primarily attributable to an increase in outstanding debt as compared to the prior years, with increased levels of outstanding SBA debentures, as well as the notes payable being outstanding for the full year ended February 29, 2016, and additional notes being issued during this year. The Credit Facility decreased from \$2.0 million outstanding at August 31, 2015 to \$0.0 million at August 31, 2016, and from \$9.6 million outstanding at February 28, 2015 to \$0.0 million at February 29, 2016, while our SBA debentures increased from \$79.0 million to \$103.7 million and from \$79.0 million to \$103.7 million, respectively. The notes increased from \$48.3 million as of February 28, 2015 to \$57.2 million as of August 31, 2015, and remained unchanged at \$61.8 million as of both February 29, 2016 and August 31, 2016. For the three months ended August 31, 2016, the weighted average interest rate on our outstanding indebtedness was 4.80% compared to 5.03% for the three months ended August 31, 2015. For the six months ended August 31, 2016, the weighted average interest rate on our outstanding indebtedness was 5.38% compared to 4.96% for the six months ended August 31, 2015. For the year ended February 29, 2016, the weighted average interest rate on our outstanding indebtedness was 4.91% compared to 4.95% for the fiscal year ended February 28, 2015 and 5.35% for the fiscal year ended February 28, 2014. This decrease was primarily driven by an increase in SBA debentures that carry a lower interest rate but now make up a higher proportion of our overall debt, increasing from 57.1% of overall debt as of August 31, 2015 to 62.7% as of August 31, 2016 and from 57.7% of overall debt as of February 28, 2015 to 62.7% as of February 29, 2016.



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For the three months ended August 31, 2016, base management fees increased \$0.1 million, or 4.5% compared to the three months ended August 31, 2015. For the six months ended August 31, 2016, base management fees increased \$0.2 million, or 6.8% compared to the six months ended August 31, 2015. The increase in base management fees results from the increase in the average value of our total assets, less cash and cash equivalents, from \$261.0 million as of August 31, 2015 to \$272.7 million as of August 31, 2016. For the year ended February 29, 2016, base management fees increased \$0.4 million, or 8.9% compared to the fiscal year ended February 28, 2015. The increase in base management fees results from the increase in the average value of our total assets, less cash and cash equivalents, from \$246.5 million as of February 28, 2015 to \$266.3 million as of February 29, 2016. For the year ended February 28, 2015, base management fees increased \$0.8 million, or 25.0% compared to the fiscal year ended February 28, 2014. The increase in base management fees results from the increase in the average value of our total assets, less cash and cash equivalents, from \$209.2 million to \$246.5 million as of February 28, 2014 and 2015, respectively.

For the three and six months ended August 31, 2016, professional fees decreased \$0.05 million, or 13.5%, and decreased \$0.02 million, or 3.1%, respectively, compared to the three months ended August 31, 2015. For the year ended February 29, 2016, professional fees increased \$0.03 million, or 2.7% compared to the fiscal year ended February 28, 2015. For the year ended February 28, 2015, professional fees increased \$0.09 million, or 7.4% compared to the fiscal year ended February 28, 2014.

For the three months ended August 31, 2016, incentive management fees increased \$1.2 million as compared to the three months ended August 31, 2015. For the six months ended August 31, 2016, incentive management fees increased \$0.2 million, or 10.3% compared to the six months ended August 31, 2015. For the year ended February 29, 2016, incentive management fees decreased \$0.3 million, or 12.4% compared to the fiscal year ended February 28, 2015. The first part of the incentive management fees increased this year, as higher total assets has led to increased net investment income above the hurdle rate pursuant to the Management Agreement. For the three months ended August 31, 2016, incentive management fees related to capital gains changed from a \$0.8 million reduction of expense to a \$0.4 million increase in expense as compared to the three months ended August 31, 2015, reflecting the \$2.4 million net loss on investments for the three months ended August 31, 2015, as compared to the \$2.7 million net gain on investments for the three months ended August 31, 2016. For the six months ended August 31, 2016, incentive management fees in total increased \$0.2 million as the incentive management fees related to capital gains increased from \$0.3 million to \$0.5 million compared to the six months ended August 31, 2015, reflecting the \$3.2 million net gain on investments for the six months ended August 31, 2015, as compared to the \$3.4 million net gain on investments for the six months ended August 31, 2016. For the year ended February 29, 2016, incentive management fees in total were more than offset as the incentive management fees related to capital gains changed from a \$0.3 million increase in expense to a \$0.05 million decrease in expense compared to the fiscal year ended February 28, 2015. For the year ended February 28, 2015, incentive management fees increased \$1.6 million, or 171.4% compared to the fiscal year ended February 28, 2014. The increase in incentive management fees is primarily attributable to an increase in accrued incentive fees this year, as higher total assets has led to increased net investment income above the hurdle rate pursuant to the Management Agreement. In addition, for the year ended February 28, 2015, the incentive management fees related to capital gains changed from a \$0.07 million reduction of expense to a \$0.3 million increase in expense compared to the fiscal year ended February 28, 2014.

As discussed above, the increase in interest and debt financing expenses for the three and six months ended August 31, 2016 and the years ended February 29, 2016, February 28, 2015 and February 28, 2014 is primarily attributable to an increase in the amount of outstanding debt as compared to the prior years. For the three and six months ended August 31, 2016 and the years ended February 29, 2016, February 28, 2015 and February 28, 2014, the weighted average interest rate on the outstanding borrowings under the Credit Facility was 6.00%, 6.00%, 6.00%, 6.75% and 7.50%, respectively. For the three and six months ended August 31, 2016 and the years ended February 29, 2016, February 28, 2015 and February 28, 2014, the weighted average interest rate on the outstanding borrowings of the SBA debentures was 3.19%, 3.14%, 3.12%, 2.93% and 3.03%, respectively.

**Net realized gains/(losses) on sales of investments**

For the three months ended August 31, 2016, the Company had \$50.3 million of sales, repayments, exits or restructurings resulting in \$5.9 million of net realized gains. For the six months ended August 31, 2016, the Company had \$70.9 million of sales, repayments, exits or restructurings resulting in \$12.0 million of net realized gains. The most significant realized gains during the six months ended August 31, 2016 were as follows (dollars in thousands):

**Six months ended August 31, 2016**

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain</u>
Take 5 Oil Change, L.L.C	Common Stock	\$ 6,457	\$ 481	\$ 5,976
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**

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
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. The \$3.8 million realized loss in our investments in Targus Holdings, Inc. was due to a restructuring that occurred during the quarter, resulting in the elimination of our former Unsecured Note and common equity, accompanied by a conversion of our prior first lien term loan in to a new equity.

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For the fiscal year ended February 28, 2015, the Company had \$73.3 million of sales, repayments, exits or restructurings resulting in \$3.3 million of net realized gains. The most significant realized gains during the year ended February 28, 2015 were as follows (dollars in thousands):

**Fiscal year ended February 28, 2015**

<u>Issuer</u>	<u>Asset Type</u>	<u>Gross Proceeds</u>	<u>Cost</u>	<u>Net Realized Gain/(Loss)</u>
Community Investors, Inc.	Term Loan A Senior Facility	\$ 6,983	\$ 6,886	\$ 97
HOA Restaurant GP/Finance	Senior Secured Notes	4,225	3,938	287
USS Parent Holding Corp	Non Voting Common Stock	248	133	115
USS Parent Holding Corp	Voting Common Stock	5,650	3,026	2,624

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

**Fiscal year ended February 28, 2014**

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

**Net unrealized appreciation/depreciation on investments**

For the three months ended August 31, 2016, our investments had net unrealized depreciation of \$3.3 million versus net unrealized depreciation of \$6.1 million for the three months ended August 31, 2015. For the six months ended August 31, 2016, our investments had net unrealized depreciation of \$8.6 million versus net unrealized depreciation of \$0.6 million for the six months ended August 31, 2015. The most significant cumulative changes in unrealized appreciation and depreciation for the six months ended August 31, 2016, were the following (dollars in thousands):

**Six months ended August 31, 2016**

<u>Issuer</u>	<u>Asset Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Total Unrealized Depreciation</u>	<u>YTD Change in Unrealized Depreciation</u>
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	314	(8,903)	(1,712)

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 period.

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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 period.

The \$1.7 million of change in unrealized depreciation in our investment in Elyria Foundry Company, L.L.C. was driven by a continued decline in oil and gas end markets since year-end, negatively impacting that company's performance.

For the year ended February 29, 2016, our investments had net unrealized appreciation of \$0.7 million versus net 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, LLC	Common Stock	\$ 481	\$ 6,235	\$ 5,754	\$ 4,762
Targus Holdings, Inc.	Unsecured Notes	—	—	—	2,054
Elyria Foundry Company, LLC	Common Stock	9,217	2,026	(7,191)	(4,735)

The \$4.8 million of change in unrealized appreciation in our investment in Take 5 Oil Change, LLC was driven by a transaction with a strategic acquirer.

The \$2.1 million of change in unrealized appreciation in our investment in Targus Holdings, Inc. was due to a restructuring that occurred during the quarter, resulting in the elimination of our former Unsecured Note. In realizing this loss as a result of the restructuring, unrealized depreciation was adjusted to zero which resulted in a \$2.1 million change in unrealized appreciation for the year.

The \$4.7 million change in unrealized depreciation in our investment in the Elyria Foundry Company, LLC was primarily due to a decline in oil and gas end markets since year-end, negatively impacting that company's performance.

For the year ended February 28, 2015, our investments had net unrealized depreciation of \$1.9 million versus net unrealized depreciation of \$1.6 million for the year ended February 28, 2014. The most significant cumulative changes in unrealized appreciation and depreciation for the year ended February 28, 2015, were the following (dollars in thousands):

### Fiscal year ended February 28, 2015

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Appreciation/ (Depreciation)	YTD Change in Unrealized Appreciation/ (Depreciation)
Legacy Cabinets, Inc.	Common—Voting A-1	\$ 221	\$ 1,493	\$ 1,272	\$ 941
Targus Holdings, Inc.	Common	567	—	(567)	(730)
Saratoga CLO	Other/Structured Finance Securities	15,953	17,031	1,078	(1,935)

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

### Fiscal year ended February 28, 2014

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

### Changes in net assets resulting from operations

For the three months ended August 31, 2016 and the fiscal years ended February 29, 2016, February 28, 2015 and February 28, 2014, we recorded a net increase in net assets resulting from operations of \$5.3 million, \$11.6 million, \$11.0 million and \$8.5 million, respectively. Based on 5,740,816 weighted average common shares outstanding as of August 31, 2016, our per share net increase in net assets resulting from operations was \$0.92 for the three months ended August 31, 2016. This compares to a per share net increase in net assets resulting from operations of \$0.22 for the three months ended August 31, 2015 based on 5,583,795 weighted average common shares outstanding as of August 31, 2015. Based on 5,582,453 weighted average common shares outstanding as of February 29, 2016, our per share net increase in net assets resulting from operations was \$2.09 for the fiscal year ended February 29, 2016. This compares to a per share net increase in net assets resulting from operations of \$2.04 for the fiscal year ended February 28, 2015 (based on 5,385,049 weighted average common shares outstanding as of February 28, 2015), and a per share net increase in net assets resulting from operations of \$1.73 for the fiscal year ended February 28, 2014 (based on 4,920,517 weighted average common shares outstanding as of February 28, 2014).

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

Although we expect to fund the growth of our investment portfolio through the net proceeds from SBA debenture drawdowns and future equity offerings, including our dividend reinvestment plan ("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 Subchapter M of the Code. In satisfying this distribution requirement, we have in the past relied on IRS issued private letter rulings concluding that a RIC may treat a distribution of its own stock as fulfilling its RIC distribution requirements if each stockholder may

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elect to receive his or her entire distribution in either cash or stock of the RIC subject to a limitation on the aggregate amount of cash to be distributed to all stockholders, which limitation must be at least 20% of the aggregate declared distribution. We may rely on these IRS private letter rulings in future periods to satisfy our RIC distribution requirement.

Also, as a BDC, we generally are required to meet a coverage ratio of total assets, less liabilities and indebtedness not represented by senior securities, to total senior securities, which include all of our borrowings and any outstanding preferred stock, of at least 200%. This requirement limits the amount that we may borrow. Our asset coverage ratio, as defined in the 1940 Act, was 308.1% as of August 31, 2016, 302.5% as of February 29, 2016, and 311.7% as of February 28, 2015. To fund growth in our investment portfolio in the future, we anticipate needing to raise additional capital from various sources, including the equity markets and other debt-related markets, which may or may not be available on favorable terms, if at all.

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

### ***Madison revolving credit facility***

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

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

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

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

**Interest Rate and Fees.** Under the Credit Facility, funds are borrowed from or through certain lenders at the greater of the prevailing LIBOR rate and 2.00%, plus an applicable margin of 5.50%. At the Company’s option, funds may be borrowed based on an alternative base rate, which in no event will be less than 3.00%, and the

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applicable margin over such alternative base rate is 4.50%. In addition, the Company pays the lenders a commitment fee of 0.75% per year on the unused amount of the Credit Facility for the duration of the Revolving Period (defined below). Accrued interest and commitment fees are payable monthly. The Company was also obligated to pay certain other fees to the lenders in connection with the closing of the Credit Facility.

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

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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.

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

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

- an Interest Coverage Ratio of less than 150.0%;
- an Overcollateralization Ratio of less than 175.0%;
- the filing of certain ERISA or tax liens;
- the occurrence of certain “Manager Events” such as:
  - failure by Saratoga Investment Advisors and its affiliates to maintain collectively, directly or indirectly, a cash equity investment in the Company in an amount equal to at least \$5,000,000 at any time prior to the third anniversary of the closing date;
  - failure of the Management Agreement between Saratoga Investment Advisors and the Company to be in full force and effect;
  - indictment or conviction of Saratoga Investment Advisors or any “key person” for a felony offense, or any fraud, embezzlement or misappropriation of funds by Saratoga Investment Advisors or any “key person” and, in the case of “key persons,” without a reputable, experienced individual reasonably satisfactory to Madison Capital Funding appointed to replace such key person within 30 days;
  - resignation, termination, disability or death of a “key person” or failure of any “key person” to provide active participation in Saratoga Investment Advisors’ daily activities, all without a reputable, experienced individual reasonably satisfactory to Madison Capital Funding appointed within 30 days; or
  - occurrence of any event constituting “cause” under the Collateral Management Agreement between the Company and Saratoga CLO (the “CLO Management Agreement”), delivery of a



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

On February 24, 2012, we amended our Credit Facility with Madison Capital Funding 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.

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

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

As of August 31, 2016, we had no outstanding borrowings under the Credit Facility and \$103.7 million SBA-guaranteed debentures outstanding (which are discussed below). As of February 29, 2016, we had no outstanding borrowings under the Credit Facility and \$103.7 million SBA-guaranteed debentures outstanding. As of February 28, 2015, we had \$9.6 million outstanding under the Credit Facility and \$79.0 million SBA-guaranteed debentures outstanding. Our borrowing base under the Credit Facility at August 31, 2016, February 29, 2016, and February 28, 2015 was \$24.0 million, \$21.8 million, and \$36.3 million, respectively.

Our asset coverage ratio, as defined in the 1940 Act, was 308.1% as of August 31, 2016 and 302.5% and 311.7% for the years ended February 29, 2016 and February 28, 2015, respectively.

### ***SBA-guaranteed debentures***

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

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

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 August 31, 2016, our SBIC subsidiary had \$75.0 million in regulatory capital and \$103.7 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% asset coverage test under the 1940 Act. This allows us increased flexibility under the 200% asset coverage test by permitting us to borrow up to \$150.0 million more than we would otherwise be able to absent the receipt of this exemptive relief.

On April 3, 2015, the SBA issued a “green light” or “go forth” letter inviting us to continue our application process to obtain a license to form and operate a 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 will expire. 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 \$75.0 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 7.50% unsecured notes due 2020 for net proceeds of \$46.1 million after deducting underwriting commissions of \$1.9 million and offering costs of \$0.3 million. The proceeds included the underwriters’ full exercise of their overallotment option. Interest on these 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% after such borrowings.
- we will not violate (regardless of whether we are subject to) Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act or any successor provisions, but giving effect to (i) any exemptive

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relief granted to us by the SEC and (ii) no-action relief granted by the SEC to another BDC (or to the Company if it determines to seek such similar no-action or other relief) permitting the BDC to declare any cash dividend or distribution notwithstanding the prohibition contained in Section 18(a)(1)(B) as modified by Section 61(a)(1) of the 1940 Act in order to maintain the BDC's status as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986. Currently these provisions generally prohibit us from declaring any cash dividend or distribution upon any class of our capital stock, or purchasing any such capital stock if our asset coverage, as defined in the 1940 Act, is below 200% at the time of the declaration of the dividend or distribution or the purchase and after deducting the amount of such dividend, distribution or purchase.

The 2020 Notes are listed on the NYSE under the trading symbol "SAQ" with a par value of \$25.00 per share.

On May 29, 2015, we entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. Inc. 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 August 31, 2016, the Company sold 2020 Notes with a principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (net of transaction costs).

### **Cash and Cash Equivalents**

At August 31, 2016, February 29, 2016 and February 28, 2015, the fair value of investments, cash and cash equivalents and cash and cash equivalents, reserve accounts were as follows:

	At August 31, 2016		At February 29, 2016		At February 28, 2015	
	Fair Value	Percentage of Total	Fair Value	Percent of Total	Fair Value	Percent of Total
Cash and cash equivalents	\$ 12,707	4.3%	\$ 2,440	0.8%	\$ 1,888	0.7%
Cash and cash equivalents, reserve accounts	10,174	3.4	4,595	1.6	18,175	7.0
Syndicated loans	9,516	3.2	11,868	4.1	18,302	7.0
First lien term loans	153,276	51.9	144,643	49.7	145,207	55.7
Second lien term loans	87,024	29.4	88,178	30.3	35,603	13.7
Unsecured notes	—	—	—	—	4,230	1.7
Structured finance securities	11,917	4.0	12,828	4.4	17,031	6.5
Equity Interests	11,071	3.8	26,479	9.1	20,165	7.7
Total	<u>\$295,685</u>	<u>100.0%</u>	<u>\$291,031</u>	<u>100.0%</u>	<u>\$260,601</u>	<u>100.0%</u>

### **Dividends and Distributions**

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. As of August 31, 2016, we purchased 138,494 shares of common stock, at the average price of \$16.16 for approximately \$2.2 million pursuant to this repurchase plan. 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 5, 2016, our board of directors declared a dividend of \$0.44 per share payable 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 our DRIP.

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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 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 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 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 our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,764 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 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 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.

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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 as of May 26, 2015. Shareholders had the option to receive payment of the dividend in cash, or receive shares of common stock, pursuant 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 our dividend reinvestment plan ("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, 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 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, 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 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 as 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 8,648,725 shares of common stock, or 104.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 13.7% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of

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shares of common stock comprising the stock portion was calculated based on a price of \$1.5099 per share, which equaled the volume weighted average trading price per share of the common stock on December 24 and 28, 2009.

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

### **Contractual obligations**

The following table shows our payment obligations for repayment of debt and other contractual obligations at August 31, 2016:

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
Long-Term Debt Obligations	\$165,453	\$ —	\$ —	\$61,793	\$ 103,660

### **Off-balance sheet arrangements**

The Company's off-balance sheet arrangements consisted of \$8.0 million, \$2.0 million, and \$11.2 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of August 31, 2016, February 29, 2016, and February 28, 2015, respectively. Such commitments are generally up to the Company's discretion to approve, or the satisfaction of certain financial and nonfinancial covenants and involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Company's consolidated statement of assets and liabilities and are not reflected in the Company's consolidated statements of assets and liabilities.

A summary of the composition of the unfunded commitments as of August 31, 2016, February 29, 2016, and February 28, 2015 is shown in the table below (dollars in thousands):

	As of		
	August 31, 2016	February 29, 2016	February 28, 2015
Avionte Holdings, LLC	\$ 1,000	\$ 1,000	\$ 1,000
Identity Automation	—	1,000	—
Bristol Hospice, LLC	—	—	7,500
HMN Holdco, LLC	—	—	2,400
Knowland Technology Holdings, L.L.C.	—	—	300
BoardEffect, Inc.	\$ 7,000	—	—
Total	\$ 8,000	\$ 2,000	\$ 11,200

On July 8, 2015, our board of directors, including a majority of the independent directors, approved the annual continuation of our Management Agreement with Saratoga Investment Advisors, LLC. Our board of directors also approved the renewal of the administration agreement with Saratoga Investment Advisors, LLC for an additional one-year term and determined to increase the cap on the payment or reimbursement of expenses by us thereunder to \$1.3 million for the additional one-year term. On October 5, 2016, our board of directors approved the renewal of the Administration Agreement for an additional one-year term and determined to raise the cap on the payment or reimbursement of expenses by the Company thereunder to \$1.5 million for the additional one-year term, effective November 1, 2016.

**SENIOR SECURITIES**  
**(\$ in thousands, except per share data)**

Information about our senior securities is shown in the following table as of February 28/29 for the fiscal years indicated in the table, unless otherwise noted. Ernst & Young LLP’s report on the table, as of February 29, 2016, is attached as an exhibit to the registration statement of which this prospectus is a part. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial condition, liquidity and capital resources” for more detailed information regarding the senior securities.

Class and Year(1)(2)	Total Amount Outstanding Exclusive of Treasury Securities(3)	Asset Coverage per Unit(4)	Involuntary Liquidating Preference per Share(5)	Average Market Value per Share(6)
(\$ in thousands)				
<b>Credit Facility with Madison Capital Funding</b>				
Fiscal year 2017 (as of August 31, 2016, unaudited)(7)	\$ —	\$ 3,081	—	N/A
Fiscal year 2016 (as of February 29, 2016)	\$ —	\$ 3,025	—	N/A
Fiscal year 2015 (as of February 28, 2015)	\$ 9,600	\$ 3,117	—	N/A
Fiscal year 2014 (as of February 28, 2014)	\$ —	\$ 3,348	—	N/A
Fiscal year 2013 (as of February 28, 2013)	\$ 24,300	\$ 5,421	—	N/A
Fiscal year 2012 (as of February 29, 2012)	\$ 20,000	\$ 5,834	—	N/A
Fiscal year 2011 (as of February 28, 2011)	\$ 4,500	\$ 20,077	—	N/A
Fiscal year 2010 (as of February 28, 2010)	\$ —	\$ —	—	N/A
Fiscal year 2009 (as of February 28, 2009)	\$ —	\$ —	—	N/A
Fiscal year 2008 (as of February 29, 2008)	\$ —	\$ —	—	N/A
Fiscal year 2007 (as of February 28, 2007)	\$ —	\$ —	—	—
<b>7.50% Notes due 2020</b>				
Fiscal year 2017 (as of August 31, 2016, unaudited)(7)	\$ 61,793	\$ 3,081	—	\$ 25.27(8)
Fiscal year 2016 (as of February 29, 2016)	\$ 61,793	\$ 3,025	—	\$ 25.24(8)
Fiscal year 2015 (as of February 28, 2015)	\$ 48,300	\$ 3,117	—	\$ 25.46(8)
Fiscal year 2014 (as of February 28, 2014)	\$ 48,300	\$ 3,348	—	\$ 25.18(8)
Fiscal year 2013 (as of February 28, 2013)	\$ —	\$ —	—	N/A
Fiscal year 2012 (as of February 29, 2012)	\$ —	\$ —	—	N/A
Fiscal year 2011 (as of February 28, 2011)	\$ —	\$ —	—	N/A
Fiscal year 2010 (as of February 28, 2010)	\$ —	\$ —	—	N/A
Fiscal year 2009 (as of February 28, 2009)	\$ —	\$ —	—	N/A
Fiscal year 2008 (as of February 29, 2008)	\$ —	\$ —	—	N/A
Fiscal year 2007 (as of February 28, 2007)	\$ —	\$ —	—	—

- (1) We have excluded our SBA-guaranteed debentures from this table because the SEC has granted us exemptive relief that permits us to exclude such debentures from the definition of senior securities in the 200% asset coverage ratio we are required to maintain under the 1940 Act. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition, Liquidity and Capital Resources.”
- (2) This table does not include the senior securities of our predecessor entity, GSC Investment Corp., relating to a revolving securitized credit facility with Deutsche Bank, in light of the fact that the Company was under different management during the time that such credit facility was outstanding.
- (3) Total amount of senior securities outstanding at the end of the period presented.
- (4) Asset coverage per unit is the ratio of our total assets, less all liabilities and indebtedness not represented by senior securities, to the aggregate amount of senior securities representing indebtedness. Asset coverage per unit is expressed in terms of dollar amounts per \$1,000 of indebtedness, calculated on a total basis.
- (5) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it. The “—” indicates information which the Securities and Exchange Commission expressly does not require to be disclosed for certain types of senior securities.
- (6) Not applicable for credit facility because not registered for public trading.
- (7) (Unaudited) Total amount outstanding as of December 9, 2016, including our Credit Facility, 2020 Notes and SBA-guaranteed debentures, was \$174.2 million.
- (8) Based on the average daily trading price of the 2020 Notes on the NYSE.



## BUSINESS

### General

We are a specialty finance company that invests primarily in leveraged loans and mezzanine debt issued by private U.S. middle-market companies, which we define as companies having annual EBITDA (earnings before interest, taxes, depreciation and amortization) of 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 (both first and second lien term loans) issued by middle market companies. Leveraged loans are generally senior debt instruments that rank ahead of subordinated debt of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. 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 the 1940 Act, which includes private equity funds, to no more than 15% of its net assets.

As of August 31, 2016, we had total assets of \$299.8 million and investments in 29 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 August 31, 2016. The overall portfolio composition as of August 31, 2016 consisted of 3.5% of syndicated loans, 56.2% of first lien term loans, 31.9% of second lien term loans, 4.4% of subordinated notes of Saratoga CLO and 4.0% of common equity. As of August 31, 2016 the weighted average yield on all of our debt investments, including our investment in the subordinated notes of Saratoga CLO, was approximately 11.1%. As of August 31, 2016, 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. We use enterprise value to assess the level of collateralization of our portfolio companies. The enterprise value of a portfolio company is determined by analyzing various factors, including EBITDA (earnings before interest, taxes, depreciation and amortization), 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 August 31, 2016, was composed of \$299.5 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 Investment Company Act of 1940 (“1940 Act”). As a BDC, we are required to comply with various regulatory requirements, including limitations on our use of debt. We finance our investments through borrowings. However, as a BDC, we are only generally allowed to borrow amounts such that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after such borrowing. Pursuant to the 200.0% asset coverage ratio limitation, we are permitted to borrow one dollar to make investments for every dollar we have in assets less all liabilities and indebtedness not represented by preferred stock or debt securities issued by us or loans obtained by us so that for every one dollar of outstanding indebtedness we have two dollars of assets.

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

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

### **Corporate History and Information**

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

The recapitalization transaction consisted of (i) the private sale of 986,842 shares of our common stock for \$15.0 million in aggregate purchase price to Saratoga Investment Advisors and certain of its affiliates and (ii) the entry into a \$40.0 million senior secured revolving Credit Facility with Madison Capital Funding. 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, received an SBIC license from the SBA.

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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](http://www.saratogainvestmentcorp.com). Information contained on our website is not incorporated by reference into this prospectus, and you should not consider that information to be part of this prospectus.

### **Saratoga Investment Advisors**

#### *General*

Our investment adviser was formed in 2010 as a Delaware limited liability company and became our investment adviser in July 2010. Our investment adviser is led by four principals, Christian L. Oberbeck, Michael J. Grisius, Thomas V. Inglesby, and Charles G. Phillips, with 28, 26, 29 and 19 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 29-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 October 5, 2016, 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.

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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 on the hurdle rate from quarter to quarter, and accordingly there is no clawback 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.

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

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

We have also entered into a separate administration agreement with Saratoga Investment Advisors pursuant to which Saratoga Investment Advisors furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services. The administration agreement had an initial term of two years from its effective date of July 30, 2010, with automatic one-year renewals, subject to approval by our board of directors, a majority of whom must be our independent directors. From the date of its initial approval and for subsequent annual renewals, the amount payable by us under the administration agreement was capped at \$1.0 million for each annual term of the agreement. On October 5, 2016, 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

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reimbursement of expenses by us thereunder to \$1.5 million for the additional one-year term, effective November 1, 2016. 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 of the portfolio company. Leveraged loans also have the benefit of security interests on the assets of the portfolio company, which may rank ahead of, or be junior to, other security interests. For a discussion of the risks pertaining to our secured investments, see Part I, Item 1A. "Risk Factors—Our investments may be risky, and you could lose all or part of your investment."

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

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 August 31, 2016, 72.2% of our debt portfolio at fair value consisted of debt securities for which issuers were not required to make principal payments until the maturity of such debt securities, which could result in a substantial loss to us if such issuers are unable to refinance or repay their debt at maturity. In addition, 81.5% of our debt investments at August 31, 2016, 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, NYSE MKT and The NASDAQ Stock Market), U.S. operating companies with listed securities that have market capitalizations of less than \$250.0 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less, which we refer to as "qualifying assets."

While our primary focus is to generate current income and capital appreciation from our debt and equity investments in middle market companies, we may invest up to 30.0% of the portfolio in opportunistic investments in order to seek to enhance returns to stockholders. Such investments may include investments in distressed debt, private equity, securities of public companies that are not thinly traded and structured finance vehicles such as collateralized loan obligation funds.

### ***Leveraged loans***

Our leveraged loan portfolio is comprised primarily of first lien and second lien term loans. First lien term loans are secured by a first priority perfected security interest on all or substantially all of the assets of the borrower and typically include a first priority pledge of the capital stock of the borrower. First lien term loans hold a first priority with regard to right of payment. Generally, first lien term loans offer floating rate interest payments, have a stated maturity of five to seven years, and have a fixed amortization schedule. First lien term loans generally have restrictive financial and negative covenants. Second lien term loans are secured by a second priority perfected security interest on all or substantially all of the assets of the borrower and typically include a second priority pledge of the capital stock of the borrower. Second lien term loans hold a second priority with regard to right of payment. Second lien term loans offer either floating rate or fixed rate interest payments, generally have a stated maturity of five to eight years, and may or may not have a fixed amortization schedule. Second lien term loans that do not have fixed amortization schedules require payment of the principal amount of the loan upon the maturity date of the loan. Second lien term loans have less restrictive financial and negative covenants than those that govern first lien term loans.

### ***Mezzanine debt***

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

In some cases, our debt investments may provide for a portion of the interest payable to be paid-in-kind interest ("PIK"). To the extent interest is paid-in-kind, it will be payable through the increase of the principal amount of the obligation by the amount of interest due on the then-outstanding aggregate principal amount of such obligation.

### ***Equity Investments***

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

### ***Opportunistic Investments***

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

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

Pursuant to its terms, the investment period for Saratoga CLO ended in January 2013, and certain restrictions in such terms prevented portfolio reinvestment. As a result, the Company determined that it was in its best interest to refinance Saratoga CLO given the fee income it receives for managing Saratoga CLO. The

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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 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 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 August 31, 2016 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

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with Saratoga Investment Advisors has an initial term of two years, with annual renewals to be approved by the Company's Board of Directors. The contract can be terminated by the Company's Board of Directors or stockholders with 60 days' notice, with no penalty for termination. The collateral management agreement that the Company has entered into with Saratoga CLO, on the other hand, has no renewal requirement, and can be terminated without cause with the approval of two-thirds of each of the class of CLO securities, excluding votes from interested noteholders. Furthermore, the Saratoga CLO collateral management agreement cannot be terminated with cause without the approval of a majority of all of the CLO security holders voting collectively, excluding votes from interested noteholders. If the Saratoga CLO collateral management agreement is terminated, the manager remains in place until a new manager is appointed by the issuer at the direction of a majority of the noteholders, and so long as such replacement is not rejected within 20 days by the most senior class of the Saratoga CLO securities. We receive a senior collateral management fee of 0.10% and a subordinate collateral management fee of 0.40% of the outstanding principal amount of Saratoga CLO's assets, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return 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 a loss of approximately \$2.8 million in October 2013 upon the refinancing as a result of the legal and accounting costs associated with the refinancing and the divestiture of certain Saratoga CLO loans not eligible for the refinanced Saratoga CLO. The cost of the refinancing was effectively borne by the Company as the holder of the subordinated notes in Saratoga CLO. The indenture for the Saratoga CLO does not contemplate the issuance of additional securities while the existing Saratoga CLO securities remain outstanding. The indenture could be amended to allow the issuance of additional securities, which would require consents of the holders of the Saratoga CLO debt securities and the approval of the rating agencies. The Saratoga CLO could issue additional securities pursuant to a refinancing of the existing securities. The costs of any such future refinancing would effectively be borne by us as the holder of the subordinated notes in Saratoga CLO.

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

As of August 31, 2016, the Saratoga CLO portfolio consisted of \$299.5 million in aggregate principal amount of primarily senior secured first lien term loans 98.2% of the Saratoga CLO portfolio consisted of such loans at August 31, 2016, to 180 borrowers with an average exposure to each borrower of \$1.6 million. The weighted average maturity of the portfolio is 4.37 years. In addition, Saratoga CLO held \$5.2 million in cash at August 31, 2016. 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 \$10.9 million, which is net of all principal payments made by Saratoga CLO on the Company's initial \$30 million investment in Saratoga CLO.

### ***Prospective portfolio company characteristics***

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

- a history of generating stable earnings and strong free cash flow;
- well-constructed balance sheets, supported by sustainable enterprise values;
- reasonable debt-to-cash flow multiples;



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- 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.

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;

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

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

- each investment is initially valued by the responsible investment professionals of Saratoga Investment Advisors and preliminary valuation conclusions are documented and discussed with our senior management; and

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- an independent valuation firm engaged by our board of directors independently values at least one quarter of our investments each quarter so that the valuation of each investment for which market quotes are not readily available is independently valued by an independent valuation firm at least annually.

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

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

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

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not distributed during such years and on which we paid no federal income tax. For the 2015 calendar year, we made distributions sufficient such that we did not incur any federal excise taxes. We may elect to withhold from distribution a portion of our ordinary income for the 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.

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

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

## **Competition**

Our primary competitors in providing financing to private middle market companies include public and private investment funds (including private equity funds, mezzanine funds, BDCs and SBICs), commercial and investment banks and commercial financing companies. 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. However, we continue to believe that there has been an overall reduction in the amount of debt capital available on average since the downturn in the credit markets, which began in mid-2007, and that this has resulted in a somewhat less competitive environment for making new investments. While many middle-market companies were previously able to raise senior debt financing through traditional large financial institutions, we believe this approach to financing is more 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. We use the industry information available to the investment professionals of Saratoga Investment Advisors to assess investment

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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.

### **Derivatives**

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

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

## OUR PORTFOLIO COMPANIES

The following table sets forth certain information as of August 31, 2016 for each portfolio company in which we had a debt or equity investment. Other than these investments, our only relationships with our portfolio companies are the managerial assistance we may separately provide to our portfolio companies, which services would be ancillary to our investments, and the board observer or participation rights we may receive.

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
<b>Non-control/Non-affiliated investments—202.9%(b)</b>						
CAMP International Systems(d) 999 Marconi Avenue Ronkonkoma, NY 11779	Aerospace and Defense	Second Lien Term Loan 8.25% Cash, 8/18/2024	\$ 1,000,000	995,002	997,500	0.8%
		Total Aerospace and Defense		995,002	997,500	0.8%
Polar Holding Company, Ltd.(a),(d),(i) 672 Kimberly Avenue Winnipeg, Manitoba, Canada	Building Products	First Lien Term Loan 10.00% Cash, 9/30/2016	\$ 2,000,000	2,000,000	2,000,000	1.6%
		Total Building Products		2,000,000	2,000,000	1.6%
Avionte Holdings, LLC(g) One Embarcadero Center Suite 1680 San Francisco, CA 94111	Business Services	Common Stock	100,000	100,000	247,782	0.2%
Avionte Holdings, LLC One Embarcadero Center Suite 1680 San Francisco, CA 94111	Business Services	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 2,279,278	2,255,168	2,287,483	1.8%
Avionte Holdings, LLC(j),(k) One Embarcadero Center Suite 1680 San Francisco, CA 94111	Business Services	Delayed Draw Term Loan A 9.75% Cash, 1/8/2019	\$ —	—	—	0.0%
BoardEffect, Inc. 161 Leverington Avenue Suite 1001 Philadelphia, PA 19127	Business Services	First Lien Term Loan 10.00% Cash, 6/17/2021	\$12,000,000	11,883,243	11,880,000	9.2%
BoardEffect, Inc.(j),(k) 161 Leverington Avenue Suite 1001 Philadelphia, PA 19127	Business Services	Delayed Draw Term Loan B 10.00% Cash, 6/17/2021	\$ —	—	—	0.0%
BMC Software, Inc.(d) 2103 CityWest Boulevard Houston, TX 77042	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 5,641,667	5,607,859	5,379,329	4.2%
Courion Corporation 1000 Holcomb Woods Parkway Building 400, Suite 401 Roswell, GA 30076	Business Services	Second Lien Term Loan 11.00% Cash, 6/1/2021	\$15,000,000	14,866,381	14,529,000	11.3%
Dispensing Dynamics International(d) 1020 Bixby Drive City of Industry, CA 91745	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$12,000,000	12,018,538	11,530,800	9.0%
Easy Ice, LLC(d) 925 West Washington Street Suite 100 Marquette, MI 49855	Business Services	First Lien Term Loan 9.50% Cash, 1/15/2020	\$16,000,000	15,868,493	16,057,493	12.5%
Emily Street Enterprises, L.L.C. 15878 Gaither Drive Gaithersburg, MD, 20877	Business Services	Senior Secured Note 10.00% Cash, 1/23/2020	\$ 3,300,000	3,272,264	3,355,372	2.6%

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Emily Street Enterprises, L.L.C.(g) 15878 Gaither Drive Gaithersburg, MD, 20877	Business Services	Warrant Membership Interests	49,318	400,000	459,791	0.3%
Help/Systems Holdings, Inc.(Help/Systems, LLC) 6533 Flying Cloud Drive Eden Prairie, MN 55344	Business Services	First Lien Term Loan 6.25% Cash, 10/8/2021	\$ 4,975,000	4,887,402	4,919,031	3.8%
Help/Systems Holdings, Inc.(Help/Systems, LLC) 6533 Flying Cloud Drive Eden Prairie, MN 55344	Business Services	Second Lien Term Loan 10.50% Cash, 10/8/2022	\$ 3,000,000	2,917,626	2,850,000	2.2%
Identity Automation Systems 8833 North Sam Houston Parkway West Houston, Texas 77064-5601	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(g) 8833 North Sam Houston Parkway West Houston, Texas 77064-5601	Business Services	Common Stock Class A Units	232,616	232,616	495,686	0.4%
Identity Automation Systems 8833 North Sam Houston Parkway West Houston, Texas 77064-5601	Business Services	First Lien Term Loan 12.00% (10.25% Cash/1.75% PIK) 12/18/2020	\$10,203,683	10,121,194	10,171,110	7.9%
Knowland Technology Holdings, L.L.C. 623 H Street NW Washington, DC 20001	Business Services	First Lien Term Loan 9.75% Cash, 11/29/2017	\$17,777,730	17,637,107	17,652,317	13.7%
Microsystems Company 3025 Highland Parkway Suite 450 Downers Grove, IL 60515	Business Services	Second Lien Term Loan 11.00% Cash, 7/1/2022	\$ 8,000,000	7,922,051	7,920,000	6.2%
PCF Number 4, Inc. 201 North Franklin Street Suite 200 Tampa, FL 33602	Business Services	Second Lien Term Loan 13.50% (12.50% Cash/1.00% PIK), 8/28/2021	\$13,044,083	12,918,979	13,044,083	10.1%
Vector Controls Holding Co., LLC(d) 2200 10th Street Suite 300 Plano TX 75074-8023	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	8,967,996	8,905,587	8,967,996	7.0%
Vector Controls Holding Co., LLC(d),(g) 2200 10th Street Suite 300 Plano TX 75074-8023	Business Services	Warrants to Purchase Limited Liability Company Interests	343	—	350,212	0.3%
Total Business Services				<u>132,426,025</u>	<u>132,709,002</u>	<u>103.2%</u>
Targus Holdings, Inc.(d),(g) 1211 North Miller Anaheim, CA 92806	Consumer Products	Common Stock	210,456	1,791,242	1,847	0.0%
Targus Holdings, Inc.(d) 1211 North Miller Anaheim, CA 92806	Consumer Products	Second Lien Term Loan A-2 15.00% PIK, 12/31/2019	\$ 220,644	220,644	220,644	0.2%
Targus Holdings, Inc.(d) 1211 North Miller Anaheim, CA 92806	Consumer Products	Second Lien Term Loan B 15.00% PIK, 12/31/2019	\$ 661,932	661,932	661,932	0.5%
Total Consumer Products				<u>2,673,818</u>	<u>884,423</u>	<u>0.7%</u>

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
My Alarm Center, LLC 3803 West Chester Pike Suite 100 Newtown Square, PA 19073	Consumer Services	Second Lien Term Loan 12.00% Cash, 7/9/2019				
			\$ 9,375,000	9,356,295	9,299,063	7.2%
PrePaid Legal Services, Inc.(d) One Pre-Paid Way Ada, OK 74820	Consumer Services	First Lien Term Loan 6.50% Cash, 7/1/2019	\$ 1,489,199	1,481,070	1,482,051	1.1%
PrePaid Legal Services, Inc.(d) One Pre-Paid Way Ada, OK 74820	Consumer Services	Second Lien Term Loan 10.25% Cash, 7/1/2020	\$ 10,000,000	9,966,163	9,846,000	7.7%
Prime Security Services, LLC 1035 North 3rd Street Suite 101 Lawrence, KS 66044	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2022	\$ 6,230,769	6,138,694	6,268,416	4.9%
		<b>Total Consumer Services</b>		<u>26,942,222</u>	<u>26,895,530</u>	<u>20.9%</u>
M/C Acquisition Corp., L.L.C.(d),(g) 235 South Maitland Avenue Suite 215 Maitland, FL 32751	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d) 235 South Maitland Avenue Suite 215 Maitland, FL 32751	Education	First Lien Term Loan 1.00% Cash, 3/31/2016	\$ 2,321,073	1,193,791	8,087	0.0%
Texas Teachers of Tomorrow, LLC(g),(h) 5599 San Felipe Street Suite 1425 Houston, 77056	Education	Common Stock	750,000	750,000	933,960	0.7%
Texas Teachers of Tomorrow, LLC 5599 San Felipe Street Suite 1425 Houston, 77056	Education	Second Lien Term Loan 10.75% Cash, 6/2/2021	\$ 10,000,000	9,910,300	10,000,000	7.8%
		<b>Total Education</b>		<u>11,884,332</u>	<u>10,942,047</u>	<u>8.5%</u>
TM Restaurant Group L.L.C. 6220 Shiloh Road Suite 100 Alpharetta, GA 30005	Food and Beverage	First Lien Term Loan 9.75% Cash, 7/16/2017	\$ 9,490,507	9,428,277	9,276,541	7.2%
		<b>Total Food and Beverage</b>		<u>9,428,277</u>	<u>9,276,541</u>	<u>7.2%</u>
Censis Technologies, Inc. 377 Riverside Drive Suite 300 Franklin, TN 37067	Healthcare Services	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 11,400,000	11,251,423	10,962,652	8.5%
Censis Technologies, Inc.(g),(h) 377 Riverside Drive Suite 300 Franklin, TN 37067	Healthcare Services	Limited Partner Interests	999	999,000	704,187	0.5%
Roscoe Medical, Inc.(d),(g) 21973 Commerce Parkway Strongsville, OH 44149	Healthcare Services	Common Stock	5,081	508,077	598,710	0.5%
Roscoe Medical, Inc. 21973 Commerce Parkway Strongsville, OH 44149	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,148,231	4,113,761	3.2%
Ohio Medical, LLC(g) 1111 Lakeside Drive Gurnee, IL 60031-4099	Healthcare Services	Common Stock	5,000	500,000	459,409	0.4%



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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Ohio Medical, LLC 1111 Lakeside Drive Gurnee, IL 60031-4099	Healthcare Services	Senior Subordinated Note 12.00%, 7/15/2021				
			\$ 7,300,000	7,233,876	7,273,756	5.7%
Zest Holdings, LLC(d) 2061 Wineridge Place Escondido, CA 92029	Healthcare Services	First Lien Term Loan 5.25% Cash, 8/16/2020				
			\$ 4,136,911	4,078,941	4,136,911	3.2%
				<u>28,719,548</u>	<u>28,249,386</u>	<u>22.0%</u>
		Total Healthcare Services				
HMN Holdco, LLC 9 Old Kings Highway South Darien, CT 06820	Media	First Lien Term Loan 10.00% Cash, 5/16/2019				
			\$ 8,700,232	8,594,607	8,700,232	6.8%
HMN Holdco, LLC 9 Old Kings Highway South Darien, CT 06820	Media	Delayed Draw First Lien Term Loan 10.00% Cash, 5/16/2019				
			\$ 4,800,000	4,744,654	4,800,000	3.7%
HMN Holdco, LLC 9 Old Kings Highway South Darien, CT 06820	Media	Class A Series				
			4,264	61,647	283,044	0.2%
HMN Holdco, LLC 9 Old Kings Highway South Darien, CT 06820	Media	Class A Warrant				
			30,320	438,353	1,623,030	1.3%
HMN Holdco, LLC(g) 9 Old Kings Highway South Darien, CT 06820	Media	Warrants to Purchase Limited Liability Company Interests (Common)				
			57,872	—	2,802,162	2.2%
HMN Holdco, LLC(g) 9 Old Kings Highway South Darien, CT 06820	Media	Warrants to Purchase Limited Liability Company Interests (Preferred)				
			8,139	—	451,308	0.3%
		Total Media		<u>13,839,261</u>	<u>18,659,776</u>	<u>14.5%</u>
Elyria Foundry Company, L.L.C.(d) 120 Filbert Street Elyria, OH 44035	Metals	Common Stock				
			35,000	9,217,564	314,300	0.2%
Elyria Foundry Company, L.L.C.(d) 120 Filbert Street Elyria, OH 44035	Metals	Revolver 10.00% Cash, 3/31/2017				
			\$ 8,500,000	8,500,000	8,500,000	6.6%
		Total Metals		<u>17,717,564</u>	<u>8,814,300</u>	<u>6.8%</u>
Mercury Network, LLC 501 NE 122nd Suite D Oklahoma City, OK 73114	Real Estate	First Lien Term Loan 10.50% Cash, 8/24/2021				
			\$20,808,696	20,619,443	20,724,932	16.1%
Mercury Network, LLC(g) 501 NE 122nd Suite D Oklahoma City, OK 73114	Real Estate	Common Stock				
			413,043	413,043	733,936	0.6%
		Total Real Estate		<u>21,032,486</u>	<u>21,458,868</u>	<u>16.7%</u>
<b>Sub Total Non-control/Non-affiliated investments</b>				<u>267,658,535</u>	<u>260,887,373</u>	<u>202.9%</u>
<b>Control investments—9.3%(b)</b>						
Saratoga Investment Corp. CLO 2013-1, Ltd.(a),(d),(e), (f)	Structured Finance Securities	Other/Structured Finance Securities 21.13%, 10/17/2023				
			\$30,000,000	10,948,369	11,917,076	9.3%
<b>Sub Total Control investments</b>				<u>10,948,369</u>	<u>11,917,076</u>	<u>9.3%</u>
<b>TOTAL INVESTMENTS—212.2%(b)</b>				<u>\$ 278,606,904</u>	<u>\$ 272,804,449</u>	<u>212.2%</u>

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<u>Company</u>	<u>Industry</u>	<u>Investment Interest Rate / Maturity</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value(c)</u>	<u>% of Net Assets</u>
			<u>Principal</u>	<u>Cost</u>	<u>Fair Value</u>	<u>% of Net Assets</u>
<b>Cash and cash equivalents and cash and cash equivalents, reserve accounts—17.8%</b>						
U.S. Bank Money Market(l)			\$ 22,880,822	\$22,880,822	\$ 22,880,822	17.8%
<b>Total cash and cash equivalents and cash and cash equivalents, reserve accounts</b>						
			<u>\$ 22,880,822</u>	<u>\$22,880,822</u>	<u>\$ 22,880,822</u>	<u>17.8%</u>

- (a) Represents a non-qualifying investment as defined under Section 55 (a) of the Investment Company Act of 1940, as amended. Non-qualifying assets represent 5.1% 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 \$128,563,622 as of August 31, 2016.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 6 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 21.13% 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, we "control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

<u>Company</u>	<u>Purchases</u>	<u>Redemptions</u>	<u>Sales (Cost)</u>	<u>Interest Income</u>	<u>Management Fee Income</u>	<u>Net Realized Gains/(Losses)</u>	<u>Net Unrealized Appreciation</u>
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$1,089,326	\$ 748,341	\$ —	\$ 1,171,478

- (g) Non-income producing at August 31, 2016.
- (h) Includes securities issued by an affiliate of the company.
- (i) Non-U.S. company. The principal place of business for Polar Holding Company, Ltd. is Canada.
- (j) The investment has an unfunded commitment as of August 31, 2016 (see Note 7 to the consolidated financial statements).
- (k) The entire commitment was unfunded at August 31, 2016. As such, no interest is being earned on this investment.
- (l) 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 August 31, 2016.

Set forth is a brief description of each portfolio company in which the fair value of our investment represents greater than 5% of our total assets as of August 31, 2016.

### Knowland Technology Holdings, LLC

Knowland is a leading advanced data and profiling company in the hospitality industry, with the industry's largest database of events, organizations that hold these events, and the contacts who book them. The Company's products are SaaS based and sold primarily to hotel clients.

### Mercury Network, LLC

Mercury Network, headquartered in Oklahoma City, OK, is a software as a service based appraisal vendor management platform that helps lenders and appraisal management companies ("AMCs") manage their entire appraisal workflow in compliance with appraisal independence standards. Lenders and AMCs leverage Mercury's network of over 25,000 registered appraisers to filter and select the best appraiser for a given assignment, place the appraisal order, manage communication with the appraiser, and run automated quality control checks on the appraisal report.

**Easy Ice, LLC**

Easy Ice is an ice machine rental business. For a fixed monthly fee, Easy Ice “rents” an ice machine to its customers, services the machines as needed and provides bags of back-up ice during breakdowns or emergencies. This differs from a lease in that there is no specified term (the subscription is month-to-month) and the customers do not have an option to buy their machines. Easy Ice prices its monthly subscriptions to be competitive with a lease and differentiates itself with the added “insurance” of ice delivery should the machine break down.

## MANAGEMENT AGREEMENTS

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

The incentive fee has the following two parts:

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

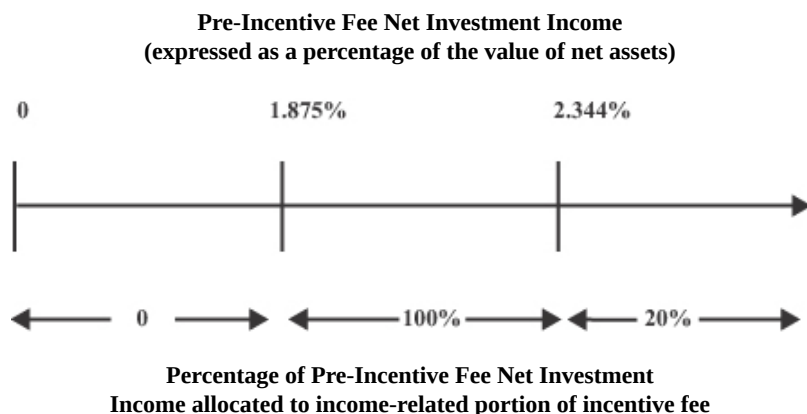
We pay Saratoga Investment Advisors an incentive fee with respect to our pre-incentive fee net investment income in each fiscal quarter as follows: (A) no incentive fee in any fiscal quarter in which our pre-incentive fee net investment income does not exceed the hurdle rate; (B) 100% of our pre-incentive fee net investment

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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% 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% 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. There is no accumulation of amounts on the hurdle rate from quarter to quarter, and accordingly there is no clawback 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. Notwithstanding the foregoing, with respect to any period ending on or prior to December 31, 2010, Saratoga Investment Advisors was only entitled to 20% of the amount of our pre-incentive fee net investment income, if any, that exceeded 1.875% in any fiscal quarter without any catch-up provision. These calculations are appropriately pro-rated when such calculations are applicable for any period of less than three months.

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

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



The second part of the incentive fee, the capital gains fee, is determined and payable in arrears as of the end of each fiscal year (or, upon termination of the 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% 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% 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 = 1.875%
- Management fee(2) = 0.4375%
- Other expenses (legal, accounting, custodian, transfer agent, etc.)(3) = 0.33%

### *Alternative 1*

#### *Additional Assumptions*

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

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

### *Alternative 2*

#### *Additional Assumptions*

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

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

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

- (1) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.
- (2) Represents 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.
- (3) The “catch-up” provision is intended to provide our investment adviser with an incentive fee of 20% on all pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.344% in any fiscal quarter.

### *Alternative 3*

#### *Additional Assumptions*

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

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

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

### **Example 2: Capital Gains Portion of Incentive Fee:**

#### **Alternative 1:**

##### *Assumptions(1)*

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

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

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

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

#### **Alternative 2**

##### *Assumptions(1)*

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

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

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

### ***Board Approval of the Investment Advisory and Management Agreement***

The 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.

In approving this agreement, the directors considered, among other things, (i) the nature, extent and quality of the advisory and other services to be provided to us by Saratoga Investment Advisors; (ii) our investment performance and the investment performance of Saratoga Investment Advisors; (iii) the expected costs of the services to be provided by Saratoga Investment Advisors (including management fees, advisory fees and expense ratios) and the profits expected to be realized by Saratoga Investment Advisors; (iv) the limited potential for economies of scale in investment management associated with managing us; and (v) Saratoga Investment Advisors estimated pro forma profitability with respect to managing us. On July 7, 2016, our board of directors approved the renewal of the Management Agreement for an additional one-year term at an in-person meeting.

### ***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 Saratoga Investment Advisors payable to third parties, including agents, consultants or other advisors, in monitoring financial and legal affairs for us and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- investment advisory and management fees;
- fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;



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- 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.

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### ***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. The amount payable by us under the administration agreement was initially capped at \$1.0 million for each annual term of the agreement. On October 5, 2016, 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 \$1.5 million for the additional one-year term, effective November 1, 2016.

### ***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."

## MANAGEMENT

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

### Director and Executive Officer Information

As of December 9, 2016, our executive officers, directors and key employees and their positions are as set forth below. The address for each executive officer and director is c/o Saratoga Investment Corp., 535 Madison Avenue, New York, New York 10022.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Expiration of Term</u>
<b><i>Interested Directors</i></b>				
Christian L. Oberbeck	56	Chairman of the Board and Chief Executive Officer	2010	2018
Michael J. Grisius	52	President and Director	2011	2017
<b><i>Independent Directors</i></b>				
Steven M. Looney	66	Director	2007	2019
Charles S. Whitman III	74	Director	2007	2019
G. Cabell Williams	62	Director	2007	2017
<u>Name</u>	<u>Age</u>	<u>Position</u>		
<b><i>Executive Officers</i></b>				
Christian L. Oberbeck	56	Chief Executive Officer		
Michael J. Grisius	52	President		
Henri J. Steenkamp	40	Chief Financial Officer, Treasurer, Secretary and Chief Compliance Officer		

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

### Biographical Information

#### ***Independent Directors***

**Steven M. Looney**—Mr. Looney, as the Chairman of the Audit Committee of the Board of Directors of the Company, presides over the executive sessions of the non-employee and independent directors of the Company. Mr. Looney is a Managing Director of Peale Davies & Co. Inc., a consulting firm with particular expertise in financial process and IT outsourcing, and is a CPA and an attorney. Mr. Looney also serves as a consultant and director to numerous companies in the healthcare, manufacturing and technology services industries, including WH Industries Inc. Between 2000 and 2005, he served as Senior Vice President and Chief Financial Officer of PCCI, Inc., a private IT staffing and outsourcing firm. Between 1992 and 2000, Mr. Looney worked at WH Industries as Chief Financial and Administrative Officer. Mr. Looney also serves as a director of Excellent Education for Everyone, a nonprofit organization. Mr. Looney graduated summa cum laude from the University of Washington with a B.A. degree in Accounting and received a J.D. from the University of Washington School of Law where he was a member of the law review. Mr. Looney’s qualifications as director include his experience as a Managing Director of Peale Davies & Co. Inc. and as Chief Financial and Administrative Officer of WH Industries, as well as his financial, accounting and legal expertise.

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**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, COO and finally Managing Director following Allied’s merger with its affiliates in 1998. From 1991 to 2004, Mr. Williams either led or co-managed the firm’s Private Equity Group. For the nine years prior to 1999, Mr. Williams led Allied’s Mezzanine investment activities. For 15 years, Mr. Williams served on Allied’s Investment Committee where he was responsible for reviewing and approving all of the firm’s investments. Prior to 1991, Mr. Williams ran Allied’s Minority Small Business Investment Company. He also founded Allied Capital Commercial Corporation, a real estate investment vehicle. Mr. Williams has served on the Board of various public and private companies. Mr. Williams attended The Landon School, and graduated from Mercersburg Academy and Rollins College, receiving a B.S. in Business Administration from the latter. Mr. Williams’ qualifications as director include his over 25 years of experience managing investment activities at Allied Capital, where he served in a variety of positions, including President, COO and Managing Director.

### **Interested Directors**

**Christian L. Oberbeck**—Mr. Oberbeck has over 28 years of experience in leveraged finance, from private equity to distressed debt and has been involved in originating, structuring, negotiating, consummating, managing and monitoring investments in these businesses. Mr. Oberbeck is the Managing Partner of Saratoga Partners, a middle market private equity investment firm, and has served on its investment committee since 1995. Mr. Oberbeck is also the Managing Member of Saratoga Investment Advisors, LLC, the Company’s investment adviser, and the Chief Executive Officer of the Company. Mr. Oberbeck also served as our President until February 2014.

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

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

**Michael J. Grisius**—Mr. Grisius has over 25 years of experience in leveraged finance, investment management and financial services. He has originated, structured, negotiated, consummated, managed and

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monitored numerous successful investments in mezzanine debt, private equity, senior debt, structured products and commercial real estate debt. Mr. Grisius is Chief Investment Officer and a Managing Director of Saratoga Investment Advisors, LLC, the Company's investment adviser and was appointed President of the Company in February 2013. Mr. Grisius joined Saratoga Investment Advisors, LLC in July 2011.

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

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

### **Executive Officers**

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

**Henri J. Steenkamp.** Mr. Steenkamp, 40 years old, served as the Chief Financial Officer of MF Global Holdings Ltd., a broker in commodities and derivatives, from April 2011. Prior to that, Mr. Steenkamp held the position of Chief Accounting Officer and Global Controller at MF Global for four years. He joined MF Global, then Man Financial, in 2006 as Vice President of External Reporting and Accounting Policy. After MF Global filed for bankruptcy protection in October 2011, he continued to serve as Chief Financial Officer through January 2013. Before joining MF Global, Mr. Steenkamp spent eight years with PricewaterhouseCoopers ("PwC"), including four years in Transaction Services in its New York office, managing a variety of capital-raising transactions on a global basis. His focus was also on the SEC registration and public company filing process, including technical accounting. He spent four years with PwC in South Africa, where he served as an auditor primarily for SEC registrants and assisted South African companies as they went public in the U.S. Mr. Steenkamp is a chartered accountant and holds an honors degree in Finance.

### **Board Leadership and the Board's Role in the Oversight of Risk Management**

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

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

Mr. Oberbeck, who is an "interested person" of the Company as defined in Section 2(a)(19) of the 1940 Act, serves as our chief executive officer and chairman of the Board. The Board believes that Mr. Oberbeck, as chief

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executive officer of the Company and as a principal of Saratoga Investment Advisors, is the director with the most knowledge of our business strategy and is best situated to serve as chairman of the Board. The Company's Corporate Governance Guidelines provide that Mr. Steven M. Looney, as the Chairman of the Audit Committee of the Board of Directors of the Company, shall preside over the executive sessions of the non-employee and independent directors of the Company. A stockholder or interested party that desires to communicate directly with the Board of Directors or one or more of its members concerning the affairs of the Company may direct the communication in written correspondence by letter to: Saratoga Investment Corp., attention Mr. Steven M. Looney, Chairman of the Audit Committee, 535 Madison Avenue, New York, New York. We believe that our board leadership structure must be evaluated on a case-by-case basis and that our existing board leadership structure is appropriate. However, we continually re-examine our corporate governance policies on an ongoing basis to ensure that they continue to meet our needs.

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

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

### **Director Independence**

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

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

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

### **Corporate Governance**

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

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

### ***Annual Evaluation***

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

### ***Board Meetings and Committees***

Our Board met 6 times during fiscal year 2016. Each director attended at least 75% of the total number of meetings of the Board and committees on which the director served that were held while the director was a member. The Board's standing committees are set forth below. We require each director to make a diligent effort to attend all Board and committee meetings, as well as each Annual Meeting of Stockholders. All of the five directors attended the 2016 Annual Meeting of Stockholders in person.

### ***Communications with Directors***

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

### ***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 August 31, 2016.

### ***Code of Business Conduct and Ethics***

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

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

### ***Committees of the Board of Directors***

#### ***Audit Committee***

The current members of the audit committee are Steven M. Looney (Chairman), Charles S. Whitman III and G. Cabell Williams. The Board has determined that Mr. Looney is an "audit committee financial expert" as

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

### *Authority*

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

### *Procedures*

The audit committee meets as often as it determines is appropriate to carry out its responsibilities under its charter, but not less frequently than quarterly. The chairman of the audit committee, in consultation with the other committee members, determines the frequency and length of the committee meetings and sets meeting agendas consistent with its charter. The audit committee meets separately, periodically, with management, with internal auditors or other personnel responsible for the internal audit function and with the independent auditor. The audit committee met nine times during fiscal year 2016.

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

### ***Nominating and Corporate Governance Committee***

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

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



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

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

### *Authority*

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

### *Procedures*

The nominating and corporate governance committee meets as often as it determines is appropriate to carry out its responsibilities under its charter. The chair of the committee, in consultation with the other committee members, determines the frequency and length of the committee meetings and shall set meeting agendas consistent with its charter. The nominating and corporate governance committee met once during fiscal year 2016.

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

### ***Compensation Committee***

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

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The compensation committee has the sole authority to retain and terminate any compensation consultant assisting the compensation committee, including sole authority to approve all such compensation consultant's fees and other retention terms. The compensation committee may delegate its authority to subcommittees or the chairman of the compensation committee when it deems appropriate and in the best interests of the Company.

### *Procedures*

The compensation committee shall meet as often as it determines is appropriate to carry out its responsibilities under its charter. The chairman of the compensation committee, in consultation with the other committee members, shall determine the frequency and length of the committee meetings and shall set meeting agendas consistent with its charter. No executive officer should attend that portion of any meeting where such executive's performance (or, as applicable, compensation) is discussed, unless specifically invited by the compensation committee. The compensation committee met once during fiscal year 2016.

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

### *Compensation Committee Interlocks and Insider Participation*

During fiscal year 2016, none of the Company's executive officers served on the board of directors (or a compensation committee thereof or other board committee performing equivalent functions) of any entities that had one or more executive officers serve on the compensation committee or on the board of directors. No current or past executive officers or employees of the Company or its affiliates serve on the compensation committee.

## **Executive Compensation**

Currently, none of our executive officers are compensated by us. We currently have no employees, and each of our executive officers is also an employee of Saratoga Investment Advisors. Services necessary for our business are provided by individuals who are employees of Saratoga Investment Advisors, pursuant to the terms of the 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 29, 2016:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Total</u>
<b>Interested Directors</b>		
Christian L. Oberbeck(1)	—	—
Michael J. Grisius(1)	—	—
<b>Independent Directors</b>		
Steven M. Looney	\$ 71,000	\$71,000
Charles S. Whitman III	\$ 68,000	\$68,000
G. Cabell Williams	\$ 68,000	\$68,000

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

## PORTFOLIO MANAGEMENT

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

### Investment Committee

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

### Investment Professionals

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

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

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

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

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

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

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

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

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

### **CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

#### **Transactions with Related Persons**

We have entered into 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).

### **CONTROL PERSONS AND PRINCIPAL STOCKHOLDERS**

The following table sets forth, as of December 9, 2016, 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% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

The percentage ownership is based on 5,748,247 shares of common stock outstanding as of December 9, 2016. 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.

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<u>Name of Beneficial Owners</u>	<u>Number of Shares of Common Stock Beneficially Owned</u>	<u>Percent of Class</u>
<b>Interested Directors</b>		
Christian L. Oberbeck	1,697,360(1)	29.5%
Michael J. Grisius	140,585	2.4%
<b>Executive Officer</b>		
Henri J. Steenkamp	5,519	*
<b>Independent Directors</b>		
Steven M. Looney	2,508	*
Charles S. Whitman III	2,347	*
G. Cabell Williams	38,508	*
<b>All Directors and Executive Officers as a Group</b>	<b>1,886,827</b>	<b>32.8%</b>
<b>Owners of 5% or more of our common stock</b>		
Black Diamond Capital Management, L.L.C.(2)	584,640	10.2%
Elizabeth Oberbeck(3)	744,183	13.0%
Thomas V. Inglesby	335,482	5.8%

\* Less than 1%

Mr. Oberbeck and Mr. Inglesby are affiliates who make up 35.3% of the ownership of SAR.

- (1) Includes 544,251 shares of common stock directly held by Mr. Oberbeck, 193,391 shares of common stock held by Saratoga Investment Advisors, which Mr. Oberbeck controls, and 215,535 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. 5 to Schedule 13G filed by Black Diamond Capital Management, L.L.C. with the SEC on February 12, 2016. The address of Black Diamond Capital Management, L.L.C. is One Sound Shore Drive, Suite 200, Greenwich, CT 06830.
- (3) Based on information included in Amendment No. 3 to Schedule 13D filed jointly by Christian L. Oberbeck, Elizabeth Oberbeck, Saratoga Investment Advisors and CLO Partners LLC on November 4, 2014. Pursuant to an Agreement Relating to Shares of Common Stock of Saratoga Investment Corp. (the "Transfer Agreement"), Christian L. Oberbeck transferred 744,183 shares of common stock beneficially owned by him to Elizabeth Oberbeck. Elizabeth Oberbeck has full ownership rights with respect to the shares, including without limitation, the right to (A) receive any cash and/or stock dividends and distributions paid on or with respect to the shares and (B) sell the shares in accordance with the provisions of the Transfer Agreement and receive all proceeds therefrom. However, pursuant to the terms of the Transfer Agreement, Christian L. Oberbeck has retained the right to vote the shares, except that Elizabeth Oberbeck has retained the right to vote the shares on all matters submitted to shareholders with respect to any matter that could give rise to dissenters or other rights of an objecting shareholder under Maryland General Corporation Law. The Transfer Agreement also contains a right of first refusal that requires Elizabeth Oberbeck to offer Christian L. Oberbeck the opportunity to purchase any shares of Common Stock owned by her prior to her intended sale of the shares. Any such purchases may be made either directly by Mr. Oberbeck or through entities affiliated with him.

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Set forth below is the dollar range of equity securities beneficially owned by each of our directors as of December 9, 2016. We are not part of a “family of investment companies” as that term is defined in the 1940 Act.

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

- (1) The dollar ranges are as follows: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, \$100,001-\$500,000, \$500,001-\$1,000,000 or over \$1,000,000.
- (2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$18.84 on December 8, 2016 on the New York Stock Exchange. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

## REGULATION

### Business Development Company Regulations

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

### Qualifying Assets

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

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

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

### ***Managerial Assistance to Portfolio Companies***

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

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

### ***Temporary investments***

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

### ***Indebtedness and senior securities***

As a BDC, we are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of shares of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any indebtedness and senior securities remain outstanding, we must generally make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or stock unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage.



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### ***Common stock***

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

### ***Code of ethics***

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

### ***Proxy voting policies and procedures***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Privacy principles**

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

We will safeguard, according to strict standards of security and confidentiality, all information we receive about our stockholders. The only information we collect from stockholders is the holder's name, address, number

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of shares and social security number. This information is used only so that we can send annual reports and other information about us to the stockholder, and send the stockholder proxy statements or other information required by law.

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

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

### **Compliance with applicable laws**

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

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

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

### **Co-investment**

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

We may in the future submit an exemptive application to the SEC to permit greater flexibility to negotiate the terms of co-investments because we believe that it will be advantageous for us to co-invest with affiliates of Saratoga Investment Advisors where such investment is consistent with the investment objective, investment positions, investment policies, investment strategies, investment restrictions, regulatory requirements and other pertinent factors applicable to us. However, there is no assurance that any application for exemptive relief, if made, would be granted by the SEC.

## **Small Business Investment Company Regulations**

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

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

SBICs are designed to stimulate the flow of private equity capital to eligible small businesses. Under SBA regulations, SBICs may make loans to eligible small businesses and invest in the equity securities of small businesses. Under present SBA regulations, eligible small businesses include businesses that have a tangible net worth not exceeding \$18 million and have average annual fully taxed net income not exceeding \$6 million for the two most recent fiscal years. In addition, an SBIC must devote 25% of its investment activity to “smaller” concerns as defined by the SBA. A smaller concern is one that has a tangible net worth not exceeding \$6 million and has average annual fully taxed net income not exceeding \$2 million for the two most recent fiscal years. SBA regulations also provide alternative size standard criteria to determine eligibility, which depend on the industry in which the business is engaged and are based on such factors as the number of employees and gross sales. According to SBA regulations, SBICs may make long-term loans to small businesses, invest in the equity securities of such businesses and provide them with consulting and advisory services.

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

Our SBIC subsidiary is subject to regulation and oversight by the SBA, including requirements with respect to maintaining certain minimum financial ratios and other covenants. Receipt of an SBIC license does not assure that our SBIC subsidiary will receive SBA guaranteed debenture funding, which is dependent upon our SBIC subsidiary continuing to be in compliance with SBA regulations and policies. The SBA, as a creditor, will have a superior claim to our SBIC subsidiary’s assets over our stockholders in the event we liquidate our SBIC subsidiary or the SBA exercises its remedies under the SBA-guaranteed debentures issued by our SBIC subsidiary upon an event of default.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following discussion is a general summary of the material U.S. federal income tax considerations (and, in the case of a non-U.S. holder (as defined below), the material U.S. federal estate tax consequences) applicable to an investment in the 20XX Notes. This summary does not purport to be a complete description of the income and estate tax considerations applicable to such an investment. The discussion is based upon the Internal Revenue Code of 1986, as amended (the “Code”), Treasury Regulations, and administrative and judicial interpretations, each as of the date of this prospectus and all of which are subject to change, potentially with retroactive effect. You should consult your own tax advisor with respect to tax considerations that pertain to your purchase, ownership and disposition of our 20XX Notes.

This discussion deals only with 20XX Notes held as capital assets within the meaning of Section 1221 of the Code and does not purport to deal with persons in special tax situations, such as financial institutions, insurance companies, controlled foreign corporations, passive foreign investment companies and regulated investment companies (and shareholders of such corporations), dealers in securities or currencies, traders in securities, former citizens of the United States, persons holding the 20XX Notes as a hedge against currency risks or as a position in a “straddle,” “hedge,” “constructive sale transaction” or “conversion transaction” for tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, persons subject to the alternative minimum tax, pass-through entities (including partnerships and entities and arrangements classified as partnerships for U.S. federal income tax purposes) and beneficial owners of pass-through entities, or persons whose functional currency is not the U.S. dollar. It also does not deal with beneficial owners of the 20XX Notes other than original purchasers of the 20XX Notes who acquire the 20XX Notes in this offering for a price equal to their original issue price ( *i.e.*, the first price at which a substantial amount of the notes is sold other than to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). If you are considering purchasing the 20XX Notes, you should consult your own tax advisor concerning the application of the U.S. federal tax laws to you in light of your particular situation, as well as any consequences to you of purchasing, owning and disposing of the 20XX Notes under the laws of any other taxing jurisdiction.

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

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds any 20XX Notes, the U.S. federal income tax treatment of a partner of the partnership generally will depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Partners of partnerships holding 20XX Notes should consult their own tax advisors.

## Taxation of 20XX Note Holders

Under present law, we are of the opinion that the 20XX Notes will constitute indebtedness of us for U.S. federal income tax purposes, which the below discussion assumes. We intend to treat all payments made with respect to the 20XX Notes consistent with this characterization.

**Taxation of U.S. Holders.** Payments or accruals of interest on a 20XX Note generally will be taxable to a U.S. holder as ordinary interest income at the time they are received (actually or constructively) or accrued, in accordance with the U.S. holder's regular method of tax accounting.

Upon the sale, exchange, redemption, retirement or other taxable disposition of a 20XX Note, a U.S. holder generally will recognize capital gain or loss equal to the difference between the amount realized on the sale, exchange, redemption, retirement or other taxable disposition (excluding amounts representing accrued and unpaid interest, which are treated as ordinary income to the extent not previously included in income) and the U.S. holder's adjusted tax basis in the 20XX Note. A U.S. holder's adjusted tax basis in a 20XX Note generally will equal the U.S. holder's initial investment in the 20XX Note. Capital gain or loss generally will be long-term capital gain or loss if the 20XX Note was held for more than one year. Long-term capital gains recognized by individuals and certain other non-corporate U.S. holders generally are eligible for reduced rates of taxation. The distinction between capital gain or loss and ordinary income or loss is also important in other contexts; for example, for purposes of the limitations on a U.S. holder's ability to offset capital losses against ordinary income.

### **Unearned Income Medicare Contribution**

After December 31, 2012, a tax of 3.8% will be imposed on certain "net investment income" (or "undistributed net investment income", in the case of estates and trusts) received by taxpayers other than corporations with adjusted gross income above certain threshold amounts. "Net investment income" as defined for U.S. federal Medicare contribution purposes generally includes interest payments and gain recognized from the sale or other disposition of the 20XX Notes. Tax-exempt trusts, which are not subject to income taxes generally, and foreign individuals will not be subject to this tax. U.S. holders should consult their own tax advisors regarding the effect, if any, of this tax on their ownership and disposition of the 20XX Notes.

**Taxation of Non-U.S. Holders.** A non-U.S. holder generally will not be subject to U.S. federal income or withholding taxes on payments of principal or interest on a 20XX Note provided that (i) income on the 20XX Note is not effectively connected with the conduct by the non-U.S. holder of a trade or business within the United States, (ii) the non-U.S. holder is not a controlled foreign corporation related to the Company through stock ownership, (iii) the non-U.S. holder is not a bank receiving interest described in Section 881(c)(3)(A) of the Code, (iv) the non-U.S. holder does not own (directly or indirectly, actually or constructively) 10% or more of the total combined voting power of all classes of stock of the Company, and (v) the non-U.S. holder has provided a statement in the year in which a payment occurs or in the preceding 3 years, on an Internal Revenue Service (IRS) Form W-8BEN, Form W-8BEN-E, or other applicable form signed under penalties of perjury that includes its name and address and certifies that the non-U.S. holder is the beneficial owner and is not a U.S. person in compliance with applicable requirements, or satisfies documentary evidence requirements for establishing that it is a non-U.S. holder.

A non-U.S. holder that is not exempt from tax under these rules generally will be subject to U.S. federal income tax withholding on payments of interest on the 20XX Notes at a rate of 30% unless (i) the income is effectively connected with the conduct of a U.S. trade or business (and, under certain income tax treaties, is attributable to a permanent establishment maintained in the U.S. by the non-U.S. holder), so long as the non-U.S. holder has provided an IRS Form W-8ECI or substantially similar substitute form stating that the interest on the 20XX Notes is effectively connected with the non-U.S. holder's conduct of a trade or business in the U.S. in which case the interest will be subject to U.S. federal income tax on a net income basis as applicable to U.S. holders generally (unless an applicable income tax treaty provides otherwise), or (ii) an applicable income tax treaty provides for a lower rate of, or exemption from, withholding tax.

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

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

Generally, a non-U.S. holder will not be subject to U.S. federal income or withholding taxes on any amount that constitutes capital gain upon the sale, exchange, redemption, retirement or other taxable disposition of a 20XX Note, provided that (i) the gain is not effectively connected with the conduct of a trade or business in the United States by the non-U.S. holder (or, if required by an applicable income tax treaty, is not attributable to a U.S. "permanent establishment" maintained by the non-U.S. holder) and (ii) that the non-U.S. holder is not an individual who is present in the U.S. for 183 days or more in the taxable year of the sale, exchange, or other taxable disposition and meets certain other conditions (unless such holder is eligible for relief under an applicable income tax treaty). Certain other exceptions may be applicable, and a non-U.S. holder should consult its tax advisor in this regard.

A 20XX Note that is held by an individual who, at the time of death, is not a citizen or resident of the United States (as specially defined for U.S. federal estate tax purposes) generally will not be subject to the U.S. federal estate tax, unless, at the time of death, (i) such individual directly or indirectly, actually or constructively, owns ten percent or more of the total combined voting power of all classes of our stock entitled to vote within the meaning of Section 871(h)(3) of the Code and the Treasury Regulations thereunder or (ii) such individual's interest in the 20XX Notes is effectively connected with the individual's conduct of a U.S. trade or business.

**Information Reporting and Backup Withholding.** A U.S. holder (other than an "exempt recipient," including a corporation and certain other persons who, when required, demonstrate their exempt status) may be subject to backup withholding on, and to information reporting requirements with respect to, payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the 20XX Notes. In general, if a non-corporate U.S. holder subject to information reporting fails to furnish a correct taxpayer identification number or otherwise fails to comply with applicable backup withholding requirements, backup withholding at the applicable rate may apply.

The amount of interest we pay to a non-U.S. holder on the 20XX Notes will be reported to such non-U.S. Holder and to the IRS annually on an IRS Form 1042-S even if the non-U.S. holder is exempt from the 30% withholding tax described above. Copies of the information returns reporting those payments and the amounts withheld, if any, may also be made available to the tax authorities in the country where the non-U.S. holder is resident under provisions of an applicable income tax treaty or agreement.

In addition, backup withholding tax and certain other information reporting requirements apply to payments of principal and interest on, and proceeds from the sale, exchange, redemption or retirement of, the 20XX Notes, unless an exemption applies. Backup withholding and information reporting will not apply to payments we make to a non-U.S. holder if such non-U.S. holder has provided to the applicable withholding agent under penalties of perjury the required certification of their non-U.S. person status as discussed above (and the applicable withholding agent does not have actual knowledge or reason to know that they are a U.S. person) or if the non-U.S. holder is an exempt recipient.

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If a non-U.S. holder sells or redeems a 20XX Note through a U.S. broker or the U.S. office of a foreign broker, the proceeds from such sale or redemption will be subject to information reporting and backup withholding unless such non-U.S. holder provides a withholding certificate or other appropriate documentary evidence establishing that such non-U.S. holder is not a U.S. person to the broker and such broker does not have actual knowledge or reason to know that such non-U.S. holder is a U.S. person, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting and backup withholding. If a non-U.S. holder sells or redeems a note through the foreign office of a broker who is a U.S. person or has certain enumerated connections with the U.S., the proceeds from such sale or redemption will be subject to information reporting unless the non-U.S. holder provides to such broker a withholding certificate or other appropriate documentary evidence establishing that the non-U.S. holder is not a U.S. person and such broker does not have actual knowledge or reason to know that such evidence is false, or the non-U.S. holder is an exempt recipient eligible for an exemption from information reporting. In circumstances where information reporting by the foreign office of such a broker is required, backup withholding will be required only if the broker has actual knowledge that the non-U.S. holder is a U.S. person.

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

### **Foreign Account Tax Compliance Act**

Legislation enacted in 2010 imposes a U.S. federal withholding tax of 30% on payments of interest or gross proceeds from the disposition of a debt instrument paid after December 31, 2012 to certain non-U.S. entities, including certain foreign financial institutions and investment funds, unless such non-U.S. entity complies with certain reporting requirements regarding its U.S. account holders and its U.S. owners. Pursuant to Treasury Regulations and other Treasury guidance, these rules generally are not effective for payments of gross proceeds, until January 1, 2017. In addition, Treasury Regulations state that even after the effective dates the new withholding obligations will not apply to payments on, or with respect to, obligations that are outstanding on July 1, 2014. Prospective purchasers of the 20XX Notes should consult their own tax advisors regarding the new withholding and reporting provisions.

***You should consult your own tax advisor with respect to the particular tax consequences to you of an investment in the 20XX Notes, including the possible effect of any pending legislation or proposed regulations.***

### **Our Taxation as a Regulated Investment Company**

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

#### *Taxation as a Regulated Investment Company*

If we:

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



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

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

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

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

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

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

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

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

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

If we fail to satisfy the Annual Distribution Requirement or otherwise fail to qualify as a RIC in any taxable year, we will be subject to U.S. federal income tax in that year on all of our taxable income, regardless of whether we make any distributions to our stockholders. If we fail to maintain RIC tax treatment for any reason and are subject to corporate-level federal income tax, the resulting corporate-level federal income tax could substantially reduce our net assets and the amount of income available to make interest and principal payments on the 20XX Notes. In contrast, assuming we qualify as a RIC, our corporate-level federal income tax should be substantially reduced or eliminated.

## DESCRIPTION OF THE 20XX NOTES

The 20XX Notes will be issued under the indenture dated May 10, 2013, between us and the U.S. Bank National Association, as trustee, and a second supplemental indenture thereto, to be dated the date of issuance of the 20XX Notes. We refer to the indenture, as well as the second supplemental indenture thereto, as the indenture and to U.S. Bank National Association as the trustee. The 20XX Notes are governed by the indenture, as required by federal law for all bonds and notes of companies that are publicly offered. An indenture is a contract between us and the financial institution acting as trustee on your behalf, and is subject to and governed by the Trust Indenture Act of 1939, as amended. The trustee has two main roles. First, the trustee can enforce your rights against us if we default. There are some limitations on the extent to which the trustee acts on your behalf, described in the second paragraph under “—Events of Default—Remedies if an Event of Default Occurs.” Second, the trustee performs certain administrative duties for us with respect to our 20XX Notes.

This section includes a description of the material terms of the 20XX Notes and the indenture. Because this section is a summary, however, it does not describe every aspect of the 20XX Notes and the indenture. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the 20XX Notes. The indenture has been attached as an exhibit to the registration statement of which this prospectus is a part and filed with the SEC. See “Available Information” for information on how to obtain a copy of the indenture.

### General

The 20XX Notes will mature on [ ]. The principal payable at maturity will be 100% of the aggregate principal amount. The interest rate of the 20XX Notes is % per year and will be paid every [ ], [ ], [ ], and [ ], beginning [ ], and the regular record dates for interest payments will be every [ ], [ ], [ ], and [ ], beginning [ ]. If an interest payment date falls on a non-business day, the applicable interest payment will be made on the next business day and no additional interest will accrue as a result of such delayed payment. The initial interest period will be the period from and including , 2016, to, but excluding, the initial interest payment date, and the subsequent interest periods will be the periods from and including an interest payment date to, but excluding, the next interest payment date or the stated maturity date, as the case may be.

We will issue the 20XX Notes in denominations of \$25 and integral multiples of \$25 in excess thereof. The 20XX Notes will not be subject to any sinking fund and holders of the 20XX Notes will not have the option to have the 20XX Notes repaid prior to the stated maturity date.

Except as described under the captions “—Events of Default,” “—Other Covenants,” and “—Merger or Consolidation” in this prospectus, the indenture does not contain any provisions that give you protection in the event we issue a large amount of debt or we are acquired by another entity.

We have the ability to issue indenture securities with terms different from the 20XX Notes and, without the consent of the holders thereof, to reopen the 20XX Notes and issue additional 20XX Notes.

### Optional Redemption

The 20XX Notes may be redeemed in whole or in part at any time or from time to time at our option on or after [ ], [ ] upon not less than 30 days nor more than 60 days written notice by mail prior to the date fixed for redemption thereof, at a redemption price of 100% of the outstanding principal amount of the 20XX Notes to be redeemed plus accrued and unpaid interest payments otherwise payable thereon for the then-current quarterly interest period accrued to the date fixed for redemption.

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You may be prevented from exchanging or transferring the 20XX Notes when they are subject to redemption. In case any 20XX Notes are to be redeemed in part only, the redemption notice will provide that, upon surrender of such 20XX Note, you will receive, without a charge, a new 20XX Note or 20XX Notes of authorized denominations representing the principal amount of your remaining unredeemed 20XX Notes. Any exercise of our option to redeem the 20XX Notes will be done in compliance with the 1940 Act.

If we redeem only some of the 20XX Notes, the trustee will determine the method for selection of the particular 20XX Notes to be redeemed, in accordance with the indenture and the 1940 Act and in accordance with the rules of any national securities exchange or quotation system on which the 20XX Notes are listed. Unless we default in payment of the redemption price, on and after the date of redemption, interest will cease to accrue on the 20XX Notes called for redemption.

### **Global Securities**

Each 20XX Note will be issued in book-entry form and represented by a global security that we deposit with and register in the name of The Depository Trust Company, New York, New York, known as DTC, or its nominee. A global security may not be transferred to or registered in the name of anyone other than the depository or its nominee, unless special termination situations arise. As a result of these arrangements, the depository, or its nominee, will be the sole registered owner and holder of all the 20XX Notes represented by a global security, and investors will be permitted to own only beneficial interests in a global security. For more information about these arrangements, see “—Book-Entry Procedures” below.

### ***Termination of a Global Security***

If a global security is terminated for any reason, interests in it will be exchanged for certificates in non-book-entry form (certificated securities). After that exchange, the choice of whether to hold the certificated 20XX Notes directly or in street name will be up to the investor. Investors must consult their own banks or brokers to find out how to have their interests in a global security transferred on termination to their own names, so that they will be holders.

### **Payment and Paying Agents**

We will pay interest to the person listed in the trustee’s records as the owner of the 20XX Notes at the close of business on a particular day in advance of each due date for interest, even if that person no longer owns the 20XX Note on the interest due date. That day, usually about two weeks in advance of the interest due date, is called the “record date.” Because we will pay all the interest for an interest period to the holders on the record date, holders buying and selling the 20XX Notes must work out between themselves the appropriate purchase price. The most common manner is to adjust the sales price of the 20XX Notes to prorate interest fairly between buyer and seller based on their respective ownership periods within the particular interest period. This prorated interest amount is called “accrued interest.”

### ***Payments on Global Securities***

We will make payments on the 20XX Notes so long as they are represented by a global security in accordance with the applicable policies of the depository as in effect from time to time. Under those policies, we will make payments directly to the depository, or its nominee, and not to any indirect holders who own beneficial interests in the global security. An indirect holder’s right to those payments will be governed by the rules and practices of the depository and its participants, as described under “—Book-Entry Procedures.”

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### ***Payments on Certificated Securities***

In the event the 20XX Notes become represented by certificated securities, we will make payments on the 20XX Notes as follows. We will pay interest that is due on an interest payment date to the holder of the 20XX Notes as shown on the trustee's records as of the close of business on the regular record date at our office in New York, New York. We will make all payments of principal and premium, if any, by check at the office of the applicable trustee in New York, New York and/or at other offices that may be specified in a notice to holders against surrender of the 20XX Note.

Alternatively, at our option, we may pay any cash interest that becomes due on the 20XX Notes by mailing a check to the holder at his, her or its address shown on the trustee's records as of the close of business on the regular record date or by transfer to an account at a bank in the United States, in either case, on the due date.

### ***Payment When Offices Are Closed***

If any payment is due on the 20XX Notes on a day that is not a business day, we will make the payment on the next day that is a business day. Payments made on the next business day in this situation will be treated under the indenture as if they were made on the original due date. Such payment will not result in a default under the 20XX Notes or the indenture, and no interest will accrue on the payment amount from the original due date to the next day that is a business day.

**Book-entry and other indirect holders should consult their banks or brokers for information on how they will receive payments on the 20XX Notes.**

### **Events of Default**

You will have rights if an Event of Default occurs in respect of the 20XX Notes, as described later in this subsection.

The term "Event of Default" in respect of the 20XX Notes means any of the following:

- we do not pay the principal (or premium, if any) of any 20XX Note when due;
- we do not pay interest on any 20XX Note when due, and such default is not cured within 30 days;
- we remain in breach of a covenant in respect of the 20XX Notes for 60 days after we receive a written notice of default stating we are in breach (the notice must be sent by either the trustee or holders of at least 25% of the principal amount of the 20XX Notes);
- we file for bankruptcy or certain other events of bankruptcy, insolvency or reorganization occur and in the case of certain orders or decrees entered against us under bankruptcy law, such order or decree remains undischarged or unstayed for a period of 60 days; or
- on the last business day of each of twenty-four consecutive calendar months, the 20XX Notes have the asset coverage, as defined in the 1940 Act, of less than 100% after giving effect to any exemptive relief granted to us by the SEC.

An Event of Default for the 20XX Notes does not necessarily constitute an Event of Default for any other series of debt securities issued under the same or any other indenture. The trustee may withhold notice to the holders of the 20XX Notes of any default, except in the payment of principal or interest, if it in good faith considers the withholding of notice to be in the best interests of the holders.

### ***Remedies if an Event of Default Occurs***

If an Event of Default has occurred and is continuing, the trustee or the holders of not less than 25% in principal amount of the 20XX Notes may declare the entire principal amount of all the 20XX Notes to be due and immediately payable. This is called a declaration of acceleration of maturity. In certain circumstances, a declaration of acceleration of maturity may be canceled by the holders of a majority in principal amount of the 20XX Notes if (1) we have deposited with the trustee all amounts due and owing with respect to the 20XX Notes (other than principal that has become due solely by reason of such acceleration) and certain other amounts, and (2) any other Events of Default have been cured or waived.

Except in cases of default, where the trustee has some special duties, the trustee is not required to take any action under the indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability (called an “indemnity”). If reasonable indemnity is provided, the holders of a majority in principal amount of the 20XX Notes may direct the time, method and place of conducting any lawsuit or other formal legal action seeking any remedy available to the trustee. The trustee may refuse to follow those directions in certain circumstances. No delay or omission in exercising any right or remedy will be treated as a waiver of that right, remedy or Event of Default.

Before you are allowed to bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the 20XX Notes, the following must occur:

- you must give the trustee written notice that an Event of Default has occurred and remains uncured;
- the holders of at least 25% in principal amount of all the 20XX Notes must make a written request that the trustee take action because of the default and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action;
- the trustee must not have taken action for 60 days after receipt of the above notice and offer of indemnity; and
- the holders of a majority in principal amount of the 20XX Notes must not have given the trustee a direction inconsistent with the above notice during that 60-day period.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your 20XX Notes on or after the due date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how to give notice or direction to or make a request of the trustee and how to declare or cancel an acceleration of maturity.**

Each year, we will furnish to the trustee a written statement of certain of our officers certifying that to their knowledge we are in compliance with the indenture and the 20XX Notes, or else specifying any default.

### ***Waiver of Default***

The holders of a majority in principal amount of the 20XX Notes may waive any past defaults other than other than:

- the payment of principal or interest; or
- in respect of a covenant that cannot be modified or amended without the consent of each holder.

## **Merger or Consolidation**

Under the terms of the indenture, we are generally permitted to consolidate or merge with another entity. We are also permitted to sell all or substantially all of our assets to another entity. However, we may not take any of these actions unless all the following conditions are met:

- where we merge out of existence or convey or transfer our assets substantially as an entirety, the resulting entity must agree to be legally responsible for our obligations under the 20XX Notes;
- the merger or sale of assets must not cause a default on the 20XX Notes and we must not already be in default (unless the merger or sale would cure the default). For purposes of this no-default test, a default would include an Event of Default that has occurred and has not been cured, as described under “Events of Default” above. A default for this purpose would also include any event that would be an Event of Default if the requirements for giving us a notice of default or our default having to exist for a specific period of time were disregarded; and
- we must deliver certain certificates and documents to the trustee.

## **Modification or Waiver**

There are three types of changes we can make to the indenture and the 20XX Notes issued thereunder.

### ***Changes Requiring Your Approval***

First, there are changes that we cannot make to your 20XX Notes without your specific approval. The following is a list of those types of changes:

- change the stated maturity of the principal of or interest on the 20XX Notes;
- reduce any amounts due on the 20XX Notes;
- reduce the amount of principal payable upon acceleration of the maturity of a 20XX Note following a default;
- change the place or currency of payment on a 20XX Note;
- impair your right to sue for payment;
- reduce the percentage of holders of 20XX Notes whose consent is needed to modify or amend the indenture; and
- reduce the percentage of holders of 20XX Notes whose consent is needed to waive compliance with certain provisions of the indenture or to waive certain defaults.

### ***Changes Not Requiring Approval***

The second type of change does not require any vote by the holders of the 20XX Notes. This type is limited to clarifications and certain other changes that would not adversely affect holders of the 20XX Notes in any material respect.

### ***Changes Requiring Majority Approval***

Any other change to the indenture and the 20XX Notes would require the following approval:

- if the change affects only the 20XX Notes, it must be approved by the holders of a majority in principal amount of the 20XX Notes; and
- if the change affects more than one series of debt securities issued under the same indenture, it must be approved by the holders of a majority in principal amount of all of the series affected by the change, with all affected series voting together as one class for this purpose.

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In each case, the required approval must be given by written consent.

The holders of a majority in principal amount of all of the series of debt securities issued under an indenture, voting together as one class for this purpose, may waive our compliance with some of our covenants in that indenture. However, we cannot obtain a waiver of a payment default or of any of the matters covered by the bullet points included above under “—Changes Requiring Your Approval.”

### ***Further Details Concerning Voting***

When taking a vote, we will use the following rules to decide how much principal to attribute to the 20XX Notes:

The 20XX Notes will not be considered outstanding, and therefore not eligible to vote, if we have deposited or set aside in trust money for their payment or redemption. The 20XX Notes will also not be eligible to vote if they have been fully defeased as described later under “—Defeasance—Full Defeasance.”

We will generally be entitled to set any day as a record date for the purpose of determining the holders of the 20XX Notes that are entitled to vote or take other action under the indenture. However, the record date may not be more than 30 days before the date of the first solicitation of holders to vote on or take such action. If we set a record date for a vote or other action to be taken by holders of the 20XX Notes, that vote or action may be taken only by persons who are holders of the 20XX Notes on the record date and must be taken within eleven months following the record date.

**Book-entry and other indirect holders should consult their banks or brokers for information on how approval may be granted or denied if we seek to change the indenture or the 20XX Notes or request a waiver.**

### **Defeasance**

The following defeasance provisions will be applicable to the 20XX Notes. “Defeasance” means that, by depositing with a trustee an amount of cash and/or government securities sufficient to pay all principal and interest, if any, on the 20XX Notes when due and satisfying any additional conditions noted below, we will be deemed to have been discharged from our obligations under the 20XX Notes. In the event of a “covenant defeasance,” upon depositing such funds and satisfying similar conditions discussed below we would be released from the restrictive covenants under the indenture relating to the 20XX Notes. The consequences to the holders of the 20XX Notes is that, while they no longer benefit from the restrictive covenants under the indenture, and while the 20XX Notes may not be accelerated for any reason, the holders of 20XX Notes nonetheless are guaranteed to receive the principal and interest owed to them.

### ***Covenant Defeasance***

Under current U.S. federal tax law and the indenture, we can make the deposit described below and be released from some of the restrictive covenants in the indenture under which the 20XX Notes were issued. This is called “covenant defeasance.” In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and government securities set aside in trust to repay your 20XX Notes. If we achieve covenant defeasance and your 20XX Notes were subordinated as described under “Indenture Provisions—Ranking” below, such subordination would not prevent the trustee under the indenture from applying the funds available to it from the deposit described in the first bullet to the payment of amounts due in respect of such debt securities for the benefit of the subordinated debtholders. In order to achieve covenant defeasance, we must do the following:

- Since the 20XX Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the 20XX Notes a combination of cash and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the 20XX Notes on their various due dates;



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- we must deliver to the trustee a legal opinion of our counsel confirming that, under current U.S. federal income tax law, we may make the above deposit without causing you to be taxed on the 20XX Notes any differently than if we did not make the deposit;
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers' certificate stating that all conditions precedent to covenant defeasance have been complied with;
- defeasance must not result in a breach or violation of, or result in a default under, the indenture or any of our other material agreements or instruments; and
- no default or event of default with respect to the 20XX Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.

If we accomplish covenant defeasance, you can still look to us for repayment of the 20XX Notes if there were a shortfall in the trust deposit or the trustee is prevented from making payment. In fact, if one of the remaining Events of Default occurred (such as our bankruptcy) and the 20XX Notes became immediately due and payable, there might be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

### ***Full Defeasance***

If there is a change in U.S. federal tax law, as described below, we can legally release ourselves from all payment and other obligations on the 20XX Notes (called "full defeasance") if we put in place the following other arrangements for you to be repaid:

- Since the 20XX Notes are denominated in U.S. dollars, we must deposit in trust for the benefit of all holders of the 20XX Notes a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal and any other payments on the 20XX Notes on their various due dates;
- we must deliver to the trustee a legal opinion confirming that there has been a change in current U.S. federal tax law or an IRS ruling that allows us to make the above deposit without causing you to be taxed on the 20XX Notes any differently than if we did not make the deposit. Under current U.S. federal tax law the deposit and our legal release from the 20XX Notes would be treated as though we paid you your share of the cash and notes or bonds at the time the cash and notes or bonds were deposited in trust in exchange for your 20XX Notes and you would recognize gain or loss on the 20XX Notes at the time of the deposit;
- we must deliver to the trustee a legal opinion of our counsel stating that the above deposit does not require registration by us under the 1940 Act, and a legal opinion and officers' certificate stating that all conditions precedent to defeasance have been complied with;
- defeasance must not result in a breach or violation of, or constitute a default under, of the indenture or any of our other material agreements or instruments; and
- no default or event of default with respect to the 20XX Notes shall have occurred and be continuing and no defaults or events of default related to bankruptcy, insolvency or reorganization shall occur during the next 90 days.

If we ever did accomplish full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the 20XX Notes. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. If your 20XX Notes were subordinated as described later under "—Indenture Provisions —Ranking," such subordination would not prevent the trustee under the Indenture from applying the funds available to it from the deposit referred to in the first bullet of the preceding paragraph to the payment of amounts due in respect of such 20XX Notes for the benefit of the subordinated debtholders.

## Other Covenants

In addition to any other covenants described in this prospectus, as well as standard covenants relating to payment of principal and interest, maintaining an office where payments may be made or securities can be surrendered for payment, payment of taxes by the Company and related matters, the following covenants will apply to the 20XX Notes:

- We agree that for the period of time during which the 20XX Notes are outstanding, we will not violate (whether or not we are subject thereto) 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 securities, unless our asset coverage, as defined in the 1940 Act, equals at least 200% after such borrowings. See “Risk Factors—Pending legislation may allow us to incur additional leverage.”
- If, at any time, we are not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the SEC, we agree to furnish to holders of the 20XX Notes and the Trustee, for the period of time during which the 20XX Notes are outstanding, our audited annual consolidated financial statements, within 90 days of our fiscal year end, and unaudited interim consolidated financial statements, within 45 days of our fiscal quarter end (other than our fourth fiscal quarter). All such financial statements will be prepared, in all material respects, in accordance with applicable United States generally accepted accounting principles.

## Form, Exchange and Transfer of Certificated Registered Securities

If registered 20XX Notes cease to be issued in book-entry form, they will be issued:

- only in fully registered certificated form;
- without interest coupons; and
- unless we indicate otherwise, in denominations of \$25 and amounts that are multiples of \$25.

Holders may exchange their certificated securities for 20XX Notes of smaller denominations or combined into fewer 20XX Notes of larger denominations, as long as the total principal amount is not changed and as long as the denomination is equal to or greater than \$25.

Holders may exchange or transfer their certificated securities at the office of the trustee. We have appointed the trustee to act as our agent for registering 20XX Notes in the names of holders transferring 20XX Notes. We may appoint another entity to perform these functions or perform them ourselves.

Holders will not be required to pay a service charge to transfer or exchange their certificated securities, but they may be required to pay any tax or other governmental charge associated with the transfer or exchange. The transfer or exchange will be made only if our transfer agent is satisfied with the holder’s proof of legal ownership.

We may appoint additional transfer agents or cancel the appointment of any particular transfer agent. We may also approve a change in the office through which any transfer agent acts.

If any certificated securities of a particular series are redeemable and we redeem less than all the debt securities of that series, we may block the transfer or exchange of those debt securities during the period beginning 15 days before the day we mail the notice of redemption and ending on the day of that mailing, in order to freeze the list of holders to prepare the mailing. We may also refuse to register transfers or exchanges of any certificated securities selected for redemption, except that we will continue to permit transfers and exchanges of the unredeemed portion of any debt security that will be partially redeemed.

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If a registered debt security is issued in book-entry form, only the depository will be entitled to transfer and exchange the debt security as described in this subsection, since it will be the sole holder of the debt security.

### **Resignation of Trustee**

The trustee may resign or be removed with respect to the 20XX Notes provided that a successor trustee is appointed to act with respect to the 20XX Notes. In the event that two or more persons are acting as trustee with respect to different series of indenture securities under the indenture, each of the trustees will be a trustee of a trust separate and apart from the trust administered by any other trustee.

### **Indenture Provisions—Ranking**

The 20XX Notes will be our direct unsecured obligations and will rank:

- *pari passu* with, which means equal to, all outstanding and future unsecured unsubordinated indebtedness issued by us, including our 2020 Notes (which have an aggregate principal amount of \$61.8 million as of the offering date of the 20XX Notes). The 20XX Notes will also rank *pari passu* with, which means equal to, our general liabilities, which consist of any amounts we may be required to pay pursuant to our guaranty under the Credit Facility with Madison Capital Funding and of trade and other payables, including any outstanding dividend payable, base and incentive management fees payable, interest and debt fees payable, vendor payables and accrued expenses such as auditor fees, legal fees, director fees, etc. In total, these general liabilities were \$10.3 million as of August 31, 2016.
- senior to any of our future indebtedness that expressly provides it is subordinated to the 20XX Notes. We currently do not have outstanding debt that is subordinated to the 20XX Notes and do not currently intend to issue indebtedness that expressly provides that it is subordinated to the 20XX Notes. Therefore, the 20XX Notes will not be senior to any indebtedness or obligations.
- 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 20XX Notes will not be 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 20XX Notes, and any assets of our subsidiaries will not be directly available to satisfy the claims of our creditors, including holders of the 20XX Notes. Currently, we do not have any secured indebtedness at the Saratoga Investment Corp. level.
- structurally subordinated to all existing and future indebtedness and other obligations of any of the Company's subsidiaries and financing vehicles since the 20XX Notes are obligations exclusively of Saratoga Investment Corp. and not of any of our subsidiaries. Structural subordination means that creditors of a parent entity are subordinate to creditors of a subsidiary entity with respect to the subsidiary's assets. As of the offering date of the 20XX Notes, the 20XX Notes will be structurally subordinated to both \$103.7 million of our SBA-guaranteed debentures and our \$45.0 million credit facility with Madison Capital Funding LLC, which has a current balance of \$0.0.

### **Book-Entry Procedures**

The 20XX Notes will be represented by global securities that will be deposited and registered in the name of The Depository Trust Company ("DTC") or its nominee. This means that, except in limited circumstances, you will not receive certificates for the 20XX Notes. Beneficial interests in the 20XX Notes will be represented

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through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Investors may elect to hold interests in the 20XX Notes through either DTC, if they are a participant, or indirectly through organizations that are participants in DTC.

The 20XX Notes will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each issuance of the 20XX Notes, in the aggregate principal amount of such issue, and will be deposited with DTC. Interests in the 20XX Notes will trade in DTC's Same Day Funds Settlement System, and any permitted secondary market trading activity in such 20XX Notes will, therefore, be required by DTC to be settled in immediately available funds. 20XX None of the Company, the Trustee or the Paying Agent will have any responsibility for the performance by DTC or its participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC").

DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's Ratings Services' highest rating: AAA. The DTC Rules applicable to its participants are on file with the SEC. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of the 20XX Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the 20XX Notes on DTC's records. The ownership interest of each actual purchaser of each security, or the "Beneficial Owner," is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 20XX Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 20XX Notes, except in the event that use of the book-entry system for the 20XX Notes is discontinued.

To facilitate subsequent transfers, all 20XX Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the 20XX Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 20XX Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts the 20XX Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the 20XX Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Redemption proceeds, distributions, and interest payments on the 20XX Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from us or the Trustee on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, or us, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of us or the Trustee, but disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the 20XX Notes at any time by giving reasonable notice to us or to the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered. We may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

## DESCRIPTION OF OUR CAPITAL STOCK

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

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

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

### Common Stock

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

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

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

<u>Title of Class</u>	<u>Shares Authorized</u>	<u>Amount Held by Us or for Our Account</u>	<u>Amount Outstanding Exclusive of Amount Held by Us or for Our Account</u>
Common Stock	100,000,000	—	5,748,247

### Preferred Stock

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

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

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

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

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

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

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

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

### **Provisions of Our Governing Documents and the Maryland General Corporation Law**

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

#### ***Classified Board of Directors***

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

#### ***Number of Directors; Vacancies; Removal***

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

#### ***Election of Directors***

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

#### ***Action by Stockholders***

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



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

### ***Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals***

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

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

### ***Calling of Special Meetings of Stockholders***

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

### ***Amendment of Governing Documents***

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

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

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

### ***Approval of Extraordinary Actions***

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

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

### ***No Appraisal Rights***

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

### ***Control Share Acquisitions***

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

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

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

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

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

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

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

### ***Business Combinations***

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation’s stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which he otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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After the five-year prohibition, any business combination between the corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution exempting from the provisions of the Maryland Business Combination Act any business combination between us and any other person. If our board of directors adopts resolutions causing us to be subject to the provisions of the Business Combination Act, these provisions may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

### ***Conflict with 1940 Act***

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Control Share Acquisition Act or the Business Combination Act (if we amend our bylaws to be subject to such Acts), or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

## UNDERWRITING

Ladenburg Thalmann is acting as representative of the underwriters named below. Subject to the terms and conditions stated in the underwriting agreement dated [ ], 2016, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the aggregate principal amount of 20XX Notes set forth opposite the underwriter's name.

<u>Underwriter</u>	<u>Principal amount of notes</u>
Ladenburg Thalmann & Co. Inc.	\$
BB&T Capital Markets, a division of BB&T Securities, LLC	\$
Compass Point Research & Trading LLC	\$
William Blair & Company, L.L.C.	\$
<b>Total</b>	<b>\$</b>

The underwriting agreement provides that the obligations of the underwriters to purchase the 20XX Notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the 20XX Notes (other than those covered by the overallotment option described below) if they purchase any of the 20XX Notes.

The underwriters propose to offer some of the 20XX Notes directly to the public at the public offering price set forth on the cover page of this prospectus and some of the 20XX Notes to dealers at the public offering price less a concession not to exceed % of the aggregate principal amount of the 20XX Notes. The underwriting discount of \$[ ] per 20XX Note is equal to 3.125% of the aggregate principal amount of the 20XX Notes. If all of the 20XX Notes are not sold at the offering price, the representative may change the public offering price and other selling terms. Investors must pay for any 20XX Notes purchased on or before , 2016. The representative has advised us that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

The underwriters hold an option, exercisable for 30 days from the date of this prospectus, to purchase up to an additional \$6 million aggregate principal amount of the 20XX Notes at the public offering price less the underwriting discount. The underwriters may exercise the option solely for the purpose of covering overallotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter must purchase a number of additional 20XX Notes approximately proportionate to that underwriter's initial purchase commitment.

We have agreed that, for a period of 90 days from the date of this prospectus supplement, such party will not, without the prior written consent of [ ], on behalf of the underwriters, offer, pledge, sell, contract to sell or otherwise dispose of or agree to sell or otherwise dispose of, directly or indirectly or hedge any debt securities issued or guaranteed by us or any securities convertible into or exercisable or exchangeable for debt securities issued or guaranteed by us or file any registration statement under the Securities Act with respect to any of the foregoing. [ ] in its sole discretion may release any of the securities subject to these lock-up agreements at any time without notice.

The 90-day period in the preceding paragraph will be extended if (i) during the last 17 days of the 90-day period we issue an earnings release or material news or a material event relating to us occurs or (ii) prior to the expiration of the 90-day period, we announce that we will release earnings results during the 16-day period beginning on the last day of the 90-day period, in which case the restrictions described in the preceding sentence will continue to apply until the expiration of the 18-day period beginning on the issuance of the earnings release or the announcement of the material news or the occurrence of the material event.

We intend to list the 20XX Notes on the New York Stock Exchange. We expect trading in the 20XX Notes on the New York Stock Exchange to begin within 30 days after the original issue date under the trading symbol "[ ]." We offer no assurances that an active trading market for the 20XX Notes will develop and continue after the offering.

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The following table shows the public offering price, the underwriting discounts and commissions to be paid to the underwriters and the proceeds, before expenses, to us in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional 20XX Notes.

	<u>Per note</u>	<u>Without Option</u>	<u>With Option</u>
Public offering price	100.0%	\$	\$
Underwriting discount (sales load) paid by us <sup>(1)</sup>	3.125%	\$	\$
Estimated Proceeds to us, before expenses	96.875%	\$	\$

(1) The expenses associated with the offering, including the underwriting discount, are paid by us and are ultimately borne by our shareholders.

We have agreed to reimburse the underwriters for the reasonable fees and disbursements of counsel in connection with the qualification of the 20XX Notes under Blue Sky and state securities laws and in connection with the review and qualification of this offering with FINRA.

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately \$[            ].

We and our investment adviser have each agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of those liabilities.

Certain underwriters may make a market in the 20XX Notes. No underwriter is, however, obligated to conduct market-making activities and any such activities may be discontinued at any time without notice, at the sole discretion of the underwriter. No assurance can be given as to the liquidity of, or the trading market for, the 20XX Notes as a result of any market-making activities undertaken by any underwriter. This Prospectus is to be used by any underwriter in connection with the offering and, during the period in which a prospectus must be delivered, with offers and sales of the 20XX Notes in market-making transactions in the over-the-counter market at negotiated prices related to prevailing market prices at the time of the sale.

In connection with the offering, Ladenburg Thalmann & Co. Inc., on behalf of the underwriters, may purchase and sell 20XX Notes in the open market. These transactions may include short sales, syndicate covering transactions and stabilizing transactions. Short sales involve syndicate sales of 20XX Notes in excess of the number of 20XX Notes to be purchased by the underwriters in the offering, which creates a syndicate short position. "Covered" short sales are sales of 20XX Notes made in an amount up to the number of 20XX Notes represented by the underwriters' overallotment option. In determining the source of 20XX Notes to close out the covered syndicate short position, the underwriters will consider, among other things, the price of 20XX Notes available for purchase in the open market as compared to the price at which they may purchase 20XX Notes through the overallotment option. Transactions to close out the covered syndicate short position involve either purchases of 20XX Notes in the open market after the distribution has been completed or the exercise of the overallotment option. The underwriters may also make "naked" short sales of 20XX Notes in excess of the overallotment option. The underwriters must close out any naked short position by purchasing 20XX Notes in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of 20XX Notes in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of bids for or purchases of 20XX Notes in the open market while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Ladenburg Thalmann & Co. Inc. repurchases 20XX Notes originally sold by that syndicate member in order to cover syndicate short positions or make stabilizing purchases.

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Any of these activities may have the effect of preventing or retarding a decline in the market price of 20XX Notes. They may also cause the price of 20XX Notes to be higher than the price that would otherwise exist in the open market in the absence of these transactions. The underwriters may conduct these transactions on the New York Stock Exchange, or in the over-the-counter market, or otherwise. Trading is expected to commence on the New York Stock Exchange within 30 days after the date of initial delivery of the 20XX Notes. If the underwriters commence any of these transactions, they may discontinue them at any time.

A prospectus in electronic format may be made available on the websites maintained by one or more of the underwriters. The representative may agree to allocate a number of 20XX Notes to underwriters for sale to their online brokerage account holders. The representative will allocate 20XX Notes to underwriters that may make Internet distributions on the same basis as other allocations. In addition, 20XX Notes may be sold by the underwriters to securities dealers who resell 20XX Notes to online brokerage account holders.

We anticipate that, from time to time, certain underwriters may act as brokers or dealers in connection with the execution of Saratoga's portfolio transactions after they have ceased to be underwriters and, subject to certain restrictions, may act as brokers while they are underwriters.

Certain underwriters may have performed investment banking and advisory services for us, our investment adviser and our affiliates from time to time, for which they have received customary fees and expenses. Certain underwriters may, from time to time, engage in transactions with or perform services for us, our investment adviser and our affiliates in the ordinary course of business.

The principal business address of Ladenburg Thalmann & Co. Inc. is 570 Lexington Avenue, 12th floor, New York, New York 10022.

### **Settlement**

We expect that delivery of the 20XX Notes will be made against payment therefor on or about [ ], 2016, which will be the fifth business day following the date of the pricing of the 20XX Notes. Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise.

### **Other Jurisdictions**

The 20XX Notes offered by this prospectus may not be offered or sold, directly or indirectly, nor may this prospectus or any other offering material or advertisements in connection with the offer and sale of any such 20XX Notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of that jurisdiction. Persons into whose possession this prospectus comes are advised to inform themselves about and to observe any restriction relating to the offering and the distribution of this prospectus. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy the 20XX Notes offered by this prospectus in any jurisdiction in which such an offer or a solicitation is unlawful.

### **Potential Conflicts of Interest**

Ladenburg Thalmann & Co. Inc. and its affiliates have provided, and may in the future provide, various investment banking, commercial banking, financial advisory, brokerage and other services to us and our affiliates for which services they have received, and may in the future receive, customary fees and expense reimbursement. Specifically, pursuant to an underwriting agreement dated May 2, 2013, for which Ladenburg Thalmann & Co. Inc. acted as representative of the underwriters, on May 10, 2013, we issued \$42.0 million in aggregate principal amount of the 2020 Notes. In addition, on May 17, 2013, we 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. In connection with the foregoing, we paid underwriting discounts and commissions of \$1,932,000 to the underwriters.

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On May 29, 2015, we entered into a Debt Distribution Agreement with Ladenburg Thalmann & Co. Inc. 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 29, 2016, and at the close of the ATM offering, the Company had sold 2020 Notes with a total principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (net of transaction costs), and we paid Ladenburg Thalmann & Co. Inc. an agent fee of \$273,184 in connection with the sales. The Company has not sold any additional 2020 Notes under this ATM offering and is no longer actively selling on this ATM offering.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for the issuer, for which they received or will receive customary fees and expenses, including acting as underwriters for our securities offerings. In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and such investment and securities activities may involve securities and/or instruments of our company. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.



## **BROKERAGE ALLOCATION AND OTHER PRACTICES**

Since we generally acquire and dispose of our investments in privately negotiated transactions, we infrequently use brokers in the normal course of our business. Subject to policies established by our Board of Directors, we generally do not execute transactions through any particular broker or dealer, but seek to obtain the best net results for us, taking into account such factors as price (including the applicable brokerage commission or dealer spread), size of order, difficulty of execution, operational facilities of the firm and the firm's risk and skill in positioning blocks of securities. While we generally seek reasonably competitive trade execution costs, we do not necessarily pay the lowest spread or commission available. Subject to applicable legal requirements, we may select a broker based partly upon brokerage or research services provided to us. In return for such services, we may pay a higher commission than other brokers would charge if we determine in good faith that such commission is reasonable in relation to the services provided, and our management and employees are authorized to pay such commission under these circumstances.

## **CUSTODIAN, TRANSFER AND DIVIDEND PAYING AGENT AND REGISTRAR**

Our investment securities are held under a custody agreement with U.S. Bank National Association. The address of the custodian is U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3<sup>rd</sup> Floor, Boston, MA 02110. The transfer agent and registrar for our common stock, American Stock Transfer & Trust Company, acts as our transfer agent, dividend paying and reinvestment agent for our common stock. The principal business address of the transfer agent is 59 Maiden Lane, New York, New York 10038. U.S. Bank National Association, our trustee under an indenture and the second supplemental indenture thereto relating to the 20XX Notes, is the paying agent, registrar and transfer agent relating to the 20XX Notes. The principal business address of our trustee is 214 N. Tyron Street, 12<sup>th</sup> Floor, Charlotte, North Carolina 28202.

## **LEGAL MATTERS**

Certain legal matters regarding the securities offered by this prospectus will be passed upon for us by Sutherland Asbill & Brennan LLP, Washington, D.C.

## **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP, our independent registered public accounting firm, has audited our consolidated financial statements as of February 29, 2016, February 28, 2015 and February 28, 2014 and the three years ended February 29, 2016, February 28, 2015, and February 28, 2014, and the related senior securities table, as set forth in their reports. We have included our consolidated financial statements and our senior securities table in this prospectus and elsewhere in the registration statement in reliance on Ernst & Young LLP's report, given on their authority as experts in accounting and auditing. Ernst & Young LLP's principal business address is 5 Times Square, New York, New York 10036.

## **AVAILABLE INFORMATION**

As a public company, we file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement of which this prospectus forms a part and the related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto: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>.

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**Saratoga Investment Corp.****Consolidated Statements of Assets and Liabilities**

	As of	
	<u>August 31, 2016</u>	<u>February 29, 2016</u>
	(unaudited)	
<b>ASSETS</b>		
Investments at fair value		
Non-control/Non-affiliate investments (amortized cost of \$267,658,535 and \$268,145,090, respectively)	\$ 260,887,373	\$ 271,168,186
Control investments (cost of \$10,948,369 and \$13,030,751, respectively)	11,917,076	12,827,980
Total investments at fair value (amortized cost of \$278,606,904 and \$281,175,841, respectively)	272,804,449	283,996,166
Cash and cash equivalents	12,707,273	2,440,277
Cash and cash equivalents, reserve accounts	10,173,549	4,594,506
Interest receivable (net of reserve of \$0 and \$728,519, respectively)	3,393,927	3,195,919
Management fee receivable	170,897	170,016
Other assets	312,184	350,368
Receivable from unsettled trades	284,903	300,000
Total assets	<u>\$ 299,847,182</u>	<u>\$ 295,047,252</u>
<b>LIABILITIES</b>		
Revolving credit facility	\$ —	\$ —
Deferred debt financing costs, revolving credit facility	(476,221)	(515,906)
SBA debentures payable	103,660,000	103,660,000
Deferred debt financing costs, SBA debentures payable	(2,527,859)	(2,493,303)
Notes payable	61,793,125	61,793,125
Deferred debt financing costs, notes payable	(1,484,265)	(1,694,586)
Dividend payable	1,151,061	875,599
Base management and incentive fees payable	6,283,519	5,593,956
Accounts payable and accrued expenses	631,840	855,873
Interest and debt fees payable	1,873,508	1,552,069
Payable for repurchases of common stock	—	20,957
Directors fees payable	45,000	31,500
Due to manager	333,852	218,093
Total liabilities	<u>\$ 171,283,560</u>	<u>\$ 169,897,377</u>
Commitments and contingencies (See Note 7)		
<b>NET ASSETS</b>		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,740,810 and 5,672,227 common shares issued and outstanding, respectively	\$ 5,741	\$ 5,672
Capital in excess of par value	189,532,044	188,714,329
Distribution in excess of net investment income	(27,038,814)	(26,217,902)
Accumulated net realized loss from investments and derivatives	(28,132,894)	(40,172,549)
Accumulated net unrealized appreciation (depreciation) on investments and derivatives	(5,802,455)	2,820,325
Total net assets	<u>128,563,622</u>	<u>125,149,875</u>
Total liabilities and net assets	<u>\$ 299,847,182</u>	<u>\$ 295,047,252</u>
<b>NET ASSET VALUE PER SHARE</b>	<u>\$ 22.39</u>	<u>\$ 22.06</u>

See accompanying notes to consolidated financial statements.

**Saratoga Investment Corp.**  
**Consolidated Statements of Operations**  
**(unaudited)**

	For the three months ended		For the six months ended	
	August 31		August 31	
	2016	2015	2016	2015
<b>INVESTMENT INCOME</b>				
Interest from investments				
Non-control/Non-affiliate investments	\$ 6,561,838	\$ 5,877,682	\$ 13,181,951	\$ 11,526,661
Payment-in-kind interest income from Non-control/Non-affiliate investments	184,265	262,991	313,355	954,143
Control investments	557,200	678,706	1,089,326	1,269,696
Total interest income	7,303,303	6,819,379	14,584,632	13,750,500
Interest from cash and cash equivalents	6,401	731	10,187	1,467
Management fee income	374,657	373,152	748,341	751,898
Other income	763,633	565,055	1,013,229	815,619
Total investment income	8,447,994	7,758,317	16,356,389	15,319,484
<b>EXPENSES</b>				
Interest and debt financing expenses	2,369,705	2,147,976	4,737,761	4,111,841
Base management fees	1,202,794	1,151,236	2,429,951	2,275,334
Professional fees	302,227	349,533	661,526	682,977
Administrator expenses	325,000	275,000	650,000	525,000
Incentive management fees	1,208,452	(41,279)	1,936,732	1,756,554
Insurance	70,658	87,316	141,316	174,633
Directors fees and expenses	60,422	51,000	126,422	102,000
General & administrative	304,955	203,449	517,164	386,369
Excise tax expense (credit)	—	(123,338)	—	(123,338)
Other expense	—	—	13,187	—
Total expenses	5,844,213	4,100,893	11,214,059	9,891,370
NET INVESTMENT INCOME	2,603,781	3,657,424	5,142,330	5,428,114
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>				
Net realized gain from investments	5,936,750	3,709,947	12,039,655	3,783,193
Net unrealized depreciation on investments	(3,268,913)	(6,124,708)	(8,622,780)	(583,739)
Net gain (loss) on investments	2,667,837	(2,414,761)	3,416,875	3,199,454
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 5,271,618	\$ 1,242,663	\$ 8,559,205	\$ 8,627,568
<b>WEIGHTED AVERAGE—BASIC AND DILUTED EARNINGS PER COMMON SHARE</b>				
	\$ 0.92	\$ 0.22	\$ 1.49	\$ 1.57
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC AND DILUTED</b>				
	5,740,816	5,583,795	5,739,157	5,492,491

See accompanying notes to consolidated financial statements.

**Saratoga Investment Corp.**  
**Consolidated Schedule of Investments**  
**August 31, 2016**  
**(unaudited)**

Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of Net Assets
<b>Non-control/Non-affiliated investments—202.9% (b)</b>						
CAMP International Systems (d)	Aerospace and Defense	Second Lien Term Loan 8.25% Cash, 8/18/2024	\$ 1,000,000	\$ 995,002	\$ 997,500	0.8%
		Total Aerospace and Defense		995,002	997,500	0.8%
Polar Holding Company, Ltd. (a),(d),(i)	Building Products	First Lien Term Loan 10.00% Cash, 9/30/2016	\$ 2,000,000	2,000,000	2,000,000	1.6%
		Total Building Products		2,000,000	2,000,000	1.6%
Avionte Holdings, LLC (g)	Business Services	Common Stock	100,000	100,000	247,782	0.2%
Avionte Holdings, LLC	Business Services	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 2,279,278	2,255,168	2,287,483	1.8%
Avionte Holdings, LLC (j),(k)	Business Services	Delayed Draw Term Loan A 9.75% Cash, 1/8/2019	\$ —	—	—	0.0%
BoardEffect, Inc.	Business Services	First Lien Term Loan 10.00% Cash, 6/17/2021	\$12,000,000	11,883,243	11,880,000	9.2%
BoardEffect, Inc. (j),(k)	Business Services	Delayed Draw Term Loan B 10.00% Cash, 6/17/2021	\$ —	—	—	0.0%
BMC Software, Inc. (d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 5,641,667	5,607,859	5,379,329	4.2%
Courion Corporation	Business Services	Second Lien Term Loan 11.00% Cash, 6/1/2021	\$15,000,000	14,866,381	14,529,000	11.3%
Dispensing Dynamics International (d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$12,000,000	12,018,538	11,530,800	9.0%
Easy Ice, LLC (d)	Business Services	First Lien Term Loan 9.50% Cash, 1/15/2020	\$16,000,000	15,868,493	16,057,493	12.5%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 10.00% Cash, 1/23/2020	\$ 3,300,000	3,272,264	3,355,372	2.6%
Emily Street Enterprises, L.L.C. (g)	Business Services	Warrant Membership Interests	49,318	400,000	459,791	0.3%
Help/Systems Holdings, Inc. (Help/Systems, LLC)	Business Services	First Lien Term Loan 6.25% Cash, 10/8/2021	\$ 4,975,000	4,887,402	4,919,031	3.8%
Help/Systems Holdings, Inc. (Help/Systems, LLC)	Business Services	Second Lien Term Loan 10.50% Cash, 10/8/2022	\$ 3,000,000	2,917,626	2,850,000	2.2%
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 (g)	Business Services	Common Stock Class A Units	232,616	232,616	495,686	0.4%
Identity Automation Systems	Business Services	First Lien Term Loan 12.00% (10.25% Cash/1.75% PIK) 12/18/2020	\$10,203,683	10,121,194	10,171,110	7.9%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 9.75% Cash, 11/29/2017	\$17,777,730	17,637,107	17,652,317	13.7%
Microsystems Company	Business Services	Second Lien Term Loan 11.00% Cash, 7/1/2022	\$ 8,000,000	7,922,051	7,920,000	6.2%
PCF Number 4, Inc.	Business Services	Second Lien Term Loan 13.50% (12.50% Cash/1.00% PIK), 8/28/2021	\$13,044,083	12,918,979	13,044,083	10.1%
Vector Controls Holding Co., LLC (d)	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 8,967,996	8,905,587	8,967,996	7.0%
Vector Controls Holding Co., LLC (d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	343	—	350,212	0.3%
		Total Business Services		132,426,025	132,709,002	103.2%

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Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of Net Assets
Targus Holdings, Inc. (d),(g)	Consumer Products	Common Stock	210,456	1,791,242	1,847	0.0%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan A-2 15.00% PIK, 12/31/2019	\$ 220,644	220,644	220,644	0.2%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan B 15.00% PIK, 12/31/2019	\$ 661,932	661,932	661,932	0.5%
		Total Consumer Products		2,673,818	884,423	0.7%
My Alarm Center, LLC	Consumer Services	Second Lien Term Loan 12.00% Cash, 7/9/2019	\$ 9,375,000	9,356,295	9,299,063	7.2%
PrePaid Legal Services, Inc. (d)	Consumer Services	First Lien Term Loan 6.50% Cash, 7/1/2019	\$ 1,489,199	1,481,070	1,482,051	1.1%
PrePaid Legal Services, Inc. (d)	Consumer Services	Second Lien Term Loan 10.25% Cash, 7/1/2020	\$ 10,000,000	9,966,163	9,846,000	7.7%
Prime Security Services, LLC	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2022	\$ 6,230,769	6,138,694	6,268,416	4.9%
		Total Consumer Services		26,942,222	26,895,530	20.9%
M/C Acquisition Corp., L.L.C. (d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C. (d)	Education	First Lien Term Loan 1.00% Cash, 3/31/2016	\$ 2,321,073	1,193,791	8,087	0.0%
Texas Teachers of Tomorrow, LLC (g),(h)	Education	Common Stock	750,000	750,000	933,960	0.7%
Texas Teachers of Tomorrow, LLC	Education	Second Lien Term Loan 10.75% Cash, 6/2/2021	\$ 10,000,000	9,910,300	10,000,000	7.8%
		Total Education		11,884,332	10,942,047	8.5%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 9.75% Cash, 7/16/2017	\$ 9,490,507	9,428,277	9,276,541	7.2%
		Total Food and Beverage		9,428,277	9,276,541	7.2%
Censis Technologies, Inc.	Healthcare Services	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 11,400,000	11,251,423	10,962,652	8.5%
Censis Technologies, Inc. (g),(h)	Healthcare Services	Limited Partner Interests	999	999,000	704,187	0.5%
Roscoe Medical, Inc. (d),(g)	Healthcare Services	Common Stock	5,081	508,077	598,710	0.5%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,148,231	4,113,761	3.2%
Ohio Medical, LLC (g)	Healthcare Services	Common Stock	5,000	500,000	459,409	0.4%
Ohio Medical, LLC	Healthcare Services	Senior Subordinated Note 12.00%, 7/15/2021	\$ 7,300,000	7,233,876	7,273,756	5.7%
Zest Holdings, LLC (d)	Healthcare Services	First Lien Term Loan 5.25% Cash, 8/16/2020	\$ 4,136,911	4,078,941	4,136,911	3.2%
		Total Healthcare Services		28,719,548	28,249,386	22.0%
HMN Holdco, LLC	Media	First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 8,700,232	8,594,607	8,700,232	6.8%
HMN Holdco, LLC	Media	Delayed Draw First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 4,800,000	4,744,654	4,800,000	3.7%
HMN Holdco, LLC	Media	Class A Series	4,264	61,647	283,044	0.2%
HMN Holdco, LLC	Media	Class A Warrant	30,320	438,353	1,623,030	1.3%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,872	—	2,802,162	2.2%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests (Preferred)	8,139	—	451,308	0.3%
		Total Media		13,839,261	18,659,776	14.5%

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Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of
						Net Assets
Elyria Foundry Company, L.L.C. (d)	Metals	Common Stock	35,000	9,217,564	314,300	0.2%
Elyria Foundry Company, L.L.C. (d)	Metals	Revolver 10.00% Cash, 3/31/2017	\$ 8,500,000	8,500,000	8,500,000	6.6%
			Total Metals	17,717,564	8,814,300	6.8%
Mercury Network, LLC	Real Estate	First Lien Term Loan 10.50% Cash, 8/24/2021	\$ 20,808,696	20,619,443	20,724,932	16.1%
Mercury Network, LLC (g)	Real Estate	Common Stock	413,043	413,043	733,936	0.6%
			Total Real Estate	21,032,486	21,458,868	16.7%
<b>Sub Total Non-control/Non-affiliated investments</b>				267,658,535	260,887,373	202.9%
<b>Control investments—9.3% (b)</b>						
Saratoga Investment Corp. CLO 2013-1, Ltd. (a),(d),(e), (f)	Structured Finance Securities	Other/Structured Finance Securities 21.13%, 10/17/2023	\$ 30,000,000	10,948,369	11,917,076	9.3%
<b>Sub Total Control investments</b>				10,948,369	11,917,076	9.3%
<b>TOTAL INVESTMENTS—212.2% (b)</b>				<b>\$ 278,606,904</b>	<b>\$ 272,804,449</b>	<b>212.2%</b>

	Principal	Cost	Fair Value	% of Net Assets
<b>Cash and cash equivalents and cash and cash equivalents, reserve accounts—17.8%</b>				
U.S. Bank Money Market (l)	\$ 22,880,822	\$ 22,880,822	\$ 22,880,822	17.8%
<b>Total cash and cash equivalents and cash and cash equivalents, reserve accounts</b>	<b>\$ 22,880,822</b>	<b>\$ 22,880,822</b>	<b>\$ 22,880,822</b>	<b>17.8%</b>

- (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 5.1% 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 \$128,563,622 as of August 31, 2016.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 6 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 21.13% 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, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (Cost)	Interest Income	Management Fee Income	Net Realized Gains (Losses)	Net Unrealized Appreciation
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$1,089,326	\$ 748,341	\$ —	\$ 1,171,478

- (g) Non-income producing at August 31, 2016.
- (h) Includes securities issued by an affiliate of the company.
- (i) Non-U.S. company. The principal place of business for Polar Holding Company, Ltd. is Canada.
- (j) The investment has an unfunded commitment as of August 31, 2016 (see Note 7 to the consolidated financial statements).
- (k) The entire commitment was unfunded at August 31, 2016. As such, no interest is being earned on this investment.
- (l) 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 August 31, 2016.

**Saratoga Investment Corp.**  
**Consolidated Schedule of Investments**  
**February 29, 2016**

Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of Net Assets
<b>Non-control/Non-affiliated investments— 216.6% (b)</b>						
National Truck Protection Co., Inc. (d),(g)	Automotive Aftermarket	Common Stock	1,116	\$ 1,000,000	\$ 1,695,303	1.4%
National Truck Protection Co., Inc. (d)	Automotive Aftermarket	First Lien Term Loan 15.50% Cash, 9/13/2018	\$ 6,776,770	6,776,770	6,776,770	5.4%
Take 5 Oil Change, L.L.C. (d),(g)	Automotive Aftermarket	Common Stock	7,128	480,535	6,235,209	5.0%
Total Automotive Aftermarket				<u>8,257,305</u>	<u>14,707,282</u>	<u>11.8%</u>
Legacy Cabinets Holdings (d),(g)	Building Products	Common Stock Voting A-1	2,535	220,900	2,676,909	2.1%
Legacy Cabinets Holdings (d),(g)	Building Products	Common Stock Voting B-1	1,600	139,424	1,689,568	1.3%
Polar Holding Company, Ltd. (a),(d),(i)	Building Products	First Lien Term Loan 10.00% Cash, 9/30/2016	\$ 2,000,000	2,000,000	2,000,000	1.6%
Total Building Products				<u>2,360,324</u>	<u>6,366,477</u>	<u>5.0%</u>
Avionte Holdings, LLC (g)	Business Services	Common Stock	100,000	100,000	169,850	0.1%
Avionte Holdings, LLC	Business Services	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 2,406,342	2,376,045	2,382,844	1.9%
Avionte Holdings, LLC (j),(k)	Business Services	Delayed Draw Term Loan A 9.75% Cash, 1/8/2019	\$ —	—	—	0.0%
BMC Software, Inc. (d)	Business Services	Syndicated Loan 5.00% Cash, 9/10/2020	\$ 5,671,667	5,633,920	4,520,318	3.6%
Courion Corporation	Business Services	Second Lien Term Loan 11.00% Cash, 6/1/2021	\$15,000,000	14,856,720	14,850,000	11.9%
Dispensing Dynamics International (d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$12,000,000	12,025,101	10,950,000	8.8%
Easy Ice, LLC (d)	Business Services	First Lien Term Loan 9.50% Cash, 1/15/2020	\$14,000,000	13,873,485	13,806,098	11.0%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 10.00% Cash, 1/23/2020	\$ 8,400,000	8,305,033	8,568,000	6.8%
Emily Street Enterprises, L.L.C. (g)	Business Services	Warrant Membership Interests	49,318	400,000	577,020	0.5%
Finalsite Holdings, Inc.	Business Services	Second Lien Term Loan 10.25% Cash, 5/21/2020	\$ 7,500,000	7,440,729	7,500,000	6.0%
Help/Systems Holdings, Inc. (Help/Systems, LLC)	Business Services	First Lien Term Loan 6.25% Cash, 10/8/2021	\$ 5,000,000	4,904,573	4,895,000	3.9%
Help/Systems Holdings, Inc. (Help/Systems, LLC)	Business Services	Second Lien Term Loan 10.50% Cash, 10/8/2022	\$ 3,000,000	2,912,784	2,910,000	2.3%
Identity Automation Systems (g)	Business Services	Common Stock Class A Units	232,616	232,616	427,409	0.3%
Identity Automation Systems	Business Services	First Lien Term Loan 10.25% Cash, 12/18/2020	\$ 6,900,000	6,842,573	6,900,000	5.5%
Identity Automation Systems (j),(k)	Business Services	Delayed Draw Term Loan 10.25% Cash, 12/18/2020	\$ —	—	—	0.0%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 8.00% Cash, 11/29/2017	\$ 5,259,171	5,224,422	5,259,171	4.2%
PCF Number 4, Inc.	Business Services	Second Lien Term Loan 13.50% (12.50% Cash/1.00% PIK), 8/28/2021	\$13,000,000	12,870,023	12,870,000	10.3%
Vector Controls Holding Co., LLC (d)	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 9,035,515	8,952,442	9,035,515	7.2%
Vector Controls Holding Co., LLC (d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	343	—	354,819	0.3%
Total Business Services				<u>106,950,466</u>	<u>105,976,044</u>	<u>84.6%</u>



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Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of Net Assets
Advanced Air & Heat of Florida, LLC	Consumer Products	First Lien Term Loan 9.50% Cash, 7/17/2020	\$ 6,800,000	6,733,661	6,800,000	5.4%
Targus Holdings, Inc. (d),(g)	Consumer Products	Common Stock	210,456	1,791,242	—	0.0%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan A-2 15.00% PIK, 12/31/2019	\$ 210,456	210,456	210,456	0.2%
Targus Holdings, Inc. (d)	Consumer Products	Second Lien Term Loan B 15.00% PIK, 12/31/2019	\$ 631,369	631,369	631,369	0.5%
		Total Consumer Products		9,366,728	7,641,825	6.1%
Expedited Travel L.L.C. (g)	Consumer Services	Common Stock	1,000,000	1,000,000	1,647,767	1.3%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 10.00% Cash, 10/10/2019	\$ 11,475,490	11,401,380	11,647,623	9.3%
My Alarm Center, LLC	Consumer Services	Second Lien Term Loan 12.00% Cash, 7/9/2019	\$ 7,500,000	7,500,000	7,450,500	6.0%
PrePaid Legal Services, Inc. (d)	Consumer Services	First Lien Term Loan 6.50% Cash, 7/1/2019	\$ 1,572,921	1,562,787	1,556,248	1.2%
PrePaid Legal Services, Inc. (d)	Consumer Services	Second Lien Term Loan 10.25% Cash, 7/1/2020	\$ 10,000,000	9,962,104	9,827,000	7.9%
Prime Security Services, LLC	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2022	\$ 12,000,000	11,829,030	10,980,000	8.8%
		Total Consumer Services		43,255,301	43,109,138	34.5%
M/C Acquisition Corp., L.L.C. (d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C. (d)	Education	First Lien Term Loan 1.00% Cash, 3/31/2016	\$ 2,321,073	1,193,790	8,087	0.0%
Texas Teachers of Tomorrow, LLC (g),(h)	Education	Common Stock	750	750,000	785,475	0.6%
Texas Teachers of Tomorrow, LLC	Education	Second Lien Term Loan 10.75% Cash, 6/2/2021	\$ 10,000,000	9,902,816	9,900,000	7.9%
		Total Education		11,876,847	10,693,562	8.5%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 9.75% Cash, 7/16/2017	\$ 9,622,319	9,527,041	9,131,048	7.3%
		Total Food and Beverage		9,527,041	9,131,048	7.3%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00% (10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,404,747	5,339,820	5,404,747	4.3%
Censis Technologies, Inc.	Healthcare Services	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 11,550,000	11,377,810	11,459,418	9.2%
Censis Technologies, Inc. (g),(h)	Healthcare Services	Limited Partner Interests	999	999,000	810,642	0.7%
Roscoe Medical, Inc. (d),(g)	Healthcare Services	Common Stock	5,000	500,000	334,000	0.3%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,141,519	3,822,000	3.0%
Ohio Medical, LLC (g)	Healthcare Services	Common Stock	5,000	500,000	500,000	0.4%
Ohio Medical, LLC	Healthcare Services	Senior Subordinated Note 12.00%, 7/15/2021	\$ 7,300,000	7,228,452	7,227,000	5.8%
Smile Brands Group Inc. (d)	Healthcare Services	Syndicated Loan 10.50% (9.00% Cash/1.50% PIK), 8/16/2019	\$ 4,420,900	4,362,266	3,216,647	2.6%
Zest Holdings, LLC (d)	Healthcare Services	Syndicated Loan 5.25% Cash, 8/16/2020	\$ 4,207,821	4,142,093	4,130,692	3.3%
		Total Healthcare Services		38,590,960	36,905,146	29.6%
HMN Holdco, LLC	Media	First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 8,937,982	8,812,479	8,937,983	7.1%
HMN Holdco, LLC	Media	First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 1,600,000	1,572,821	1,600,000	1.3%

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Company	Industry	Investment Interest Rate / Maturity	Principal / Number of Shares	Cost	Fair Value (c)	% of Net Assets
HMN Holdco, LLC	Media	Class A Series	4,264	61,647	314,683	0.3%
HMN Holdco, LLC	Media	Class A Warrant	30,320	438,353	1,889,542	1.5%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,872	—	3,309,121	2.6%
HMN Holdco, LLC (g)	Media	Warrants to Purchase Limited Liability Company Interests	8,139	—	523,012	0.4%
		<b>Total Media</b>		<b>10,885,300</b>	<b>16,574,341</b>	<b>13.2%</b>
Elyria Foundry Company, L.L.C. (d)	Metals	Common Stock	35,000	9,217,564	2,026,150	1.6%
Elyria Foundry Company, L.L.C. (d)	Metals	Revolver 10.00% Cash, 3/31/2017	\$ 8,500,000	8,500,000	8,500,000	6.8%
		<b>Total Metals</b>		<b>17,717,564</b>	<b>10,526,150</b>	<b>8.4%</b>
Mercury Network, LLC	Real Estate	First Lien Term Loan 9.75% Cash, 4/24/2020	\$ 9,025,000	8,944,211	9,025,000	7.2%
Mercury Network, LLC (g)	Real Estate	Common Stock	413,043	413,043	512,173	0.4%
		<b>Total Real Estate</b>		<b>9,357,254</b>	<b>9,537,173</b>	<b>7.6%</b>
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>268,145,090</b>	<b>271,168,186</b>	<b>216.6%</b>
<b>Control investments—10.3% (b)</b>						
Saratoga Investment Corp. CLO 2013-1, Ltd. (a),(d),(e), (f)	Structured Finance Securities	Other/Structured Finance Securities 16.14%, 10/17/2023	\$30,000,000	13,030,751	12,827,980	10.3%
<b>Sub Total Control investments</b>				<b>13,030,751</b>	<b>12,827,980</b>	<b>10.3%</b>
<b>TOTAL INVESTMENTS—226.9% (b)</b>				<b>\$ 281,175,841</b>	<b>\$ 283,996,166</b>	<b>226.9%</b>
			<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
<b>Cash and cash equivalents and cash and cash equivalents, reserve accounts—5.6%</b>						
U.S. Bank Money Market (l)			\$7,034,783	\$7,034,783	\$7,034,783	5.6%
<b>Total cash and cash equivalents and cash and cash equivalents, reserve accounts</b>			<b>\$7,034,783</b>	<b>\$7,034,783</b>	<b>\$7,034,783</b>	<b>5.6%</b>

- (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 5.2% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.
- (b) Percentages are based on net assets of \$125,149,875 as of February 29, 2016.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 6 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 16.14% 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, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (Cost)	Interest Income	Management Fee Income	Net Realized Gains (Losses)	Net Unrealized Depreciation
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$2,665,648	\$ 1,494,779	\$ —	\$ (1,280,916)

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- (g) Non-income producing at February 29, 2016.
- (h) Includes securities issued by an affiliate of the company.
- (i) Non-U.S. company. The principal place of business for Polar Holding Company, Ltd. is Canada.
- (j) The investment has an unfunded commitment as of February 29, 2016 (see Note 7 to the consolidated financial statements).
- (k) The entire commitment was unfunded at February 29, 2016. As such, no interest is being earned on this investment.
- (l) 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 29, 2016.

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

	<u>For the six months ended</u> <u>August 31, 2016</u>	<u>For the six months ended</u> <u>August 31, 2015</u>
<b>INCREASE FROM OPERATIONS:</b>		
Net investment income	\$ 5,142,330	\$ 5,428,114
Net realized gain from investments	12,039,655	3,783,193
Net unrealized depreciation on investments	(8,622,780)	(583,739)
Net increase in net assets from operations	<u>8,559,205</u>	<u>8,627,568</u>
<b>DECREASE FROM SHAREHOLDER DISTRIBUTIONS:</b>		
Distributions declared	(5,963,242)	(8,738,812)
Net decrease in net assets from shareholder distributions	<u>(5,963,242)</u>	<u>(8,738,812)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Stock dividend distribution	2,700,351	3,047,190
Repurchases of common stock	(1,882,567)	(38,981)
Offering costs	—	(237,287)
Net increase in net assets from capital share transactions	<u>817,784</u>	<u>2,770,922</u>
Total increase in net assets	3,413,747	2,659,678
Net assets at beginning of period	125,149,875	122,598,742
Net assets at end of period	<u>\$ 128,563,622</u>	<u>\$ 125,258,420</u>
Net asset value per common share	\$ 22.39	\$ 22.42
Common shares outstanding at end of period	5,740,810	5,586,254
Distribution in excess of net investment income	\$ (27,038,814)	\$ (27,216,301)

See accompanying notes to consolidated financial statements.

**Saratoga Investment Corp.**  
**Consolidated Statements of Cash Flows**  
**(unaudited)**

	<u>For the six months ended</u> <u>August 31, 2016</u>	<u>For the six months ended</u> <u>August 31, 2015</u>
<b>Operating activities</b>		
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 8,559,205	\$ 8,627,568
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Payment-in-kind interest income	(276,597)	(828,420)
Net accretion of discount on investments	(254,323)	(273,250)
Amortization of deferred debt financing costs	528,850	442,921
Amortization of premium on notes	—	(1,040)
Net realized gain from investments	(12,039,655)	(3,783,193)
Net unrealized depreciation on investments	8,622,780	583,739
Proceeds from sales and redemptions of investments	70,867,907	34,772,774
Purchase of investments	(55,728,395)	(42,118,806)
(Increase) decrease in operating assets:		
Cash and cash equivalents, reserve accounts	(5,579,043)	6,086,197
Interest receivable	(198,008)	(220,056)
Management fee receivable	(881)	(2,519)
Other assets	38,184	(228,717)
Receivable from unsettled trades	15,097	(100,000)
Increase (decrease) in operating liabilities:		
Base management and incentive fees payable	689,563	201,285
Accounts payable and accrued expenses	(224,033)	(260,729)
Interest and debt fees payable	321,439	139,806
Payable for repurchases of common stock	(20,957)	—
Directors fees payable	13,500	(1,500)
Due to manager	115,759	(13,141)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>15,450,392</u>	<u>3,022,919</u>
<b>Financing activities</b>		
Borrowings on debt	—	10,600,000
Paydowns on debt	—	(18,200,000)
Issuance of notes	—	8,945,175
Payments of deferred debt financing costs	(313,400)	(350,607)
Repurchases of common stock	(1,882,567)	(38,981)
Payments of cash dividends	(2,987,429)	(5,362,381)
NET CASH USED IN FINANCING ACTIVITIES	<u>(5,183,396)</u>	<u>(4,406,794)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,266,996	(1,383,875)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,440,277	1,888,158
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 12,707,273</u>	<u>\$ 504,283</u>
Supplemental information:		
Interest paid during the period	\$ 3,887,472	\$ 3,529,114
Supplemental non-cash information:		
Payment-in-kind interest income	\$ 276,597	\$ 828,420
Net accretion of discount on investments	\$ 254,323	\$ 273,250
Amortization of deferred debt financing costs	\$ 528,850	\$ 442,921
Stock dividend distribution	\$ 2,700,351	\$ 3,047,190

See accompanying notes to consolidated financial statements.

**SARATOGA INVESTMENT CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**August 31, 2016**  
**(unaudited)**

**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 Mercury, 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 will expire. 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 subsidiary, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC). All intercompany accounts and transactions have been eliminated in consolidation. All references made to the “Company,” “we,” and “us” herein include Saratoga Investment Corp. and its consolidated subsidiaries, except as stated otherwise.

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 Topic 946”). There have been no changes to the Company or SBIC LP’s status as investment companies during the six months ended August 31, 2016.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and income, gains (losses) and expenses during the period reported. Actual results could differ materially from those estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value. Per section 12(d)(1)(A) of the 1940 Act, the Company may not invest in another registered investment company such as a money market fund if such investment would cause the Company to exceed any of the following limitations:

- we were to own more than 3.0% of the total outstanding voting stock of the money market fund;
- we were to hold securities in the money market fund having an aggregate value in excess of 5.0% of the value of our total assets; or
- we were to hold securities in money market funds and other registered investment companies and BDCs having an aggregate value in excess of 10.0% of the value of our total assets.

As of August 31, 2016, 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 our \$45.0 million senior secured revolving credit facility with Madison Capital Funding LLC. The Company is required to use these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the terms of the senior secured revolving credit facility.

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.

## 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.

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

- Each investment is initially valued by the responsible investment professionals of our Manager and preliminary valuation conclusions are documented and discussed with the senior management of our Manager; and
- An independent valuation firm, engaged by our board of directors, reviews 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.

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



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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. 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.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value may differ materially from the values that would have been used if a ready market for these investments existed. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

### **Derivative Financial Instruments**

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

### **Investment Transactions and Income Recognition**

Purchases and sales of investments and the related realized gains or losses are recorded on a trade-date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and 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*, (“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 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.

Accounting Standards Update (“ASU”) 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”) requires 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 Company has adopted the provisions of ASU 2015-03 as of February 28, 2015, by reclassifying deferred debt financing costs from within total assets to within total liabilities as a contra-liability. Prior period amounts were reclassified to conform to the current period presentation.

### **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.

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

### **Income Taxes**

The Company has filed an election to be treated, for tax purposes, as a RIC under Subchapter M of the Code and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes. Therefore, no provision has been recorded for federal income taxes.

In order to qualify as a RIC, among other requirements, the Company is required to timely distribute to its stockholders at least 90.0% of its investment company taxable income, as defined by the Code, for each fiscal tax year. The Company will be subject to a nondeductible U.S. federal excise tax of 4.0% on undistributed income if it does not distribute at least 98.0% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4.0% excise tax

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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 29, 2016, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2013, 2014 and 2015 federal tax years for the Company remain subject to examination by the IRS. As of August 31, 2016 and February 29, 2016, 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.

## **New Accounting Pronouncements**

In February 2016, the FASB issued ASU 2016-02, *Amendments to the Leases* (“ASC 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 is currently evaluating the impact the adoption of this standard has on the Company’s consolidated financial statements and disclosures.

In August 2014, the FASB issued new accounting guidance that requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments provide a definition of the term “substantial doubt” and include principles for considering the mitigating effect of management’s plans. The amendments also require an evaluation every reporting period, including interim periods for a period of one year after the date that the financial statements are issued (or available to be issued), and certain disclosures when substantial doubt is alleviated or not alleviated. The amendments in this update are effective for reporting periods ending after December 15, 2016. Management does not believe these changes will 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 to December 15, 2017. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

## **Risk Management**

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

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

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

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

**Note 3. Investments**

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

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

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

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.
- Level 2—Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs used in the determination of fair value may require significant management judgment or estimation. Such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by 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 August 31, 2016 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			
	Level 1	Level 2	Level 3	Total
Syndicated loans	\$ —	\$ —	\$ 9,516	\$ 9,516
First lien term loans	—	—	153,276	153,276
Second lien term loans	—	—	87,024	87,024
Structured finance securities	—	—	11,917	11,917
Equity interests	—	—	11,071	11,071
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$272,804</u>	<u>\$272,804</u>

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The following table presents fair value measurements of investments, by major class, as of February 29, 2016 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Syndicated loans	\$ —	\$ —	\$ 11,868	\$ 11,868
First lien term loans	—	—	144,643	144,643
Second lien term loans	—	—	88,178	88,178
Structured finance securities	—	—	12,828	12,828
Equity interests	—	—	26,479	26,479
Total	\$ —	\$ —	\$283,996	\$283,996

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the six months ended August 31, 2016 (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 unrealized appreciation (depreciation) on investments	2,100	217	1,076	1,171	(13,187)	(8,623)
Purchases and other adjustments to cost	51	44,689	10,899	—	620	56,259
Sales and redemptions	(4,556)	(36,518)	(13,269)	(2,082)	(14,443)	(70,868)
Net realized gain from investments	53	245	140	—	11,602	12,040
Balance as of August 31, 2016	\$ 9,516	\$ 153,276	\$ 87,024	\$ 11,917	\$ 11,071	\$ 272,804

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

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

Transfers and restructurings, if any, are recognized at the beginning of the period in which they occur.

The net change in unrealized appreciation (depreciation) for the six months ended August 31, 2016 on investments still held as of August 31, 2016 was \$1,772,281 and is included in net unrealized depreciation on investments in the consolidated statements of operations.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the six months ended August 31, 2015 (dollars in thousands):

	Syndicated loans	First lien term loans	Second lien term loans	Unsecured notes	Structured finance securities	Equity interests	Total
Balance as of February 28, 2015	\$ 18,302	\$ 145,207	\$ 35,603	\$ 4,230	\$ 17,031	\$ 20,165	\$ 240,538
Net unrealized appreciation (depreciation) on investments	(1,400)	(726)	76	656	1,372	(562)	(584)
Purchases and other adjustments to cost	20	25,217	16,901	668	—	413	43,219

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	<u>Syndicated loans</u>	<u>First lien term loans</u>	<u>Second lien term loans</u>	<u>Unsecured notes</u>	<u>Structured finance securities</u>	<u>Equity interests</u>	<u>Total</u>
Sales and redemptions	\$ (356)	\$ (13,050)	\$ (10,673)	\$ (5,784)	\$ (1,649)	\$ (3,260)	\$ (34,772)
Net realized gain from investments	5	94	164	261	—	3,260	3,784
Restructures in	—	—	—	101	—	—	101
Restructures out	—	—	—	—	—	(101)	(101)
Balance as of August 31, 2015	<u>\$ 16,571</u>	<u>\$ 156,742</u>	<u>\$ 42,071</u>	<u>\$ 132</u>	<u>\$ 16,754</u>	<u>\$ 19,915</u>	<u>\$ 252,185</u>

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

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

Transfers and restructurings, if any, are recognized at the beginning of the period in which they occur.

The net change in unrealized appreciation (depreciation) for the six months ended August 31, 2015 on investments still held as of August 31, 2015 was \$(955,584) and was included in net unrealized depreciation on investments in the consolidated statements of operations.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of August 31, 2016 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	9,516	Market Comparables	Third-Party Bid (%)	0.0% - 100.0%
First lien term loans	153,276	Market Comparables	Market Yield (%)	6.3% - 15.8%
			EBITDA Multiples (x)	1.0x - 9.8x
			Third-Party Bid (%)	95.0% - 99.9%
Second lien term loans	87,024	Market Comparables	Market Yield (%)	8.3% - 15.0%
			Third-Party Bid (%)	95.0% - 101.4%
			Discount Rate (%)	18.0%
Structured finance securities	11,917	Discounted Cash Flow	Discount Rate (%)	18.0%
Equity interests	11,071	Market Comparables	EBITDA Multiples (x)	2.5x - 11.4x
			Revenue Multiples (x)	0.2x - 3.4x

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 29, 2016 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	11,868	Market Comparables	Third-Party Bid (%)	72.5% - 98.2%
First lien term loans	144,643	Market Comparables	Market Yield (%)	6.8% - 15.5%
			EBITDA Multiples (x)	1.0x
			Revenue Multiples	
			Third-Party Bid (%)	91.3% - 98.9%
Second lien term loans	88,178	Market Comparables	Market Yield (%)	0.0% - 15.0%
			Third-Party Bid (%)	91.5% - 98.6%
Structured finance securities	12,828	Discounted Cash Flow	Discount Rate (%)	20.0%
Equity interests	26,479	Market Comparables	EBITDA Multiples (x)	
			Revenue Multiples	6.8x - 16.4x



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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 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 August 31, 2016, at amortized cost and fair value were as follows (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Amortized Cost Percentage of Total Portfolio</b>	<b>Investments at Fair Value</b>	<b>Fair Value Percentage of Total Portfolio</b>
Syndicated loans	\$ 9,687	3.5%	\$ 9,516	3.5%
First lien term loans	154,662	55.5	153,276	56.2
Second lien term loans	87,256	31.3	87,024	31.9
Structured finance securities	10,948	3.9	11,917	4.4
Equity interests	16,054	5.8	11,071	4.0
Total	<u>\$ 278,607</u>	<u>100.0%</u>	<u>\$ 272,804</u>	<u>100.0%</u>

The composition of our investments as of February 29, 2016, at amortized cost and fair value were as follows (dollars in thousands):

	<b>Investments at Amortized Cost</b>	<b>Amortized Cost Percentage of Total Portfolio</b>	<b>Investments at Fair Value</b>	<b>Fair Value Percentage of Total Portfolio</b>
Syndicated loans	\$ 14,138	5.0%	\$ 11,868	4.2%
First lien term loans	146,246	52.0	144,643	50.9
Second lien term loans	89,486	31.9	88,178	31.1
Structured finance securities	13,031	4.6	12,828	4.5
Equity interests	18,275	6.5	26,479	9.3
Total	<u>\$ 281,176</u>	<u>100.0%</u>	<u>\$ 283,996</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

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for performing investments may be based on, among other things: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, third party valuations of the portfolio company, considering offers from third parties to buy the company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. For non-performing investments, we may estimate the liquidation or collateral value of the portfolio company's assets and liabilities. We also take into account historical and anticipated financial results.

Our investment in Saratoga CLO is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. For the quarter ended November 30, 2013, in connection with the refinancing of the Saratoga CLO liabilities, we ran Intex models based on assumptions about the refinanced Saratoga CLO's structure, including capital structure, cost of liabilities and reinvestment period. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flow analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO at August 31, 2016. The significant inputs for the valuation model include:

- Default rates: 2.0%
- Recovery rates: 35-70%
- Prepayment rate: 20.0%
- Reinvestment rate / price: L+375bps / \$99.50

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

On January 22, 2008, we invested \$30.0 million in all of the outstanding subordinated notes of GSC Investment Corp. CLO 2007, Ltd., a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with GSC Investment Corp. CLO 2007, Ltd. pursuant to which we act as collateral manager to it. The Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. The Saratoga CLO remains 100% owned and managed by Saratoga Investment Corp. We receive a base management fee of 0.25% and a subordinated management fee of 0.25% of the fee basis amount at the beginning of the collection period, paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of the remaining interest proceeds and principal proceeds, if any, after the subordinated notes have realized the incentive management fee target return of 12.0%, in accordance with the priority of payments after making the prior distributions on the relevant payment date. For the three months ended August 31, 2016 and August 31, 2015, we accrued \$0.4 million and \$0.4 million in management fee income, respectively, and \$0.6 million and \$0.7 million in interest income, respectively, from Saratoga CLO. For the six months ended August 31, 2016 and August 31, 2015, we accrued \$0.7 million and \$0.8 million in management fee income, respectively, and \$1.1 million and \$1.3 million in interest income, respectively, from Saratoga CLO. We did not accrue any amounts related to the incentive management fee from Saratoga CLO as the 12.0% hurdle rate has not yet been achieved.

At August 31, 2016, 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

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over the life of Saratoga CLO. At August 31, 2016, Saratoga CLO had investments with a principal balance of \$299.5 million and a weighted average spread over LIBOR of 4.41%, and had debt with a principal balance of \$282.4 million with a weighted average spread over LIBOR of 1.84%. As a result, Saratoga CLO earns a “spread” between the interest income it receives on its investments and the interest expense it pays on its debt and other operating expenses, which is distributed quarterly to the Company as the holder of its subordinated notes. At August 31, 2016, the present value of the projected future cash flows of the subordinated notes was approximately \$11.9 million, using an 18.0% discount rate. Saratoga Investment Corp. invested \$32.8 million into the CLO since January 2008, and to date has since received distributions of \$47.9 million and management fees of \$15.7 million.

Below is certain financial information from the separate financial statements of Saratoga CLO as of August 31, 2016 (unaudited) and February 29, 2016 and for the three and six months ended August 31, 2016 and August 31, 2015 (unaudited).

**Saratoga Investment Corp. CLO 2013-1, Ltd.****Statements of Assets and Liabilities**

	As of	
	<u>August 31, 2016</u>	<u>February 29, 2016</u>
	(unaudited)	
<b>ASSETS</b>		
Investments		
Fair Value Loans (amortized cost of \$296,436,508 and \$300,112,538, respectively)	\$ 290,944,255	\$ 284,652,926
Fair Value Other/Structured finance securities (amortized cost of \$3,531,218 and \$3,531,218, respectively)	12,901	191,863
Total investments at fair value (amortized cost of \$299,967,726 and \$303,643,756, respectively)	290,957,156	284,844,789
Cash and cash equivalents	5,172,517	2,349,633
Receivable from open trades	2,242,500	2,691,831
Interest receivable	1,782,055	1,698,562
Total assets	<u>\$ 300,154,228</u>	<u>\$ 291,584,815</u>
<b>LIABILITIES</b>		
Interest payable	\$ 836,806	\$ 626,040
Payable from open trades	4,983,454	7,123,854
Accrued base management fee	85,448	85,008
Accrued subordinated management fee	85,448	85,008
Class A-1 Notes - SIC CLO 2013-1, Ltd.	170,000,000	170,000,000
Discount on Class A-1 Notes - SIC CLO 2013-1, Ltd.	(1,230,503)	(1,319,258)
Class A-2 Notes - SIC CLO 2013-1, Ltd.	20,000,000	20,000,000
Discount on Class A-2 Notes - SIC CLO 2013-1, Ltd.	(127,550)	(136,750)
Class B Notes - SIC CLO 2013-1, Ltd.	44,800,000	44,800,000
Discount on Class B Notes - SIC CLO 2013-1, Ltd.	(828,565)	(888,328)
Class C Notes - SIC CLO 2013-1, Ltd.	16,000,000	16,000,000
Discount on Class C Notes - SIC CLO 2013-1, Ltd.	(515,869)	(553,078)
Class D Notes - SIC CLO 2013-1, Ltd.	14,000,000	14,000,000
Discount on Class D Notes - SIC CLO 2013-1, Ltd.	(669,638)	(717,938)
Class E Notes - SIC CLO 2013-1, Ltd.	13,100,000	13,100,000
Discount on Class E Notes - SIC CLO 2013-1, Ltd.	(1,262,461)	(1,353,521)
Class F Notes - SIC CLO 2013-1, Ltd.	4,500,000	4,500,000
Discount on Class F Notes - SIC CLO 2013-1, Ltd.	(459,180)	(492,300)
Deferred debt financing costs, SIC CLO 2013-1, Ltd. Notes	(1,604,034)	(1,716,554)
Subordinated Notes	30,000,000	30,000,000
Total liabilities	<u>\$ 311,693,356</u>	<u>\$ 313,142,183</u>
Commitments and contingencies		
<b>NET ASSETS</b>		
Ordinary equity, par value \$1.00, 250 ordinary shares authorized, 250 and 250 issued and outstanding, respectively	\$ 250	\$ 250
Accumulated loss	(21,557,623)	(5,803,406)
Net gain (loss)	10,018,245	(15,754,212)
Total net assets	<u>(11,539,128)</u>	<u>(21,557,368)</u>
Total liabilities and net assets	<u>\$ 300,154,228</u>	<u>\$ 291,584,815</u>

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

Statements of Operations  
(unaudited)

	For the three months ended		For the six months ended	
	August 31		August 31	
	2016	2015	2016	2015
<b>INVESTMENT INCOME</b>				
Interest from investments	\$ 4,028,665	\$ 3,638,587	\$ 7,817,001	\$ 7,151,174
Interest from cash and cash equivalents	1,938	215	2,709	505
Other income	189,836	69,878	433,137	233,993
Total investment income	<u>4,220,439</u>	<u>3,708,680</u>	<u>8,252,847</u>	<u>7,385,672</u>
<b>EXPENSES</b>				
Interest expense	3,608,788	3,013,007	6,889,803	5,859,643
Professional fees	20,944	53,177	39,426	112,399
Miscellaneous fee expense	14,147	5,763	22,391	10,688
Base management fee	187,329	186,576	374,171	375,949
Subordinated management fee	187,329	186,576	374,171	375,949
Trustee expenses	37,839	36,737	64,527	68,021
Amortization expense	239,963	239,963	479,926	479,926
Total expenses	<u>4,296,339</u>	<u>3,721,799</u>	<u>8,244,415</u>	<u>7,282,575</u>
<b>NET INVESTMENT INCOME (LOSS)</b>	<u>(75,900)</u>	<u>(13,119)</u>	<u>8,432</u>	<u>103,097</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>				
Net realized gain on investments	165,854	89,084	221,416	131,645
Net unrealized appreciation (depreciation) on investments	467,724	(3,624,214)	9,788,397	(3,710,046)
Net gain (loss) on investments	<u>633,578</u>	<u>(3,535,130)</u>	<u>10,009,813</u>	<u>(3,578,401)</u>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$ 557,678</u>	<u>\$ (3,548,249)</u>	<u>\$ 10,018,245</u>	<u>\$ (3,475,304)</u>

Saratoga Investment Corp. CLO 2013-1 Ltd.

Schedule of Investments

August 31, 2016

(unaudited)

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Education Management II, LLC	Leisure Goods/Activities/Movies	A-1 Preferred Shares	Equity	0.00%		6,692	\$ 669,214	\$ 1,673
Education Management II, LLC	Leisure Goods/Activities/Movies	A-2 Preferred Shares	Equity	0.00%		18,975	1,897,538	—
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Common Stock	Equity	0.00%		14,813	964,466	11,228
24 Hour Holdings III, LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.75%	5/28/2021	\$ 490,000	486,449	475,912
ABB Con-Cise Optical Group, LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	6.00%	5/28/2021	\$2,000,000	1,987,793	2,006,260
Acosta Holdco, Inc.	Media	Term Loan B1	Loan	4.25%	9/26/2021	\$1,965,125	1,953,132	1,910,259
Aspen Dental Management, Inc.	Healthcare & Pharmaceuticals	Term Loan Initial	Loan	5.50%	4/29/2022	\$1,492,481	1,488,165	1,502,749
Advantage Sales & Marketing, Inc.	Services: Business	Delayed Draw Term Loan	Loan	4.25%	7/25/2021	\$2,458,719	2,455,834	2,438,434
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term B Loan	Loan	5.50%	2/24/2021	\$2,476,183	2,336,688	2,228,565
Agrofresh, Inc.	Food Services	Term Loan	Loan	5.75%	7/30/2021	\$1,980,000	1,971,495	1,950,300
Akorn, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.25%	4/16/2021	\$ 398,056	396,816	401,539
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	4.50%	8/25/2021	\$2,903,452	2,893,319	2,915,327
Alere Inc. (fka IM US Holdings, LLC)	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/20/2022	\$ 922,606	920,608	911,073
Alion Science and Technology Corporation	High Tech Industries	Term Loan B (First Lien)	Loan	5.50%	8/19/2021	\$2,970,000	2,957,287	2,821,500
Alliance Healthcare Services, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/3/2019	\$ 989,713	985,285	942,701
APCO Holdings, Inc.	Automotive	Term Loan	Loan	7.00%	1/31/2022	\$1,987,500	1,934,566	1,937,813
American Beacon Advisors, Inc.	Financial Intermediaries	Term Loan (First Lien)	Loan	5.50%	4/30/2022	\$ 242,065	241,040	239,192
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	\$3,134,390	3,134,390	3,143,198
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	5.00%	5/24/2019	\$2,583,471	2,563,499	2,585,487
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B4 (First Lien)	Loan	5.00%	8/4/2022	\$2,446,875	2,436,006	2,445,994
Auction.com, LLC	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.00%	5/13/2019	\$2,732,469	2,732,115	2,725,638
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	6.00%	6/21/2022	\$2,000,000	1,993,354	1,996,260
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	Term Loan	Loan	4.00%	6/5/2020	\$1,481,250	1,478,758	1,473,222
Belmond Interfin Ltd.	Lodging & Casinos	Term Loan	Loan	4.00%	3/19/2021	\$ 488,750	487,005	484,781
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	\$1,435,957	1,435,270	1,434,564
BMC Software	Technology	Term Loan	Loan	5.00%	9/10/2020	\$1,969,697	1,921,390	1,874,501
Brickman Group Holdings, Inc.	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	\$1,468,699	1,457,999	1,459,667
Brock Holdings III, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	6.00%	3/16/2017	\$1,896,531	1,899,778	1,844,376

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
BWAY Holding Company	Leisure Goods/Activities/Movies	Term Loan B	Loan	5.50%	8/14/2020	\$ 953,811	946,297	956,797
Camp International Holding Company		2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	\$1,930,151	1,930,675	1,915,675
Candy Intermediate Holdings, Inc.	Beverage, Food & Tobacco	Term Loan	Loan	5.50%	6/15/2023	\$ 500,000	497,577	499,065
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	\$1,495,079	1,497,110	1,498,503
Catalent Pharma Solutions, Inc	Drugs	Initial Term B Loan	Loan	4.25%	5/20/2021	\$ 490,001	488,239	492,540
Cengage Learning Acquisitions, Inc.	Publishing	Term Loan	Loan	5.25%	6/7/2023	\$1,500,000	1,485,661	1,497,195
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	\$1,617,873	1,613,777	1,618,989
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term G Loan	Loan	3.75%	12/31/2019	\$1,017,431	993,225	976,520
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term H Loan	Loan	4.00%	1/27/2021	\$1,872,045	1,824,244	1,793,813
Cinedigm Digital Funding I, LLC	Services: Business	Term Loan	Loan	3.75%	2/28/2018	\$ 160,337	159,733	159,536
CITGO Petroleum Corporation	Oil & Gas	Term Loan B	Loan	4.50%	7/29/2021	\$1,974,924	1,954,351	1,939,869
Communications Sales & Leasing, Inc.	Telecommunications	Term Loan B (First Lien)	Loan	5.00%	10/24/2022	\$1,980,000	1,969,384	1,980,000
Consolidated Aerospace Manufacturing, LLC	Aerospace and Defense	Term Loan (First Lien)	Loan	4.75%	8/11/2022	\$1,437,500	1,430,957	1,336,875
Concordia Healthcare Corporation	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.25%	10/21/2021	\$1,990,000	1,892,925	1,881,485
CPI Acquisition Inc.	Technology	Term Loan B (First Lien)	Loan	5.50%	8/17/2022	\$1,436,782	1,417,341	1,396,667
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	4.25%	11/17/2017	\$1,556,222	1,556,222	1,536,769
Crosby US Acquisition Corporation	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.00%	11/23/2020	\$ 731,250	730,594	597,343
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	5.25%	12/1/2021	\$1,477,575	1,465,276	1,448,024
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	\$3,767,616	3,716,501	3,692,264
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	\$ 783,162	759,653	752,814
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	\$ 470,093	467,008	326,324
DAE Aviation (StandardAero)	Aerospace and Defense	Term Loan	Loan	5.25%	7/7/2022	\$1,985,000	1,976,439	1,990,459
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	8.75%	3/19/2018	\$2,393,304	2,383,863	2,393,304
Dell International, LLC	Technology	Term Loan B2	Loan	4.00%	4/29/2020	\$2,880,793	2,869,784	2,889,435
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	4.75%	7/30/2021	\$1,000,000	996,178	994,250
Deluxe Entertainment Service Group, Inc.	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	6.50%	2/28/2020	\$1,882,982	1,884,133	1,835,908
Diamond Resorts International	Lodging & Casinos	Term Loan	Loan	5.50%	5/7/2021	\$ 926,971	923,536	925,210
Diamond Resorts International	Lodging & Casinos	Term Loan (Add-On)	Loan	5.50%	5/7/2021	\$1,000,000	982,323	996,250
Diebold, Inc.	High Tech Industries	Term Loan B	Loan	5.25%	11/6/2023	\$ 500,000	495,193	501,875
DJO Finance, LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	4.25%	6/8/2020	\$ 495,000	493,182	477,056
DPX Holdings B.V.	Healthcare & Pharmaceuticals	Term Loan 2015 Incr Dollar	Loan	4.25%	3/11/2021	\$2,940,000	2,934,157	2,927,152
Drew Marine Group, Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.25%	11/19/2020	\$2,456,135	2,432,203	2,400,872
DTZ U.S. Borrower, LLC	Construction & Building	Term Loan B Add-on	Loan	4.25%	11/4/2021	\$1,972,519	1,963,587	1,962,045

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Edelman Financial Group, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.50%	12/19/2022	\$1,492,500	1,464,947	1,495,306
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan A	Loan	5.50%	7/2/2020	\$ 501,970	487,043	126,331
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan B (2.00% Cash/6.50% PIK)	Loan	8.50%	7/2/2020	\$ 923,048	900,098	38,463
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	8/1/2021	\$ 482,159	480,366	482,964
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	7.75%	8/1/2022	\$ 500,000	497,983	489,165
Emerald 2 Limited	Chemicals/Plastics	Term Loan B1A	Loan	5.00%	5/14/2021	\$1,000,000	992,962	906,670
Endo International plc	Healthcare & Pharmaceuticals	Term Loan B	Loan	3.75%	9/26/2022	\$ 995,000	992,780	989,090
EnergySolutions, LLC	Environmental Industries	Term Loan B	Loan	6.75%	5/29/2020	\$ 795,000	784,320	787,050
Engility Corporation	Aerospace and Defense	Term Loan B-1	Loan	4.88%	8/12/2020	\$ 250,000	248,757	251,408
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	\$ 960,094	958,777	834,321
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	\$1,957,368	1,953,440	1,962,261
EWT Holdings III Corp.	Capital Equipment	Term Loan B	Loan	5.50%	1/15/2021	\$ 997,500	988,228	1,002,488
Extreme Reach, Inc.	Media	Term Loan B	Loan	7.25%	2/7/2020	\$3,000,000	2,986,651	3,018,750
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	4.75%	4/15/2021	\$2,940,000	2,929,732	2,799,527
First Data Corporation	Financial Intermediaries	First Data T/L Ext (2021)	Loan	4.52%	3/24/2021	\$2,021,537	1,954,630	2,030,149
First Eagle Investment Management	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	4.75%	12/1/2022	\$1,492,500	1,465,494	1,481,306
Fitness International, LLC	Leisure Goods/Activities/Movies	Term Loan B	Loan	5.50%	7/1/2020	\$1,934,146	1,907,268	1,927,376
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	3.75%	6/28/2019	\$1,490,966	1,491,981	1,482,109
Garda World Security Corporation	Services: Business	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	\$ 198,102	197,448	194,883
Garda World Security Corporation	Services: Business	Term B Loan	Loan	4.00%	11/6/2020	\$ 774,398	771,902	761,814
Gardner Denver, Inc.	High Tech Industries	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	\$2,438,599	2,433,122	2,312,475
Gates Global LLC	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	4.25%	7/5/2021	\$ 484,156	479,314	476,288
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	\$2,125,219	2,120,837	2,100,417
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	5.00%	5/26/2020	\$2,682,732	2,675,684	2,557,529
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	3.75%	4/30/2019	\$2,000,000	1,976,471	2,001,500
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	\$1,014,560	1,011,209	1,003,572
GTCR Valor Companies, Inc.	Services: Business	Term Loan B	Loan	7.00%	5/17/2023	\$1,500,000	1,440,274	1,423,125
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.99%	8/2/2019	\$2,468,750	2,378,555	2,414,758
Headwaters Incorporated	Building & Development	Term Loan	Loan	4.50%	3/24/2022	\$ 247,500	246,448	247,500
Help/Systems Holdings, Inc.	High Tech Industries	Term Loan	Loan	6.25%	10/8/2021	\$1,492,500	1,436,471	1,475,709
Hemisphere Media Holdings, LLC	Media	Term Loan B	Loan	5.00%	7/30/2020	\$2,500,000	2,506,310	2,493,750
Hercules Achievement Holdings, Inc.	Retailers (Except Food and Drugs)	Term Loan B	Loan	5.00%	12/10/2021	\$ 248,111	245,876	248,731
Hoffmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	5.25%	5/8/2020	\$1,960,000	1,947,036	1,953,885
Hostess Brand, LLC	Beverage, Food & Tobacco	Term Loan B (First Lien)	Loan	4.50%	8/3/2022	\$ 992,500	990,343	997,214



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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Huntsman International LLC	Chemicals/Plastics	Term Loan B (First Lien)	Loan	3.52%	4/19/2019	\$3,305,591	3,286,001	3,308,334
Husky Injection Molding Systems Ltd.	Services: Business	Term Loan B	Loan	4.25%	6/30/2021	\$ 488,709	486,969	486,646
Imagine! Print Solutions, Inc.	Media	Term Loan B	Loan	7.00%	3/30/2022	\$ 498,750	491,671	500,620
Infor (US), Inc. (fka Lawson Software Inc.)	Services: Business	Tranche B-5 Term Loan	Loan	3.75%	6/3/2020	\$2,139,810	2,127,549	2,114,667
Insight Global	Services: Business	Term Loan	Loan	6.00%	10/29/2021	\$2,468,096	2,456,476	2,471,798
Informatica Corporation	High Tech Industries	Term Loan B	Loan	4.50%	8/5/2022	\$ 496,250	495,133	478,881
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	4.00%	3/5/2021	\$ 950,619	950,619	749,563
Jazz Acquisition, Inc.	Aerospace and Defense	First Lien 6/14	Loan	4.50%	6/19/2021	\$ 490,303	489,370	442,253
J.Jill Group, Inc.	Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	6.00%	5/9/2022	\$ 990,003	985,698	970,203
Kinetic Concepts, Inc.	Healthcare & Pharmaceuticals	Term Loan F-1	Loan	5.00%	11/4/2020	\$2,440,214	2,432,629	2,449,365
Kooshare, LLC	Services: Business	Term Loan	Loan	7.50%	5/15/2020	\$2,950,075	2,930,014	2,522,314
Kraton Polymers, LLC	Chemicals/Plastics	Term Loan (Initial)	Loan	6.00%	1/6/2022	\$2,500,000	2,268,983	2,501,575
Lannett Company, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	6.38%	11/25/2022	\$1,950,000	1,887,295	1,908,563
LPL Holdings	Banking, Finance, Insurance & Real Estate	Term Loan B (2022)	Loan	4.75%	11/21/2022	\$1,990,000	1,971,963	2,001,204
McGraw-Hill Global Education Holdings, LLC	Publishing	Term Loan	Loan	5.00%	5/4/2022	\$1,000,000	995,280	1,004,380
Mauser Holdings, Inc.	Containers/Glass Products	Term Loan	Loan	4.50%	7/31/2021	\$ 491,250	489,428	489,201
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term B Loan	Loan	3.75%	1/28/2020	\$ 483,750	483,750	485,496
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	4.00%	1/28/2020	\$1,205,294	1,201,088	1,212,610
Micro Holding Corporation	High Tech Industries	Term Loan	Loan	4.75%	7/8/2021	\$ 987,411	983,240	983,708
Microsemi Corporation	Electronics/Electric	Term Loan B	Loan	3.75%	1/17/2023	\$ 979,015	951,794	985,026
Midas Intermediate Holdco II, LLC	Automotive	Term Loan (Initial)	Loan	4.50%	8/18/2021	\$ 245,625	244,644	246,239
Milk Specialties Company	Beverage, Food & Tobacco	Term Loan	Loan	6.00%	8/16/2023	\$1,000,000	990,047	1,001,250
MSC Software Corporation	Services: Business	Term Loan	Loan	5.00%	5/29/2020	\$1,980,000	1,937,888	1,960,200
MWI Holdings, Inc.	Capital Equipment	Term Loan (First Lien)	Loan	6.50%	6/29/2020	\$3,000,000	2,976,771	2,992,500
National Veterinary Associates, Inc	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	8/14/2021	\$ 982,534	979,601	980,893
National Vision, Inc.	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	6.75%	3/11/2022	\$ 250,000	249,761	232,033
Neptune Finco (CSC Holdings)	Cable and Satellite Television	Term Loan	Loan	5.00%	10/7/2022	\$ 997,500	984,211	1,005,191
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	7.50%	12/21/2020	\$1,997,007	1,822,451	948,578
NorthStar Asset Management Group, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	4.63%	1/30/2023	\$1,995,000	1,929,403	1,986,681
Novelis, Inc.	Conglomerate	Term Loan B	Loan	4.00%	6/2/2022	\$4,747,083	4,726,799	4,755,248
Novetta Solutions	Aerospace and Defense	Term Loan (200MM)	Loan	6.00%	10/16/2022	\$1,990,000	1,971,971	1,885,525
Novetta Solutions	Aerospace and Defense	Term Loan (2nd Lien)	Loan	9.50%	9/29/2023	\$1,000,000	990,712	920,000
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	4.75%	12/28/2018	\$ 477,298	477,298	477,097
Numericable U.S., LLC	Broadcast Radio and Television	Term Loan B-5	Loan	4.56%	7/31/2022	\$ 992,500	990,344	992,679
NuSil Technology, LLC	Chemicals/Plastics	Term Loan	Loan	6.00%	4/5/2019	\$2,782,343	2,767,725	2,776,556
NVA Holdings, Inc.	Services: Consumer	Term Loan B1	Loan	4.75%	8/14/2021	\$ 249,375	248,759	249,375
Om Group	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	7.00%	10/28/2021	\$ 997,494	901,636	980,038
ON Semiconductor Corporation	High Tech Industries	Term Loan B	Loan	5.25%	3/31/2023	\$ 500,000	492,859	506,160

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Onex Carestream Finance LP	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	5.00%	6/7/2019	\$3,723,057	3,713,318	3,534,596
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	10/1/2021	\$ 491,250	488,417	435,984
OpenLink International, LLC	Services: Business	Term B Loan	Loan	7.75%	7/29/2019	\$2,929,160	2,928,277	2,912,083
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Borrowing	Loan	4.25%	6/24/2019	\$1,425,174	1,420,371	1,389,545
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Services: Business	Term Loan (First Lien)	Loan	5.00%	10/30/2020	\$ 975,000	971,514	909,188
Petsmart, Inc. (Argos Merger Sub, Inc.)	Retailers (Except Food and Drugs)	Term Loan B1	Loan	4.25%	3/11/2022	\$ 987,500	983,257	988,734
PGX Holdings, Inc.	Financial Intermediaries	Term Loan	Loan	5.75%	9/29/2020	\$ 949,643	942,884	946,481
Phillips-Medisize Corporation	Healthcare & Pharmaceuticals	Term Loan	Loan	4.75%	6/16/2021	\$ 490,000	488,213	489,182
Planet Fitness Holdings LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.50%	3/31/2021	\$2,404,597	2,396,951	2,419,626
PrePaid Legal Services, Inc.	Services: Business	Term Loan B	Loan	6.50%	7/1/2019	\$3,393,480	3,397,685	3,389,239
Presidio, Inc.	Services: Business	Term Loan	Loan	5.25%	2/2/2022	\$2,391,444	2,335,704	2,384,605
Prime Security Services (Protection One)	Services: Business	Term Loan	Loan	4.75%	7/1/2021	\$1,990,000	1,981,620	2,006,915
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	4.25%	10/1/2021	\$ 933,627	931,293	920,398
Ranpak Holdings, Inc.	Services: Business	Term Loan (Second Lien)	Loan	8.25%	10/3/2022	\$ 500,000	497,992	460,000
Redtop Acquisitions Limited	Electronics/Electric	Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	\$ 487,500	485,218	486,891
Regal Cinemas Corporation	Services: Consumer	Term Loan	Loan	3.50%	4/1/2022	\$ 496,250	495,132	497,987
Research Now Group, Inc	Media	Term Loan B	Loan	5.50%	3/18/2021	\$2,048,075	2,039,131	1,986,633
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	\$1,540,540	1,541,679	1,539,970
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.25%	2/6/2023	\$1,765,548	1,765,548	1,767,208
Rocket Software, Inc.	Services: Business	Term Loan (First Lien)	Loan	5.75%	2/8/2018	\$1,891,942	1,883,013	1,894,307
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	3.75%	7/2/2021	\$1,470,000	1,464,686	1,460,195
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	6/20/2022	\$ 495,000	492,827	496,084
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (Second Lien)	Loan	8.50%	6/19/2023	\$ 500,000	496,533	492,500
RPI Finance Trust	Financial Intermediaries	Term B-4 Term Loan	Loan	3.50%	11/9/2020	\$3,134,220	3,134,220	3,151,207
Russell Investment Management T/L B	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	6.75%	6/1/2023	\$2,000,000	1,880,801	1,883,340
Sable International Finance Ltd	Telecommunications	Term Loan B1	Loan	5.50%	12/2/2022	\$ 825,000	809,076	829,472
Sable International Finance Ltd	Telecommunications	Term Loan B2	Loan	5.50%	12/2/2022	\$ 675,000	661,971	678,659
SBP Holdings LP	Industrial Equipment	Term Loan (First Lien)	Loan	5.00%	3/27/2021	\$ 977,500	974,042	762,450
Scientific Games International, Inc.	Electronics/Electric	Term Loan B2	Loan	6.00%	10/1/2021	\$ 985,000	975,913	984,320
SCS Holdings (Sirius Computer)	High Tech Industries	Term Loan (First Lien)	Loan	6.00%	10/30/2022	\$1,977,528	1,941,664	1,988,246
Seadrill Operating LP	Oil & Gas	Term Loan B	Loan	4.00%	2/21/2021	\$ 982,368	921,146	470,721
Sensus USA Inc.	Utilities	Term Loan	Loan	6.50%	4/5/2023	\$1,900,135	1,894,785	1,904,885
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.25%	7/1/2021	\$1,965,000	1,950,684	1,976,790
Shearers Foods LLC	Food Services	Term Loan (First Lien)	Loan	4.94%	6/30/2021	\$ 982,500	980,621	976,359
Sitel Worldwide	Telecommunications	Term Loan	Loan	6.50%	9/18/2021	\$1,985,000	1,967,812	1,971,760
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.75%	12/10/2020	\$ 209,075	208,675	209,075

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	4.75%	12/10/2020	\$1,184,756	1,182,493	1,184,757
Sophia, L.P.	Electronics/Electric	Term Loan (Closing Date)	Loan	4.75%	9/30/2022	\$1,985,000	1,976,164	1,984,166
SourceHOV LLC	Services: Business	Term Loan B (First Lien)	Loan	7.75%	10/31/2019	\$1,887,500	1,848,187	1,506,848
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	4.00%	4/10/2020	\$2,833,435	2,826,700	2,713,014
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	4.75%	3/19/2021	\$ 928,173	921,737	914,250
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	\$ 200,478	200,451	77,812
Survey Sampling International	Services: Business	Term Loan B	Loan	6.00%	12/16/2020	\$2,735,604	2,719,614	2,715,087
Sybil Finance BV	High Tech Industries	Term Loan B	Loan	5.00%	8/3/2022	\$1,000,000	995,000	1,000,940
Sybil Finance BV	High Tech Industries	Term Loan	Loan	4.25%	3/20/2020	\$1,239,524	1,238,443	1,241,073
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	\$ 468,977	466,513	415,927
TaxACT, Inc.	Services: Business	Term Loan B	Loan	7.00%	1/3/2023	\$1,475,000	1,433,967	1,482,375
Tectum Holdings, Inc.	Transportation	Delayed Draw Term Loan (Initial)	Loan	5.75%	8/24/2023	\$ 780,952	770,952	779,702
Texas Competitive Electric Holdings Company, LLC	Utilities	Term Loan B	Loan	5.00%	10/31/2017	\$ 814,286	806,539	817,543
Texas Competitive Electric Holdings Company, LLC	Utilities	Term Loan C	Loan	5.00%	10/31/2017	\$ 185,714	183,948	186,528
TGI Friday's, Inc.	Food Services	Term Loan B	Loan	5.25%	7/15/2020	\$1,651,816	1,648,391	1,643,557
Townsquare Media, Inc.	Media	Term Loan B	Loan	4.25%	4/1/2022	\$ 932,522	928,672	932,522
TPF II Power LLC and TPF II Covert Midco LLC	Utilities	Term Loan B	Loan	5.00%	10/2/2021	\$1,423,645	1,369,789	1,429,581
TransDigm, Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	\$4,255,246	4,265,475	4,245,076
Travel Leaders Group, LLC	Hotel, Gaming and Leisure	Term Loan B	Loan	7.00%	12/7/2020	\$2,667,187	2,652,367	2,647,183
Tricorbraun, Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	\$2,831,864	2,830,158	2,826,569
Trugreen Limited Partnership	Services: Business	Term Loan B	Loan	6.50%	4/13/2023	\$ 500,000	492,927	503,125
Twin River Management Group, Inc.	Lodging & Casinos	Term Loan B	Loan	5.25%	7/10/2020	\$ 866,521	867,991	869,233
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	4.25%	7/1/2022	\$2,977,500	2,964,666	2,972,170
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	\$2,901,111	2,890,101	2,899,806
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	5.00%	2/13/2019	\$2,468,720	2,459,768	2,464,598
Verint Systems Inc.	Services: Business	Term Loan	Loan	3.50%	9/6/2019	\$1,011,464	1,009,003	1,011,717
Vizient Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	6.25%	2/13/2023	\$ 997,500	969,696	1,008,103
Vouvray US Finance	Industrial Equipment	Term Loan	Loan	4.75%	6/27/2021	\$ 490,000	488,186	488,368
Washington Inventory Service	Services: Business	U.S. Term Loan (First Lien)	Loan	5.75%	12/20/2018	\$1,736,393	1,747,098	1,085,246
Western Digital Corporation	High Tech Industries	Term Loan B (USD)	Loan	4.50%	5/1/2023	\$1,600,000	1,568,172	1,608,288
Windstream Services, LLC	Telecommunications	Term Loan B6	Loan	5.75%	3/29/2021	\$ 249,375	243,569	250,856
ZEP, Inc.	Chemicals/Plastics	Term Loan B	Loan	5.50%	6/27/2022	\$2,970,000	2,957,142	2,971,871
							<u>\$299,967,726</u>	<u>\$290,957,156</u>
						<b>Principal</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Cash and cash equivalents</b>						\$5,172,517	\$ 5,172,517	\$ 5,172,517
U.S. Bank Money Market (a)								
<b>Total cash and cash equivalents</b>						<u>\$5,172,517</u>	<u>\$ 5,172,517</u>	<u>\$ 5,172,517</u>

(a) Included within cash and cash equivalents in Saratoga CLO's Statements of Assets and Liabilities as of August 31, 2016.

Saratoga Investment Corp. CLO 2013-1 Ltd.

Schedule of Investments

February 29, 2016

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
Education Management II, LLC	Leisure Goods/Activities/Movies	A-1 Preferred Shares	Equity	0.00%		6,692	\$ 669,214	\$ 1,673
Education Management II, LLC	Leisure Goods/Activities/Movies	A-2 Preferred Shares	Equity	0.00%		18,975	1,897,538	95
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Common Stock	Equity	0.00%		14,813	964,466	190,095
24 Hour Holdings III, LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.75%	5/28/2021	\$ 492,500	488,586	455,154
Acosta Holdco, Inc.	Media	Term Loan B1	Loan	4.25%	9/26/2021	\$ 1,972,936	1,959,834	1,855,389
Aspen Dental Management, Inc.	Healthcare & Pharmaceuticals	Term Loan Initial	Loan	5.50%	4/29/2022	\$ 497,500	495,228	495,221
Advantage Sales & Marketing, Inc.	Services: Business	Delayed Draw Term Loan	Loan	4.25%	7/25/2021	\$ 2,471,231	2,468,039	2,342,826
Agrofresh, Inc.	Food Services	Term Loan	Loan	5.75%	7/30/2021	\$ 1,990,000	1,980,704	1,935,275
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term B Loan	Loan	5.50%	2/24/2021	\$ 985,000	985,000	797,850
Akorn, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	6.00%	4/16/2021	\$ 398,056	396,681	396,066
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	5.50%	8/25/2021	\$ 3,384,425	3,367,410	3,302,623
Alere Inc. (fka IM US Holdings, LLC)	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/20/2022	\$ 927,265	925,091	925,365
Alion Science and Technology Corporation	High Tech Industries	Term Loan B (First Lien)	Loan	5.50%	8/19/2021	\$ 2,985,000	2,971,074	2,824,555
Alliance Healthcare Services, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/3/2019	\$ 994,856	990,161	906,981
Alliant Holdings I, LLC	Banking, Finance, Insurance & Real Estate	Term Loan B (First Lien)	Loan	4.50%	8/12/2022	\$ 995,000	992,679	960,921
Alvogen Pharma US, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	6.00%	4/4/2022	\$ 480,447	478,240	456,425
American Beacon Advisors, Inc.	Financial Intermediaries	Term Loan (First Lien)	Loan	5.50%	4/30/2022	\$ 248,749	247,612	244,190
Aramark Corporation	Food Products	LC-2 Facility	Loan	0.29%	7/26/2016	\$ 9,447	9,445	9,305
Aramark Corporation	Food Products	LC-3 Facility	Loan	0.29%	7/26/2016	\$ 5,244	5,244	5,166
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	\$ 3,150,423	3,150,423	3,126,133
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	5.00%	5/24/2019	\$ 2,596,480	2,573,245	2,441,237
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B4 (First Lien)	Loan	5.00%	8/4/2022	\$ 2,478,125	2,466,303	2,270,582
Auction.com, LLC	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.00%	5/13/2019	\$ 2,522,992	2,522,722	2,491,455
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/24/2017	\$ 2,156,953	2,153,896	2,135,384
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	Term Loan	Loan	4.00%	6/5/2020	\$ 1,488,750	1,485,895	1,397,564
Belmond Interfin Ltd.	Lodging & Casinos	Term Loan	Loan	4.00%	3/19/2021	\$ 491,249	489,361	477,127
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	\$ 1,314,499	1,305,069	1,291,903
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	\$ 1,476,196	1,475,409	1,401,161
Blue Coat Systems	Technology	Term Loan B	Loan	4.50%	5/20/2022	\$ 997,500	995,159	945,131
BMC Software	Technology	Term Loan	Loan	5.00%	9/10/2020	\$ 1,979,798	1,926,080	1,571,821

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
Brickman Group Holdings, Inc.	Brokers/Dealers/Investment Houses	Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	\$ 1,476,212	1,464,327	1,426,390
Brock Holdings III, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	6.00%	3/16/2017	\$ 1,917,168	1,924,101	1,802,138
Burlington Coat Factory Warehouse Corporation	Retailers (Except Food and Drugs)	Term B-2 Loan	Loan	4.25%	8/13/2021	\$ 1,861,667	1,853,426	1,845,843
BWAY Holding Company	Leisure Goods/Activities/Movies	Term Loan B	Loan	5.50%	8/14/2020	\$ 985,000	976,335	930,826
Caesars Entertainment Corp.	Lodging & Casinos	Term B-7 Loan	Loan	13.25%	3/1/2017	\$ 995,000	991,037	814,656
Camp International Holding Company		2013 Replacement Term Loan (First Lien)						
	Aerospace and Defense		Loan	4.75%	5/31/2019	\$ 1,940,113	1,940,984	1,806,730
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	\$ 2,051,828	2,055,060	2,044,564
Catalent Pharma Solutions, Inc	Drugs	Initial Term B Loan	Loan	4.25%	5/20/2021	\$ 492,501	490,549	487,271
Cengage Learning Acquisitions, Inc.	Publishing	Term Loan	Loan	7.00%	3/31/2020	\$ 2,647,871	2,670,807	2,539,758
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	\$ 2,628,783	2,621,343	2,566,823
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term G Loan	Loan	3.75%	12/31/2019	\$ 1,022,569	994,876	974,212
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term H Loan	Loan	4.00%	1/27/2021	\$ 1,881,500	1,828,566	1,785,920
Cinedigm Digital Funding I, LLC	Services: Business	Term Loan	Loan	3.75%	2/28/2018	\$ 298,828	297,362	295,840
CITGO Petroleum Corporation	Oil & Gas	Term Loan B	Loan	4.50%	7/29/2021	\$ 1,984,975	1,962,423	1,865,876
Communications Sales & Leasing, Inc.	Telecommunications	Term Loan B (First Lien)	Loan	5.00%	10/24/2022	\$ 1,990,000	1,978,594	1,847,596
CommScope, Inc.	Telecommunications	Term Loan B	Loan	3.75%	12/29/2022	\$ 498,750	497,568	494,176
Consolidated Aerospace Manufacturing, LLC	Aerospace and Defense	Term Loan (First Lien)	Loan	4.75%	8/11/2022	\$ 1,437,500	1,430,556	1,329,688
Concordia Healthcare Corp	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.25%	10/21/2021	\$ 2,000,000	1,894,483	1,920,000
CPI Acquisition Inc.	Technology	Term Loan B (First Lien)	Loan	5.50%	8/17/2022	\$ 1,436,782	1,415,977	1,396,667
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	4.25%	11/17/2017	\$ 1,564,182	1,564,182	1,501,615
Crosby US Acquisition Corp.	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.00%	11/23/2020	\$ 735,000	734,245	536,550
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	5.25%	12/1/2021	\$ 1,485,038	1,471,665	1,433,061
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	\$ 771,625	742,910	721,469
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	\$ 783,162	754,065	734,214
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	\$ 470,093	466,690	304,973
DAE Aviation (StandardAero)	Aerospace and Defense	Term Loan	Loan	5.25%	7/7/2022	\$ 1,995,000	1,985,759	1,970,063
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	8.75%	3/19/2018	\$ 2,409,739	2,397,948	2,409,739
Dell International LLC	Technology	Term Loan B2	Loan	4.00%	4/29/2020	\$ 2,904,989	2,892,348	2,889,854
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	4.75%	7/30/2021	\$ 1,000,000	995,870	925,000
Deluxe Entertainment Service Group, Inc.	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	6.50%	2/28/2020	\$ 1,882,983	1,884,279	1,751,174
Diamond Resorts International	Lodging & Casinos	Term Loan	Loan	5.50%	5/7/2021	\$ 926,971	923,222	897,614
Diamond Resorts International	Lodging & Casinos	Term Loan (Add-On)	Loan	5.50%	5/7/2021	\$ 1,000,000	980,687	968,330

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
DJO Finance, LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	4.25%	6/8/2020	\$ 497,500	495,435	478,222
DPX Holdings B.V.	Healthcare & Pharmaceuticals	Term Loan 2015 Incr Dollar	Loan	4.25%	3/11/2021	\$ 2,955,000	2,948,456	2,799,863
Drew Marine Group, Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.25%	11/19/2020	\$ 2,472,161	2,445,601	2,299,110
DTZ U.S. Borrower, LLC	Construction & Building	Term Loan B Add-on	Loan	4.25%	11/4/2021	\$ 2,985,000	2,970,317	2,869,331
Edelman Financial Group, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.50%	12/19/2022	\$ 1,500,000	1,470,617	1,459,695
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan A	Loan	5.50%	7/2/2020	\$ 501,970	485,313	160,630
Education Management II, LLC	Leisure Goods/Activities/Movies	Term Loan B (2.00% Cash/6.50% PIK)	Loan	8.50%	7/2/2020	\$ 893,447	867,647	56,582
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	8/1/2021	\$ 484,659	482,690	473,148
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	7.75%	8/1/2022	\$ 500,000	497,844	468,750
Emerald 2 Limited	Chemicals/Plastics	Term Loan B1A	Loan	5.00%	5/14/2021	\$ 1,000,000	991,762	866,670
Endo International plc	Healthcare & Pharmaceuticals	Term Loan B	Loan	3.75%	9/26/2022	\$ 1,000,000	997,602	987,780
EnergySolutions, LLC	Environmental Industries	Term Loan B	Loan	6.75%	5/29/2020	\$ 937,857	923,660	731,528
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	\$ 965,081	963,406	719,951
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	\$ 1,967,406	1,962,950	1,908,383
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	4.75%	4/15/2021	\$ 2,955,000	2,943,580	2,345,530
First Data Corporation	Financial Intermediaries	First Data Corp T/L (2018 New Dollar)	Loan	3.93%	3/23/2018	\$ 2,790,451	2,748,229	2,752,780
First Data Corporation	Financial Intermediaries	First Data T/L Ext (2021)	Loan	4.43%	3/24/2021	\$ 2,111,028	2,034,284	2,077,779
First Eagle Investment Management	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	4.75%	12/1/2022	\$ 1,500,000	1,470,946	1,412,504
Fitness International, LLC	Leisure Goods/Activities/Movies	Term Loan B	Loan	5.50%	7/1/2020	\$ 1,976,234	1,945,935	1,850,249
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/Minerals	Loan	Loan	4.25%	6/28/2019	\$ 1,962,387	1,962,515	1,504,738
Garda World Security Corporation	Services: Business	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	\$ 199,120	198,391	187,344
Garda World Security Corporation	Services: Business	Term B Loan	Loan	4.00%	11/6/2020	\$ 778,380	775,586	732,346
Gardner Denver, Inc.	High Tech Industries	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	\$ 2,451,137	2,445,005	2,016,452
Gates Global LLC	Leisure Goods/Activities/Movies	Term Loan (First Lien)	Loan	4.25%	7/5/2021	\$ 493,750	488,813	433,883
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.50%	5/31/2020	\$ 693,858	684,537	676,511
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	\$ 4,131,271	4,121,165	4,012,497
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	5.00%	5/26/2020	\$ 2,725,318	2,717,647	2,237,023
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	3.75%	4/30/2019	\$ 2,000,000	1,974,077	2,005,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	\$ 1,264,036	1,259,418	1,191,354
GTCR Valor Companies, Inc.	Services: Business	Term Loan (First Lien)	Loan	6.00%	6/1/2021	\$ 1,974,982	1,941,456	1,959,340
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.00%	8/2/2019	\$ 475,000	473,378	421,561

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
HCA Inc.	Healthcare & Pharmaceuticals	Tranche B-4 Term Loan	Loan	3.36%	5/1/2018	\$ 2,119,664	2,053,127	2,116,294
Headwaters Incorporated	Building & Development	Term Loan	Loan	4.50%	3/24/2022	\$ 248,750	247,628	248,285
Hercules Achievement Holdings, Inc.	Retailers (Except Food and Drugs)	Term Loan B	Loan	5.00%	12/10/2021	\$ 249,370	246,940	244,929
Hertz Corporation, The	Automotive	Tranche B-1 Term Loan	Loan	3.75%	3/12/2018	\$ 2,910,000	2,933,230	2,879,998
Hoffmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	5.25%	5/8/2020	\$ 1,970,000	1,955,325	1,915,825
Hostess Brand, LLC	Beverage, Food & Tobacco	Term Loan B (First Lien)	Loan	4.50%	8/3/2022	\$ 997,500	995,241	983,784
Huntsman International LLC	Chemicals/Plastics	Term Loan B (First Lien)	Loan	3.52%	4/19/2019	\$ 3,840,541	3,814,577	3,727,245
Husky Injection Molding Systems Ltd.	Services: Business	Term Loan B	Loan	4.25%	6/30/2021	\$ 491,196	489,277	465,757
Infor (US), Inc. (fka Lawson Software Inc.)	Services: Business	Tranche B-5 Term Loan	Loan	3.75%	6/3/2020	\$ 2,188,296	2,174,333	2,015,049
Insight Global	Services: Business	Term Loan	Loan	6.00%	10/29/2021	\$ 1,979,592	1,971,967	1,961,439
Informatica Corporation	High Tech Industries	Term Loan B	Loan	4.50%	8/5/2022	\$ 498,750	497,554	468,411
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term B-1 Loan Retired 03/05/2014	Loan	4.00%	3/5/2021	\$ 955,481	955,481	639,379
Jazz Acquisition, Inc	Aerospace and Defense	First Lien 6/14	Loan	4.50%	6/19/2021	\$ 492,727	491,745	434,832
J.Jill Group, Inc.	Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	6.00%	5/9/2022	\$ 995,000	990,362	925,350
Kinetic Concepts, Inc.	Healthcare & Pharmaceuticals	Dollar Term D-1 Loan	Loan	4.50%	8/4/2018	\$ 2,452,586	2,436,004	2,392,645
Koosharem, LLC	Services: Business	Term Loan	Loan	7.50%	5/15/2020	\$ 2,965,050	2,942,458	2,683,370
Kraton Polymers, LLC	Chemicals/Plastics	Term Loan (Initial)	Loan	6.00%	1/6/2022	\$ 2,500,000	2,252,500	2,250,000
LPL Holdings	Banking, Finance, Insurance & Real Estate	Term Loan B (2022)	Loan	4.75%	11/21/2022	\$ 2,000,000	1,980,543	1,900,000
Mauser Holdings, Inc.	Containers/Glass Products	Term Loan	Loan	4.50%	7/31/2021	\$ 493,750	491,750	475,234
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term B Loan	Loan	3.75%	1/28/2020	\$ 486,250	486,250	479,792
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	4.00%	1/28/2020	\$ 1,212,794	1,208,220	1,201,042
Micro Holding Corp.	High Tech Industries	Term Loan	Loan	4.75%	7/8/2021	\$ 992,447	987,851	950,268
Microsemi Corporation	Electronics/Electric	Term Loan B	Loan	5.25%	1/15/2023	\$ 2,183,824	2,119,162	2,180,177
Midas Intermediate Holdco II, LLC	Automotive	Term Loan (Initial)	Loan	4.50%	8/18/2021	\$ 246,875	245,802	244,098
MPH Acquisition Holdings, LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	3.75%	3/31/2021	\$ 376,136	375,400	366,500
MSC Software Corporation	Services: Business	Term Loan	Loan	5.00%	5/29/2020	\$ 985,000	977,601	886,500
National Veterinary Associates, Inc	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	8/14/2021	\$ 987,526	984,296	959,549
National Vision, Inc.	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	6.75%	3/11/2022	\$ 250,000	249,729	218,750
Neptune Finco (CSC Holdings)	Cable and Satellite Television	Term Loan	Loan	5.00%	10/7/2022	\$ 1,000,000	985,784	989,750
New Millennium Holdco	Healthcare & Pharmaceuticals	Term Loan	Loan	7.50%	12/21/2020	\$ 2,007,042	1,811,375	1,822,655
Nortek, Inc.	Electronics/Electric	Term Loan B	Loan	3.50%	10/30/2020	\$ 985,022	974,747	939,464
NorthStar Asset Management Group Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	4.63%	1/30/2023	\$ 2,000,000	1,930,000	1,950,000
Novelis, Inc.	Conglomerate	Term Loan B	Loan	4.00%	6/2/2022	\$ 4,771,058	4,749,389	4,440,090
Novetta Solutions	Aerospace and Defense	Term Loan (200MM)	Loan	6.00%	10/16/2022	\$ 2,000,000	1,980,636	1,940,000
Novetta Solutions	Aerospace and Defense	Term Loan (2nd Lien)	Loan	9.50%	9/29/2023	\$ 1,000,000	990,269	950,000
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	4.75%	12/28/2018	\$ 481,250	481,250	472,829
NRG Energy, Inc.	Utilities	Term Loan (2013)	Loan	2.75%	7/2/2018	\$ 3,821,925	3,808,282	3,751,449
Numericable	Broadcast Radio and Television	Term Loan B-5	Loan	4.56%	7/31/2022	\$ 997,500	995,164	953,171
NuSil Technology LLC.	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	\$ 789,045	789,045	774,645
Onex Carestream Finance LP	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	5.00%	6/7/2019	\$ 3,832,558	3,821,232	3,244,912

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	10/1/2021	\$ 493,749	490,644	459,435
OpenLink International, LLC	Services: Business	Term B Loan	Loan	6.25%	10/30/2017	\$ 2,944,496	2,943,282	2,811,994
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Borrowing	Loan	4.25%	6/24/2019	\$ 1,432,750	1,427,110	1,336,039
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Services: Business	Term Loan (First Lien)	Loan	5.00%	10/30/2020	\$ 980,000	976,133	774,200
Penn Products Terminal, LLC	Chemicals/Plastics	Term Loan B	Loan	4.75%	4/13/2022	\$ 248,125	246,994	218,350
PetCo Animal Supplies Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-1	Loan	5.75%	1/15/2023	\$ 1,000,000	980,217	978,590
PetCo Animal Supplies Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	5.62%	1/15/2023	\$ 1,000,000	980,216	978,960
Petsmart, Inc. (Argos Merger Sub, Inc.)	Retailers (Except Food and Drugs)	Term Loan B1	Loan	4.25%	3/11/2022	\$ 992,500	987,862	961,176
PGX Holdings, Inc.	Financial Intermediaries	Term Loan	Loan	5.75%	9/29/2020	\$ 954,643	947,123	941,917
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Conglomerate	Term Loan	Loan	4.25%	8/18/2022	\$ 1,920,848	1,911,850	1,872,346
Phillips-Medisize Corporation	Healthcare & Pharmaceuticals	Term Loan	Loan	4.75%	6/16/2021	\$ 492,500	490,535	458,025
Physio-Control International, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.50%	6/6/2022	\$ 498,750	496,371	498,127
Pinnacle Foods Finance LLC	Food Products	New Term Loan G	Loan	3.00%	4/29/2020	\$ 2,581,332	2,577,286	2,553,737
Planet Fitness Holdings LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.75%	3/31/2021	\$ 2,417,118	2,410,079	2,368,776
PrePaid Legal Services, Inc.	Services: Business	Term Loan B	Loan	6.50%	7/1/2019	\$ 724,167	721,080	716,020
Presidio, Inc.	Services: Business	Term Loan	Loan	5.25%	2/2/2022	\$ 1,902,292	1,846,615	1,816,688
Prime Security Services (Protection One) Inc.	Services: Business	Term Loan	Loan	5.00%	7/1/2021	\$ 1,995,000	1,985,640	1,924,178
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	4.25%	10/1/2021	\$ 938,354	936,008	886,745
Ranpak Holdings, Inc.	Services: Business	Term Loan (Second Lien)	Loan	8.25%	10/3/2022	\$ 500,000	497,866	400,000
Redtop Acquisitions Limited	Electronics/Electric	Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	\$ 490,000	487,461	482,444
Regal Cinemas Corporation	Services: Consumer	Term Loan	Loan	3.75%	4/1/2022	\$ 497,500	496,320	496,256
Research Now Group, Inc	Media	Term Loan B	Loan	5.50%	3/18/2021	\$ 2,058,445	2,048,627	1,996,692
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	\$ 1,630,123	1,631,387	1,557,647
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.50%	12/1/2018	\$ 1,910,551	1,910,551	1,902,946
Riverbed Technology, Inc.	Technology	Term Loan B	Loan	6.00%	2/25/2022	\$ 992,500	988,224	970,873
Rocket Software, Inc.	Services: Business	Term Loan (First Lien)	Loan	5.75%	2/8/2018	\$ 1,901,835	1,889,759	1,889,150
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	3.75%	7/2/2021	\$ 1,477,500	1,471,640	1,422,094
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	6/20/2022	\$ 497,500	495,187	479,675
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (Second Lien)	Loan	8.50%	6/19/2023	\$ 500,000	496,388	478,335
RPI Finance Trust	Financial Intermediaries	Term B-4 Term Loan	Loan	3.50%	11/9/2020	\$ 5,155,193	5,155,193	5,132,665
Sable International Finance Ltd	Telecommunications	Term Loan B1	Loan	5.50%	12/2/2022	\$ 825,000	808,500	800,770
Sable International Finance Ltd	Telecommunications	Term Loan B2	Loan	5.50%	12/2/2022	\$ 675,000	661,500	655,175
SBP Holdings LP	Industrial Equipment	Term Loan (First Lien)	Loan	5.00%	3/27/2021	\$ 982,500	978,645	707,400



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Scientific Games International, Inc.	Electronics/Electric	Term Loan B2	Loan	6.00%	10/1/2021	\$ 990,000	981,872	904,613
SCS Holdings (Sirius Computer)	High Tech Industries	Term Loan (First Lien)	Loan	6.00%	10/30/2022	\$ 1,977,528	1,939,305	1,937,978
Seadrill Operating LP	Oil & Gas	Term Loan B	Loan	4.00%	2/21/2021	\$ 987,406	919,799	407,305
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	4.50%	5/9/2017	\$ 1,905,121	1,902,477	1,826,534
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.25%	7/1/2021	\$ 1,975,000	1,959,254	1,956,889
Shearers Foods LLC	Food Services	Term Loan (First Lien)	Loan	4.94%	6/30/2021	\$ 987,500	985,421	952,938
Sitel Worldwide	Telecommunications	Term Loan	Loan	6.50%	9/18/2021	\$ 1,995,000	1,976,131	1,931,160
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.75%	12/10/2020	\$ 222,750	222,282	220,801
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	4.75%	12/10/2020	\$ 1,262,250	1,259,600	1,251,205
Sophia, L.P.	Electronics/Electric	Term Loan (Closing Date)	Loan	4.75%	9/30/2022	\$ 1,995,000	1,985,507	1,911,469
SourceHOV LLC	Services: Business	Term Loan B (First Lien)	Loan	7.75%	10/31/2019	\$ 1,937,500	1,891,680	1,541,281
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	4.00%	4/10/2020	\$ 2,904,577	2,896,630	2,207,479
Staples, Inc.	Retailers (Except Food and Drugs)	Term Loan 1/16	Loan	4.75%	4/23/2021	\$ 1,000,000	990,308	992,130
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	4.75%	3/19/2021	\$ 965,341	957,952	946,034
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	\$ 222,900	220,105	67,520
Survey Sampling International	Services: Business	Term Loan B	Loan	6.00%	12/16/2020	\$ 992,500	990,554	970,169
Sybil Finance BV	High Tech Industries	Term Loan	Loan	4.25%	3/20/2020	\$ 1,272,143	1,270,803	1,253,061
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	\$ 479,913	476,927	311,944
TaxACT, Inc.	Services: Business	Term Loan B	Loan	7.00%	1/3/2023	\$ 1,860,000	1,805,035	1,804,200
TGI Friday's, Inc.	Food Services	Term Loan B	Loan	5.25%	7/15/2020	\$ 1,651,816	1,647,936	1,636,669
Townsquare Media, Inc.	Media	Term Loan B	Loan	4.25%	4/1/2022	\$ 932,522	928,333	915,624
TPF II Power LLC and TPF II Covert Midco LLC	Utilities	Term Loan B	Loan	5.50%	10/2/2021	\$ 1,491,826	1,433,943	1,396,722
TransDigm, Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	\$ 4,277,294	4,283,815	4,148,975
Travel Leaders Group, LLC	Hotel, Gaming and Leisure	Term Loan B	Loan	7.00%	12/7/2020	\$ 1,946,300	1,939,729	1,917,107
Tricorbraun, Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	\$ 1,836,625	1,831,636	1,776,935
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare & Pharmaceuticals	New Tranche B Term Loan	Loan	4.50%	6/6/2019	\$ 482,603	476,598	480,494
Twin River Management Group, Inc.	Lodging & Casinos	Term Loan B	Loan	5.25%	7/10/2020	\$ 886,192	887,853	875,673
U.S. Security Associates Holdings, Inc.	Services: Business	Delayed Draw Loan	Loan	6.25%	7/28/2017	\$ 156,888	156,328	155,973
U.S. Security Associates Holdings, Inc.	Services: Business	Term B Loan	Loan	6.25%	7/28/2017	\$ 921,426	918,393	916,054
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	4.25%	7/1/2022	\$ 2,992,500	2,978,573	2,840,810
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	\$ 2,916,556	2,903,859	2,832,705
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	3.50%	2/13/2019	\$ 2,545,588	2,539,315	2,385,700
Verint Systems Inc.	Services: Business	Term Loan	Loan	3.50%	9/6/2019	\$ 1,014,058	1,011,203	1,005,692
Vertafore, Inc.	Services: Business	Term Loan (2013)	Loan	4.25%	10/3/2019	\$ 2,484,603	2,484,603	2,452,775
Vizient Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	6.25%	2/13/2023	\$ 1,000,000	970,144	993,750
Vouvray US Finance	Industrial Equipment	Term Loan	Loan	4.75%	6/27/2021	\$ 492,500	490,508	478,134

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal / Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Washington Inventory Service	Services: Business	U.S. Term Loan (First Lien)	Loan	5.75%	12/20/2018	\$ 1,736,392	1,749,291	1,475,934
West Corporation	Telecommunications	Term B-10 Loan	Loan	3.25%	6/30/2018	\$ 2,534,892	2,558,782	2,490,861
ZEP Inc.	Chemicals/Plastics	Term Loan B	Loan	5.50%	6/27/2022	\$ 2,985,000	2,971,139	2,932,763
							<u>\$303,643,756</u>	<u>\$284,844,789</u>
						<u>Principal</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Cash and cash equivalents</b>								
U.S. Bank Money Market (a)						\$ 2,349,633	\$ 2,349,633	\$ 2,349,633
<b>Total cash and cash equivalents</b>						<u>\$ 2,349,633</u>	<u>\$ 2,349,633</u>	<u>\$ 2,349,633</u>

(a) Included within cash and cash equivalents in Saratoga CLO's Statements of Assets and Liabilities as of February 29, 2016.

### Note 5. Agreements and Related Party Transactions

On July 30, 2010, the Company entered into the Management Agreement with our Manager. The initial term of the Management Agreement 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 7, 2016, 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 (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter, subject to a "catch-up" provision. Under this provision, in any fiscal quarter, our Manager receives no incentive fee unless our pre-incentive fee net investment income exceeds the hurdle rate of 1.875%. Our Manager will receive 100.0% of pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than or equal to 2.344% in any fiscal quarter (9.376% annualized); and 20.0% of the amount of the our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized).

The second part of the incentive fee is determined and payable in arrears as of the end of each fiscal year (or upon termination of the Management Agreement) and equals 20.0% of our "incentive fee capital gains," which equals our realized capital gains on a cumulative basis from May 31, 2010 through the end of the year, if any, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fee. Importantly, the capital gains portion of the incentive fee is based on realized gains and realized and unrealized losses from May 31, 2010. Therefore, realized and unrealized losses incurred prior to such time will not be taken into account when calculating the

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capital gains portion of the incentive fee, and our Manager will be entitled to 20.0% of incentive fee capital gains that arise after May 31, 2010. In addition, for the purpose of the “incentive fee capital gains” calculations, the cost basis for computing realized gains and losses on investments held by us as of May 31, 2010 will equal the fair value of such investments as of such date.

For the three months ended August 31, 2016 and August 31, 2015, the Company incurred \$1.2 million and \$1.2 million in base management fees, respectively. For the three months ended August 31, 2016 and August 31, 2015, the Company incurred \$0.8 million and \$0.7 million in incentive fees related to pre-incentive fee net investment income, respectively. For the three months ended August 31, 2016, we accrued \$0.4 million in incentive fees related to capital gains. For the three months ended August 31, 2015, we reduced the incentive fees related to capital gains by \$0.8 million. For the six months ended August 31, 2016 and August 31, 2015, the Company incurred \$2.4 million and \$2.3 million in base management fees, respectively. For the six months ended August 31, 2016 and August 31, 2015, the Company incurred \$1.4 million and \$1.4 million in incentive fees related to pre-incentive fee net investment income, respectively. For the six months ended August 31, 2016 and August 31, 2015, we accrued \$0.5 million and \$0.3 million in incentive fees related to capital gains, respectively. The accrual is calculated using both realized and unrealized capital gains for the period. The actual incentive fee related to capital gains will be determined and payable in arrears at the end of the fiscal year and will include only realized capital gains for the period. As of August 31, 2016, the base management fees accrual was \$1.2 million and the incentive fees accrual was \$5.1 million and is included in base management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 29, 2016, the base management fees accrual was \$1.2 million and the incentive fees accrual was \$4.4 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 and determined to keep the cap on the payment or reimbursement of expenses by the Company thereunder, unchanged at \$1.3 million. In addition, our board of directors intends to review the cap in the next three to six months to determine whether it should be further adjusted in light of differences between our projected and actual expenses and other similar factors.

For the three months ended August 31, 2016 and August 31, 2015, we recognized \$0.3 million and \$0.3 million, in administrator expenses for the periods, respectively, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses. For the six months ended August 31, 2016 and August 31, 2015, we recognized \$0.7 million and \$0.5 million, in administrator expenses for the periods, respectively, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses. As of August 31, 2016, \$0.3 million of administrator expenses and other expenses payable to the Manager were accrued and included in due to manager in the accompanying consolidated statements of assets and liabilities. As of February 29, 2016, \$0.2 million of administrator expenses and other expenses payable to the Manager were accrued and included in due to manager in the accompanying consolidated statements of assets and liabilities. For the six months ended August 31, 2016 and August 31, 2015, the Company neither bought nor sold any investments from the Saratoga CLO.

## **Note 6. Borrowings**

### ***Credit Facility***

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

On April 11, 2007, we entered into a \$100.0 million revolving securitized credit facility (the “Revolving Facility”). On May 1, 2007, we entered into a \$25.7 million term securitized credit facility (the “Term Facility” and, together with the Revolving Facility, the “Facilities”), which was fully drawn at closing. In December 2007, we consolidated the Facilities by using a draw under the Revolving Facility to repay the Term Facility. In response to the market wide decline in financial asset prices, which negatively affected the value of our portfolio, we terminated the revolving period of the Revolving Facility effective January 14, 2009 and commenced a two-year amortization period during which all principal proceeds from the collateral was used to repay outstanding borrowings. A significant percentage of our total assets had been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds were borrowed from or through certain lenders and interest was payable monthly at the greater of the commercial paper rate and our lender’s prime rate plus 4.00% plus a default rate of 2.00% or, if the commercial paper market was unavailable, the greater of the prevailing LIBOR rates and our lender’s prime rate plus 6.00% plus a default rate of 3.00%.

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

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

On July 30, 2010, we used the net proceeds from (i) the stock purchase transaction and (ii) a portion of the funds available to us under the \$45.0 million senior secured revolving credit facility (the “Credit Facility”) with Madison Capital Funding LLC, in each case, 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.

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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%.

As of August 31, 2016 and February 29, 2016, 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 \$2.7 million related to the Credit Facility have been capitalized and are being amortized over the term of the facility. For the three months ended August 31, 2016 and August 31, 2015, we recorded \$0.1 million and \$0.2 million of interest expense, respectively. For the six months ended August 31, 2016 and August 31, 2015, we recorded \$0.2 million and \$0.4 million of interest expense, respectively. For the three months ended August 31, 2016 and August 31, 2015, we recorded \$0.02 million and \$0.02 million of amortization of deferred financing costs related to the Credit Facility and Revolving Facility, respectively. For the six months ended August 31, 2016 and August 31, 2015, we recorded \$0.04 million and \$0.04 million of amortization of deferred financing costs related to the Credit Facility and Revolving Facility, respectively. During the three and six months ended August 31, 2016, there were no outstanding borrowings under the Credit Facility. The interest rates during the three and six months ended August 31, 2015 on the outstanding borrowings under the Credit Facility were 6.00%. During the three and six months ended August 31, 2015, the average dollar amount of outstanding borrowings under the Credit Facility was \$6.8 million and \$8.2 million, respectively.

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

Our borrowing base under the Credit Facility was \$24.0 million subject to the Credit Facility cap of \$45.0 million at August 31, 2016. 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 August 31, 2016 borrowing base relies upon the valuations set forth in the Quarterly Report on Form 10-Q for the period ended May 31, 2016, as filed with the SEC on July 13, 2016. The valuations presented in this Quarterly Report on Form 10-Q will not be incorporated into the borrowing base until after this Quarterly Report on Form 10-Q is filed with the SEC.

### **SBA Debentures**

SBIC LP is able to borrow funds from the SBA against regulatory capital (which approximates equity capital) that is paid in and is subject to customary regulatory requirements including but not limited to an examination by the SBA. As of August 31, 2016, we have funded SBIC LP with \$75.0 million of equity capital, and have \$103.7 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.

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.

As of August 31, 2016 and February 29, 2016, there was \$103.7 million and \$103.7 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. \$3.9 million of financing costs related to the SBA debentures have been capitalized and are being amortized over the term of the commitment and drawdown.

For the three months ended August 31, 2016 and August 31, 2015, we recorded \$0.8 million and \$0.6 million of interest expense related to the SBA debentures, respectively. For the three months ended August 31, 2016 and August 31, 2015, we recorded \$0.1 million and \$0.1 million of amortization of deferred financing costs related to the SBA debentures, respectively. The weighted average interest rate during the three months ended August 31, 2016 and August 31, 2015 on the outstanding borrowings of the SBA debentures was 3.19% and 3.25%, respectively.

For the six months ended August 31, 2016 and August 31, 2015, we recorded \$1.7 million and \$1.2 million of interest expense related to the SBA debentures, respectively. For the six months ended August 31, 2016 and August 31, 2015, we recorded \$0.3 million and \$0.2 million of amortization of deferred financing costs related to the SBA debentures, respectively. The weighted average interest rate during the six months ended August 31,

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2016 and August 31, 2015 on the outstanding borrowings of the SBA debentures was 3.14% and 3.20%, respectively. During the three and six months ended August 31, 2016, the average dollar amount of SBA debentures outstanding was \$103.7 million. During the three and six months ended August 31, 2015, the average dollar amount of SBA debentures outstanding was \$79.0 million.

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 will expire. 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 “Notes”). The 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.

On May 17, 2013, the Company closed an additional \$6.3 million in aggregate principal amount of the Notes, pursuant to the full exercise of the underwriters’ option to purchase additional Notes. 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 Notes through an At-the-Market (“ATM”) offering. As of August 31, 2016, the Company sold 539,725 bonds with a principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (net of transaction costs).

As of August 31, 2016, the carrying amount and fair value of the Notes was \$61.8 million and \$63.3 million, respectively. The fair value of the Notes, which are publicly traded, is based upon closing market quotes as of the measurement date and would be classified as a Level 1 liability within the fair value hierarchy. As of August 31, 2016, \$2.7 million of financing costs related to the Notes (including underwriting commissions and net of issuance premiums) have been capitalized and are being amortized over the term of the Notes. For the three and six months ended August 31, 2016, we recorded \$1.2 million and \$2.3 million, respectively, of interest expense and \$0.1 million and \$0.2 million, respectively, of amortization of deferred financing costs related to the Notes. For the three and six months ended August 31, 2015, we recorded \$1.1 million and \$2.0 million, respectively, of interest expense and \$0.1 million and \$0.2 million, respectively, of amortization of deferred financing costs related to the Notes. During the three and six months ended August 31, 2016, the average dollar amount of Notes outstanding was \$61.8 million. During the three and six months ended August 31, 2015, the average dollar amount of Notes outstanding was \$54.4 million and \$51.3 million, respectively.

[Table of Contents](#)**Note 7. Commitments and contingencies****Contractual obligations**

The following table shows our payment obligations for repayment of debt and other contractual obligations at August 31, 2016:

	Total	Payment Due by Period			
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
Long-Term Debt Obligations	\$ 165,453	\$ —	\$ —	\$ 61,793	\$ 103,660

**Off-balance sheet arrangements**

The Company's off-balance sheet arrangements consisted of \$8.0 million and \$2.0 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of August 31, 2016 and February 29, 2016, 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 August 31, 2016 and February 29, 2016 is shown in the table below (dollars in thousands):

	As of	
	August 31, 2016	February 29, 2016
Avionte Holdings, LLC	\$ 1,000	\$ 1,000
BoardEffect, Inc.	7,000	—
Identity Automation Systems	—	1,000
Total	\$ 8,000	\$ 2,000

**Note 8. Directors Fees**

The independent directors receive an annual fee of \$40,000. They also receive \$2,500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and receive \$1,000 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each committee meeting. In addition, the chairman of the Audit Committee receives an annual fee of \$5,000 and the chairman of each other committee receives an annual fee of \$2,000 for their additional services in these capacities. In addition, we have purchased directors' and officers' liability insurance on behalf of our directors and officers. Independent directors have the option to receive their directors' fees in the form of our common stock issued at a price per share equal to the greater of net asset value or the market price at the time of payment. No compensation is paid to directors who are "interested persons" of the Company (as such term is defined in the 1940 Act). For the three months ended August 31, 2016 and August 31, 2015, we incurred \$0.06 million and \$0.05 million for directors' fees and expenses, respectively. For the six months ended August 31, 2016 and August 31, 2015, we incurred \$0.1 million and \$0.1 million for directors' fees and expenses, respectively. As of August 31, 2016 and February 29, 2016, \$0.05 million and \$0.03 million in directors' fees and expenses were accrued and unpaid, respectively. As of August 31, 2016, we had not issued any common stock to our directors as compensation for their services.



**Note 9. Stockholders' Equity**

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

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

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

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

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

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

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

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

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

On October 30, 2013, the Company declared a dividend of \$2.65 per share payable on December 27, 2013. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$2.5 million or \$0.53 per share. Based on shareholder elections, the dividend consisted of approximately \$2.5 million in cash and 649,500 shares of common stock.

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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 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 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 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 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 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 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 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 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 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 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

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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. As of August 31, 2016, the Company purchased 138,494 shares of common stock, at the average price of \$16.16 for approximately \$2.2 million pursuant to this repurchase plan. 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.

### **Note 10. Earnings Per Share**

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

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the three and six months ended August 31, 2016 and August 31, 2015 (dollars in thousands except share and per share amounts):

<b>Basic and diluted</b>	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>August 31, 2016</b>	<b>August 31, 2015</b>	<b>August 31, 2016</b>	<b>August 31, 2015</b>
Net increase in net assets from operations	\$ 5,272	\$ 1,243	\$ 8,559	\$ 8,628
Weighted average common shares outstanding	5,740,816	5,583,795	5,739,157	5,492,491
Weighted average earnings per common share-basic and diluted	\$ 0.92	\$ 0.22	\$ 1.49	\$ 1.57

### **Note 11. Dividend**

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.

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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.

The following table summarizes dividends declared during the six months ended August 31, 2016 (dollars in thousands except per share amounts):

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
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>\$ 1.04</u>	<u>\$ 5,963</u>

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

The following table summarizes dividends declared during the six months ended August 31, 2015 (dollars in thousands except per share amounts):

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
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>\$ 1.60</u>	<u>\$ 8,739</u>

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

## Note 12. Financial Highlights

The following is a schedule of financial highlights for the six months ended August 31, 2016 and August 31, 2015:

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
<b>Per share data:</b>		
Net asset value at beginning of period	\$ 22.06	\$ 22.70
Net investment income(1)	0.90	0.99
Net realized and unrealized gains and losses on investments	0.59	0.58
Net increase in net assets from operations	1.49	1.57
Distributions declared from net investment income	(1.04)	(1.60)
Total distributions to stockholders	(1.04)	(1.60)

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	August 31, 2016	August 31, 2015
Dilution(4)	\$ (0.12)	\$ (0.25)
Net asset value at end of period	\$ 22.39	\$ 22.42
Net assets at end of period	\$128,563,622	\$125,258,420
Shares outstanding at end of period	5,740,810	5,586,254
Per share market value at end of period	\$ 17.93	\$ 16.32
Total return based on market value(2)	34.41%	13.63%
Total return based on net asset value(3)	8.19%	8.38%
<b>Ratio/Supplemental data:</b>		
Ratio of net investment income to average net assets(8)	9.53%	10.19%
Ratio of operating expenses to average net assets(7)	7.09%	6.50%
Ratio of incentive management fees to average net assets(6)	1.52%	1.43%
Ratio of interest and debt financing expenses to average net assets(7)	7.40%	6.65%
Ratio of total expenses to average net assets(8)	16.01%	14.58%
Portfolio turnover rate(5)	20.98%	13.96%

- (1) Net investment income per share is calculated using the weighted average shares outstanding during the period.
- (2) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's DRIP. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.
- (3) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's DRIP. Total investment return does not reflect brokerage commissions.
- (4) 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 11, Dividend.
- (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) Ratios are not annualized.
- (7) Ratios are annualized.
- (8) Ratios are annualized. Incentive management fees included within the ratio are not annualized.

### **Note 13. Subsequent Events**

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

On October 5, 2016, the Company declared a dividend of \$0.44 per share payable for the fiscal quarter ended August 31, 2016 to all stockholders of record at the close of business on October 31, 2016, with a payment date on November 9, 2016. Shareholders will have the option to receive payment of the dividend in cash, or receive shares of common stock pursuant to the Company's DRIP.

On October 5, 2016, the Company's 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.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Saratoga Investment Corp.

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 29, 2016 and February 28, 2015, and the related consolidated statements of operations, changes in net assets, and cash flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the entity’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of February 29, 2016, by correspondence with the custodian, debt agents and lenders. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Saratoga Investment Corp. at February 29, 2016 and February 28, 2015, and the consolidated results of its operations, changes in its net assets and its cash flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young

New York, New York  
May 17, 2016

**Saratoga Investment Corp.**  
**Consolidated Statements of Assets and Liabilities**

	As of	
	February 29, 2016	February 28, 2015
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$268,145,090 and \$222,505,383, respectively)	\$ 271,168,186	\$ 223,506,589
Control investments (cost of \$13,030,751 and \$15,953,001, respectively)	12,827,980	17,031,146
Total investments at fair value (amortized cost of \$281,175,841 and \$238,458,384, respectively)	283,996,166	240,537,735
Cash and cash equivalents	2,440,277	1,888,158
Cash and cash equivalents, reserve accounts	4,594,506	18,175,214
Interest receivable, (net of reserve of \$728,519 and \$309,498, respectively)	3,195,919	2,469,398
Management fee receivable	170,016	171,913
Other assets	350,368	317,637
Receivable from unsettled trades	300,000	—
Total assets	<u>\$ 295,047,252</u>	<u>\$ 263,560,055</u>
<b>LIABILITIES</b>		
Revolving credit facility	\$ —	\$ 9,600,000
Deferred debt financing costs, revolving credit facility	(515,906)	(594,845)
SBA debentures payable	103,660,000	79,000,000
Deferred debt financing costs, SBA debentures payable	(2,493,303)	(2,340,894)
Notes payable	61,793,125	48,300,000
Deferred debt financing costs, notes payable	(1,694,586)	(1,847,564)
Dividend payable	875,599	402,200
Base management and incentive fees payable	5,593,956	5,835,941
Accounts payable and accrued expenses	908,330	835,189
Interest and debt fees payable	1,552,069	1,405,466
Due to manager	218,093	365,820
Total liabilities	<u>\$ 169,897,377</u>	<u>\$ 140,961,313</u>
Commitments and contingencies (See Note 8)		
<b>NET ASSETS</b>		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,672,227 and 5,401,899 common shares issued and outstanding, respectively		
	\$ 5,672	\$ 5,402
Capital in excess of par value	188,714,329	184,877,680
Distribution in excess of net investment income	(26,217,902)	(23,905,603)
Accumulated net realized loss from investments and derivatives	(40,172,549)	(40,458,088)
Accumulated net unrealized appreciation on investments and derivatives	2,820,325	2,079,351
Total net assets	125,149,875	122,598,742
Total liabilities and net assets	<u>\$ 295,047,252</u>	<u>\$ 263,560,055</u>
<b>NET ASSET VALUE PER SHARE</b>	<u>\$ 22.06</u>	<u>\$ 22.70</u>

See accompanying notes to consolidated financial statements.

**Saratoga Investment Corp.**  
**Consolidated Statements of Operations**

	<u>For the year ended February 29, 2016</u>	<u>For the year ended February 28, 2015</u>	<u>For the year ended February 28, 2014</u>
<b>INVESTMENT INCOME</b>			
Interest from investments			
Non-control/Non-affiliate investments	\$ 23,165,823	\$ 20,790,324	\$ 15,832,083
Payment-in-kind interest income from Non-control/Non-affiliate investments	1,039,398	1,186,657	936,208
Control investments	<u>2,665,648</u>	<u>2,707,230</u>	<u>3,410,868</u>
Total interest income	26,870,869	24,684,211	20,179,159
Interest from cash and cash equivalents	5,420	3,801	7,932
Management fee income	1,494,779	1,520,205	1,775,141
Other income	<u>1,679,602</u>	<u>1,167,144</u>	<u>931,513</u>
Total investment income	<u>30,050,670</u>	<u>27,375,361</u>	<u>22,893,745</u>
<b>EXPENSES</b>			
Interest and debt financing expenses	8,456,467	7,375,022	6,083,891
Base management fees	4,528,589	4,156,955	3,326,879
Professional fees	1,336,214	1,301,713	1,211,836
Administrator expenses	1,175,000	1,000,000	1,000,000
Incentive management fees	2,232,188	2,547,773	938,694
Insurance	330,867	337,335	442,977
Directors fees and expenses	204,000	210,761	204,607
General & administrative	995,205	478,299	789,208
Excise tax expense	113,808	293,653	—
Other expense	—	—	21,207
Total expenses	<u>19,372,338</u>	<u>17,701,511</u>	<u>14,019,299</u>
<b>NET INVESTMENT INCOME</b>	<u>10,678,332</u>	<u>9,673,850</u>	<u>8,874,446</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>			
Net realized gain from investments	226,252	3,276,450	1,270,765
Net unrealized appreciation (depreciation) on investments	<u>740,974</u>	<u>(1,942,936)</u>	<u>(1,648,046)</u>
Net gain (loss) on investments	967,226	1,333,514	(377,281)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$ 11,645,558</u>	<u>\$ 11,007,364</u>	<u>\$ 8,497,165</u>
<b>WEIGHTED AVERAGE—BASIC AND DILUTED EARNINGS PER COMMON SHARE</b>			
	\$ 2.09	\$ 2.04	\$ 1.73
<b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING—BASIC AND DILUTED</b>			
	5,582,453	5,385,049	4,920,517

See accompanying notes to consolidated financial statements.



**Saratoga Investment Corp.**

**Consolidated Schedule of Investments**

**February 29, 2016**

<b>Company</b>	<b>Industry</b>	<b>Investment Interest Rate / Maturity</b>	<b>Principal/ Number of Shares</b>	<b>Cost</b>	<b>Fair Value(c)</b>	<b>% of Net Assets</b>
<b>Non-control/Non-affiliated investments—216.6%(b)</b>						
National Truck Protection Co., Inc.(d),(g)	Automotive Aftermarket	Common Stock	1,116	\$ 1,000,000	\$ 1,695,303	1.4%
National Truck Protection Co., Inc.(d)	Automotive Aftermarket	First Lien Term Loan 15.50% Cash, 9/13/2018	\$ 6,776,770	6,776,770	6,776,770	5.4%
Take 5 Oil Change, L.L.C.(d),(g)	Automotive Aftermarket	Common Stock	7,128	480,535	6,235,209	5.0%
		<b>Total Automotive Aftermarket</b>		<b>8,257,305</b>	<b>14,707,282</b>	<b>11.8%</b>
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting A-1	2,535	220,900	2,676,909	2.1%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting B-1	1,600	139,424	1,689,568	1.3%
Polar Holding Company, Ltd.(a),(i)	Building Products	First Lien Term Loan 10.00% Cash, 9/30/2016	\$ 2,000,000	2,000,000	2,000,000	1.6%
		<b>Total Building Products</b>		<b>2,360,324</b>	<b>6,366,477</b>	<b>5.0%</b>
BMC Software, Inc.(d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 5,671,667	5,633,920	4,520,318	3.6%
Courion Corporation	Business Services	Second Lien Term Loan 11.00% Cash, 6/1/2021	\$15,000,000	14,856,720	14,850,000	11.9%
Dispensing Dynamics International(d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$12,000,000	12,025,101	10,950,000	8.8%
Easy Ice, LLC(d)	Business Services	First Lien Term Loan 9.50% Cash, 1/15/2020	\$14,000,000	13,873,485	13,806,098	11.0%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 10.00% Cash, 1/23/2020	\$ 8,400,000	8,305,033	8,568,000	6.8%
Emily Street Enterprises, L.L.C.(g)	Business Services	Warrant Membership Interests	49,318	400,000	577,020	0.5%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	First Lien Term Loan 6.25% Cash, 10/8/2021	\$ 5,000,000	4,904,573	4,895,000	3.9%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	Second Lien Term Loan 10.50% Cash, 10/8/2022	\$ 3,000,000	2,912,784	2,910,000	2.3%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 8.00% Cash, 11/29/2017	\$ 5,259,171	5,224,422	5,259,171	4.2%
PCF Number 4, Inc.	Business Services	Second Lien Term Loan 13.50% (12.50% Cash/1.00% PIK), 8/28/2021	\$13,000,000	12,870,023	12,870,000	10.3%
Vector Controls Holding Co., LLC(d)	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 9,035,515	8,952,442	9,035,515	7.2%
Vector Controls Holding Co., LLC(d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	343	—	354,819	0.3%
		<b>Total Business Services</b>		<b>89,958,503</b>	<b>88,595,941</b>	<b>70.8%</b>
Advanced Air & Heat of Florida, LLC	Consumer Products	First Lien Term Loan 9.50% Cash, 7/17/2020	\$ 6,800,000	6,733,661	6,800,000	5.4%
Targus Holdings, Inc.(d),(g)	Consumer Products	Common Stock	210,456	1,791,242	—	0.0%
Targus Holdings, Inc.(d)	Consumer Products	Second Lien Term Loan A-2 15.00% Cash, 12/31/2019	\$ 210,456	210,456	210,456	0.2%

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Targus Holdings, Inc.(d)	Consumer Products	Second Lien Term Loan B 15.00% Cash, 12/31/2019	\$ 631,369	631,369	631,369	0.5%
		Total Consumer Products		9,366,728	7,641,825	6.1%
Expedited Travel L.L.C.(g)	Consumer Services	Common Stock	1,000,000	1,000,000	1,647,767	1.3%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 10.00% Cash, 10/10/2019	\$ 11,475,490	11,401,380	11,647,623	9.3%
My Alarm Center, LLC	Consumer Services	Second Lien Term Loan 12.00% Cash, 7/9/2019	\$ 7,500,000	7,500,000	7,450,500	6.0%
PrePaid Legal Services, Inc.(d)	Consumer Services	First Lien Term Loan 6.50% Cash, 7/1/2019	\$ 1,572,921	1,562,787	1,556,248	1.2%
PrePaid Legal Services, Inc.(d)	Consumer Services	Second Lien Term Loan 10.25% Cash, 7/1/2020	\$ 10,000,000	9,962,104	9,827,000	7.9%
Prime Security Services, LLC	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2022	\$ 12,000,000	11,829,030	10,980,000	8.8%
		Total Consumer Services		43,255,301	43,109,138	34.5%
M/C Acquisition Corp., L.L.C.(d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d)	Education	First Lien Term Loan 1.00% Cash, 3/31/2016	\$ 2,321,073	1,193,790	8,087	0.0%
Texas Teachers of Tomorrow, LLC(g),(h)	Education	Common Stock	750	750,000	785,475	0.6%
Texas Teachers of Tomorrow, LLC	Education	Second Lien Term Loan 10.75% Cash, 6/2/2021	\$ 10,000,000	9,902,816	9,900,000	7.9%
		Total Education		11,876,847	10,693,562	8.5%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 9.75% Cash, 7/16/2017	\$ 9,622,319	9,527,041	9,131,048	7.3%
		Total Food and Beverage		9,527,041	9,131,048	7.3%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00% (10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,404,747	5,339,820	5,404,747	4.3%
Roscoe Medical, Inc.(d),(g)	Healthcare Services	Common Stock	5,000	500,000	334,000	0.3%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,141,519	3,822,000	3.0%
Ohio Medical, LLC(g)	Healthcare Services	Common Stock	5,000	500,000	500,000	0.4%
Ohio Medical, LLC	Healthcare Services	Senior Subordinated Note 12.00% , 7/15/2021	\$ 7,300,000	7,228,452	7,227,000	5.8%
Smile Brands Group Inc.(d)	Healthcare Services	First Lien Term Loan 10.50% (9.00% Cash/1.50% PIK), 8/16/2019	\$ 4,420,900	4,362,266	3,216,647	2.6%
Zest Holdings, LLC(d)	Healthcare Services	First Lien Term Loan 5.25% Cash, 8/16/2020	\$ 4,207,821	4,142,093	4,130,692	3.3%
		Total Healthcare Services		26,214,150	24,635,086	19.7%
HMN Holdco, LLC	Media	First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 8,937,982	8,812,479	8,937,983	7.1%
HMN Holdco, LLC	Media	First Lien Term Loan 10.00% Cash, 5/16/2019	\$ 1,600,000	1,572,821	1,600,000	1.3%
HMN Holdco, LLC	Media	Class A Series	4,264	61,647	314,683	0.3%
HMN Holdco, LLC	Media	Class A Warrant	30,320	438,353	1,889,542	1.5%
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,872	—	3,309,121	2.6%

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests	8,139	—	523,012	0.4%
		Total Media		10,885,300	16,574,341	13.2%
Elyria Foundry Company, L.L.C.	Metals	Common Stock	35,000	9,217,564	2,026,150	1.6%
Elyria Foundry Company, L.L.C.	Metals	Revolver 10.00% Cash, 3/31/2017	\$ 8,500,000	8,500,000	8,500,000	6.8%
		Total Metals		17,717,564	10,526,150	8.4%
Avionte Holdings, LLC(g)	Software as a Service	Common Stock	100,000	100,000	169,850	0.1%
Avionte Holdings, LLC	Software as a Service	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 2,406,342	2,376,045	2,382,844	1.9%
Avionte Holdings, LLC(j),(k)	Software as a Service	Delayed Draw Term Loan A 9.75% Cash, 1/8/2019	\$ —	—	—	0.0%
Censis Technologies, Inc.	Software as a Service	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 11,550,000	11,377,810	11,459,418	9.2%
Censis Technologies, Inc.(g),(h)	Software as a Service	Limited Partner Interests	999	999,000	810,642	0.7%
Finalsite Holdings, Inc.	Software as a Service	Second Lien Term Loan 10.25% Cash, 5/21/2020	\$ 7,500,000	7,440,729	7,500,000	6.0%
Identity Automation Systems(g)	Software as a Service	Common Stock Class A Units	232,616	232,616	427,409	0.3%
Identity Automation Systems	Software as a Service	First Lien Term Loan 10.25% Cash, 12/18/2020	\$ 6,900,000	6,842,573	6,900,000	5.5%
Identity Automation Systems(j),(k)	Software as a Service	Delayed Draw Term Loan 10.25% Cash, 12/18/2020	\$ —	—	—	0.0%
Mercury Network, LLC	Software as a Service	First Lien Term Loan 9.75% Cash, 4/24/2020	\$ 9,025,000	8,944,211	9,025,000	7.2%
Mercury Network, LLC(g)	Software as a Service	Common Stock	413,043	413,043	512,173	0.4%
		Total Software as a Service		38,726,027	39,187,336	31.3%
<b>Sub Total Non-control/Non-affiliated investments</b>				268,145,090	271,168,186	216.6%
<b>Control investments—10.3%(b)</b>						
Saratoga Investment Corp. CLO 2013-1, Ltd.(a),(d),(e),(f)	Structured Finance Securities	Other/Structured Finance Securities 16.14%, 10/17/2023	\$ 30,000,000	13,030,751	12,827,980	10.3%
<b>Sub Total Control investments</b>				13,030,751	12,827,980	10.3%
<b>TOTAL INVESTMENTS—226.9%(b)</b>				<b>\$ 281,175,841</b>	<b>\$ 283,996,166</b>	<b>226.9%</b>
			<b>Principal/ Number of Shares</b>	<b>Cost</b>	<b>Fair Value(c)</b>	<b>% of Net Assets</b>
<b>Cash and cash equivalents and cash and cash equivalents, reserve accounts—5.6%</b>						
U.S. Bank Money Market(l)			\$ 7,034,783	\$ 7,034,783	\$ 7,034,783	5.6%
<b>Total cash and cash equivalents and cash and cash equivalents, reserve accounts</b>			<b>\$ 7,034,783</b>	<b>\$ 7,034,783</b>	<b>\$ 7,034,783</b>	<b>5.6%</b>

(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 5.2% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.

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- (b) Percentages are based on net assets of \$125,149,875 as of February 29, 2016.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 7 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 16.14% 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, we “Control” this portfolio company because we own more than 25% of the portfolio company’s outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

<u>Company</u>	<u>Purchases</u>	<u>Redemptions</u>	<u>Sales (Cost)</u>	<u>Interest Income</u>	<u>Management Fee Income</u>	<u>Net Realized Gains/(Losses)</u>	<u>Net Unrealized Depreciation</u>
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$2,665,648	\$ 1,494,779	\$ —	\$ (202,771)

- (g) Non-income producing at February 29, 2016.
- (h) Includes securities issued by an affiliate of the company.
- (i) Non-U.S. company. The principal place of business for Polar Holding Company, Ltd. is Canada.
- (j) The investment has an unfunded commitment as of February 29, 2016 (see Note 8).
- (k) The entire commitment was unfunded at February 29, 2016. As such, no interest is being earned on this investment.
- (l) 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 29, 2016.

**Saratoga Investment Corp.**  
**Consolidated Schedule of Investments**  
**February 28, 2015**

Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
<b>Non-control/Non-affiliated investments—182.3%(b)</b>						
National Truck Protection Co., Inc.(d),(g)	Automotive Aftermarket	Common Stock	1,116	\$ 1,000,000	\$ 1,769,432	1.4%
National Truck Protection Co., Inc.(d)	Automotive Aftermarket	First Lien Term Loan 15.50% Cash, 9/13/2018	\$ 7,737,848	7,737,848	7,737,848	6.3%
Take 5 Oil Change, L.L.C.(d),(g)	Automotive Aftermarket	Common Stock	7,128	480,535	1,472,502	1.2%
		Total Automotive Aftermarket		<u>9,218,383</u>	<u>10,979,782</u>	<u>8.9%</u>
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting A-1	2,535	220,900	1,493,470	1.2%
Legacy Cabinets Holdings(d),(g)	Building Products	Common Stock Voting B-1	1,600	139,424	942,624	0.8%
Polar Holding Company, Ltd.(a),(i)	Building Products	First Lien Term Loan 10.00% Cash, 8/13/2016	\$ 1,000,000	1,000,000	1,000,000	0.8%
		Total Building Products		<u>1,360,324</u>	<u>3,436,094</u>	<u>2.8%</u>
BMC Software, Inc.(d)	Business Services	First Lien Term Loan 5.00% Cash, 9/10/2020	\$ 5,731,667	5,686,622	5,478,327	4.5%
Dispensing Dynamics International(d)	Business Services	Senior Secured Note 12.50% Cash, 1/1/2018	\$ 7,000,000	6,910,112	7,350,000	6.0%
Easy Ice, LLC(d)	Business Services	First Lien Term Loan 9.50% Cash, 1/15/2020	\$12,000,000	11,872,639	12,000,000	9.6%
Emily Street Enterprises, L.L.C.	Business Services	Senior Secured Note 10.00% Cash, 1/23/2020	\$ 8,400,000	8,260,787	8,400,000	6.9%
Emily Street Enterprises, L.L.C.(g)	Business Services	Warrant Membership Interests	49,318	400,000	391,584	0.3%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	First Lien Term Loan 5.50% Cash, 6/28/2019	\$ 1,955,051	1,941,417	1,925,725	1.6%
Help/Systems Holdings, Inc.(Help/Systems, LLC)(d)	Business Services	Second Lien Term Loan 9.50% Cash, 6/28/2020	\$ 2,000,000	1,975,767	1,965,000	1.6%
Knowland Technology Holdings, L.L.C.	Business Services	First Lien Term Loan 11.00% Cash, 11/29/2017	\$ 5,259,171	5,205,142	5,259,171	4.3%
Knowland Technology Holdings, L.L.C.(j),(k),(l)	Business Services	Delayed Draw Term Loan 11.00% Cash, 11/29/2017	\$ —	—	—	0.0%
Vector Controls Holding Co., LLC(d)	Business Services	First Lien Term Loan, 14.00% (12.00% Cash/2.00% PIK), 3/6/2018	\$ 9,436,991	9,312,095	9,295,437	7.6%
Vector Controls Holding Co., LLC(d),(g)	Business Services	Warrants to Purchase Limited Liability Company Interests	101	—	62,341	0.1%
		Total Business Services		<u>51,564,581</u>	<u>52,127,585</u>	<u>42.5%</u>
Advanced Air & Heat of Florida, LLC	Consumer Products	First Lien Term Loan 10.00% Cash, 1/31/2019	\$ 5,955,441	5,881,694	5,955,441	5.0%
Targus Group International, Inc.(d)	Consumer Products	First Lien Term Loan, 12.00% (11.00% Cash/1.00 PIK), 5/24/2016	\$ 3,569,127	3,537,732	3,283,597	2.7%
Targus Holdings, Inc.(d),(g)	Consumer Products	Common Stock	62,413	566,765	—	0.0%
Targus Holdings, Inc.(d),(g)	Consumer Products	Unsecured Note 10.00% PIK, 6/14/2019	\$ 2,054,158	2,054,158	—	0.0%

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
Targus Holdings, Inc.(d),(g)	Consumer Products	Unsecured Note 16.00% PIK, 10/26/2018	\$ 429,797	425,227	—	0.0%
		Total Consumer Products		12,465,576	9,239,038	7.7%
CFF Acquisition L.L.C.(d)	Consumer Services	First Lien Term Loan 7.50% Cash, 7/31/2015	\$ 716,179	714,270	716,179	0.6%
Expedited Travel L.L.C.(g)	Consumer Services	Common Stock	1,000,000	1,000,000	1,069,157	0.9%
Expedited Travel L.L.C.	Consumer Services	First Lien Term Loan 10.00% Cash, 10/10/2019	\$ 13,750,000	13,609,579	13,750,000	11.2%
PrePaid Legal Services, Inc.(d)	Consumer Services	First Lien Term Loan 6.25% Cash, 7/1/2019	\$ 3,709,677	3,680,863	3,652,919	3.0%
PrePaid Legal Services, Inc.(d)	Consumer Services	Second Lien Term Loan 9.75% Cash, 7/1/2020	\$ 5,000,000	4,937,212	4,981,000	4.1%
		Total Consumer Services		23,941,924	24,169,255	22.3%
M/C Acquisition Corp., L.L.C.(d),(g)	Education	Class A Common Stock	544,761	30,241	—	0.0%
M/C Acquisition Corp., L.L.C.(d)	Education	First Lien Term Loan 1.00% Cash, 3/31/2015	\$ 2,362,978	1,235,695	100,951	0.1%
		Total Education		1,265,936	100,951	0.1%
Group Dekko, Inc.(d)	Electronics	Second Lien Term Loan 11.00% (10.00% Cash/1.00% PIK), 5/1/2016	\$ 6,950,048	6,950,048	6,667,181	5.4%
		Total Electronics		6,950,048	6,667,181	5.4%
TB Corp.(d)	Food and Beverage	First Lien Term Loan 5.76% Cash, 6/19/2018	\$ 5,050,436	5,038,131	5,037,810	4.0%
TB Corp.(d)	Food and Beverage	Unsecured Note 13.50% (12.00% Cash/1.50% PIK), 12/20/2018	\$ 2,546,121	2,512,732	2,546,121	2.1%
TM Restaurant Group L.L.C.	Food and Beverage	First Lien Term Loan 7.75% Cash, 7/16/2017	\$ 2,791,595	2,791,595	2,763,679	2.3%
		Total Food and Beverage		10,342,458	10,347,610	8.4%
Bristol Hospice, LLC	Healthcare Services	Senior Secured Note 11.00% (10.00% Cash/1.00% PIK), 11/29/2018	\$ 5,459,134	5,374,249	5,459,134	4.4%
Bristol Hospice, LLC(j),(l)	Healthcare Services	Delayed Draw Term Loan 11.00% (10.00% Cash/1.00% PIK), 11/29/2018	\$ —	—	—	0.0%
Roscoe Medical, Inc.(d),(g)	Healthcare Services	Common Stock	5,000	500,000	294,500	0.2%
Roscoe Medical, Inc.	Healthcare Services	Second Lien Term Loan 11.25% Cash, 9/26/2019	\$ 4,200,000	4,129,704	3,990,000	3.3%
Smile Brands Group Inc.(d)	Healthcare Services	First Lien Term Loan 7.50% Cash, 8/16/2019	\$ 4,443,750	4,373,369	4,159,350	3.4%
Surgical Specialties Corporation (US), Inc.(d)	Healthcare Services	First Lien Term Loan 7.25% Cash, 8/22/2018	\$ 2,312,500	2,295,234	2,277,813	1.9%
Zest Holdings, LLC(d)	Healthcare Services	First Lien Term Loan 5.25% Cash, 8/16/2020	\$ 4,443,919	4,361,438	4,460,806	3.6%
		Total Healthcare Services		21,033,994	20,641,603	16.8%
HMN Holdco, LLC	Media	First Lien Term Loan 14.00% (12.00% Cash/2.00% PIK), 5/16/2019	\$ 9,368,327	9,206,438	9,579,115	7.9%
HMN Holdco, LLC	Media	First Lien Term Loan 12.00% Cash, 5/16/2020	\$ 1,600,000	1,569,149	1,576,000	1.3%
HMN Holdco, LLC(j),(k)	Media	Deferred Draw Term Loan 12.00% Cash, 5/16/2020	\$ —	—	(36,000)	0.0%

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
HMN Holdco, LLC(g)	Media	Class A Series	4,264	61,647	223,604	0.2%
HMN Holdco, LLC(g)	Media	Class A Warrant	30,320	438,353	1,247,365	1.0%
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests (Common)	57,872	—	2,085,128	1.7%
HMN Holdco, LLC(g)	Media	Warrants to Purchase Limited Liability Company Interests	8,139	—	350,464	0.3%
		<b>Total Media</b>		<b>11,275,587</b>	<b>15,025,676</b>	<b>12.4%</b>
Elyria Foundry Company, L.L.C.(d),(g)	Metals	Common Stock	35,000	9,217,563	6,762,000	5.5%
Elyria Foundry Company, L.L.C.(d)	Metals	Revolver 9.00% Cash, 12/31/2020	\$ 8,500,000	8,500,000	8,500,000	6.8%
		<b>Total Metals</b>		<b>17,717,563</b>	<b>15,262,000</b>	<b>12.3%</b>
Network Communications, Inc.(d),(g)	Publishing	Common Stock	380,572	—	300,652	0.2%
Network Communications, Inc.(d)	Publishing	Unsecured Notes 8.60% PIK, 1/14/2020	\$ 2,732,976	2,374,260	1,684,118	1.4%
		<b>Total Publishing</b>		<b>2,374,260</b>	<b>1,984,770</b>	<b>1.6%</b>
Avionte Holdings, LLC(g)	Software as a Service	Common Stock	100,000	100,000	163,000	0.1%
Avionte Holdings, LLC	Software as a Service	First Lien Term Loan 9.75% Cash, 1/8/2019	\$ 3,000,000	2,951,759	3,000,000	2.4%
Avionte Holdings, LLC(j),(l)	Software as a Service	Delayed Draw Term Loan A 9.75% Cash, 1/8/2019	\$ —	—	—	0.0%
Censis Technologies, Inc.	Software as a Service	First Lien Term Loan B 11.00% Cash, 7/24/2019	\$ 11,850,000	11,634,939	11,850,000	9.7%
Censis Technologies, Inc.(g),(h)	Software as a Service	Limited Partner Interests	999	999,000	981,627	0.8%
Community Investors, Inc.(g)	Software as a Service	Common Stock	1,282	1,282	1,769	0.0%
Community Investors, Inc.	Software as a Service	First Lien, Last Out Term Loan 11.78% Cash, 9/30/2019	\$ 12,000,000	12,000,000	12,000,000	9.7%
Community Investors, Inc.	Software as a Service	First Lien Term Loan B 12.25% Cash, 12/31/2020	\$ 2,500,000	2,500,000	2,500,000	2.0%
Community Investors, Inc.(g)	Software as a Service	Preferred Stock 10%	63,463	149,138	87,579	0.1%
Community Investors, Inc.	Software as a Service	Preferred Stock - A2 10%	38,641	100,853	53,325	0.0%
Community Investors, Inc.(g)	Software as a Service	Preferred Stock - A Shares 10%	135,584	135,584	187,106	0.2%
Finalsite Holdings, Inc.	Software as a Service	Second Lien Term Loan 10.25% Cash, 11/21/2019	\$ 7,500,000	7,429,305	7,500,000	6.1%
Identity Automation Systems(g)	Software as a Service	Common Stock Class A Units	232,616	232,616	225,638	0.2%
Identity Automation Systems	Software as a Service	First Lien Term Loan 10.25% Cash, 8/25/2019	\$ 4,475,000	4,433,897	4,475,000	3.7%
Pen-Link, Ltd.(d)	Software as a Service	Second Lien Term Loan 12.50% Cash, 5/26/2019	\$ 10,500,000	10,326,376	10,500,000	8.6%
		<b>Total Software as a Service</b>		<b>52,994,749</b>	<b>53,525,044</b>	<b>43.6%</b>

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Company	Industry	Investment Interest Rate / Maturity	Principal/ Number of Shares	Cost	Fair Value(c)	% of Net Assets
<b>Sub Total Non-control/Non-affiliated investments</b>				<u>222,505,383</u>	<u>223,506,589</u>	<u>182.3%</u>
<b>Control investments—13.9%(b)</b>						
Saratoga Investment Corp. CLO 2013-1, Ltd.(a),(d),(e), (f)	Structured Finance Securities	Other/Structured Finance Securities 14.32%, 10/17/2023	\$30,000,000	15,953,001	17,031,146	13.9%
<b>Sub Total Control investments</b>				<u>15,953,001</u>	<u>17,031,146</u>	<u>13.9%</u>
<b>TOTAL INVESTMENTS—196.2%(b)</b>				<u>\$238,458,384</u>	<u>\$240,537,735</u>	<u>196.2%</u>

	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
<b>Cash and cash equivalents and cash and cash equivalents, reserve accounts—16.4%</b>				
U.S. Bank Money Market(m)	\$20,063,372	\$20,063,372	\$ 20,063,372	16.4%
<b>Total cash and cash equivalents and cash and cash equivalents, reserve accounts</b>	<u>\$20,063,372</u>	<u>\$20,063,372</u>	<u>\$ 20,063,372</u>	<u>16.4%</u>

- (a) Represents a non-qualifying investment as defined under Section 55 (a) of the Investment Company Act of 1940, as amended. Non-qualifying assets represent 7.5% of the Company's portfolio at fair value. As a BDC, the Company can only invest 30% of its portfolio in non-qualifying assets.
- (b) Percentages are based on net assets of \$122,598,742, as of February 28, 2015.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is approved in good faith by our board of directors. (see Note 3 to the consolidated financial statements).
- (d) These securities are pledged as collateral under a senior secured revolving credit facility (see Note 7 to the consolidated financial statements).
- (e) This investment does not have a stated interest rate that is payable thereon. As a result, the 14.32% 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, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (Cost)	Interest Income	Management Fee Income	Net Realized Gains/ (Losses)	Net Unrealized Appreciation
Saratoga Investment Corp. CLO 2013-1, Ltd.	\$ —	\$ —	\$ —	\$2,707,230	\$ 1,520,205	\$ —	\$ 1,078,145

- (g) Non-income producing at February 28, 2015.
- (h) Includes securities issued by an affiliate of the company.
- (i) Non-U.S. company. The principal place of business for Polar Holding Company, Ltd. is Canada.
- (j) The investment has an unfunded commitment as of February 28, 2015 (See Note 8).
- (k) Includes an analysis of the value of any unfunded loan commitments.
- (l) The entire commitment was unfunded at February 28, 2015. As such, no interest is being earned on this investment.
- (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, 2015.



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

	<u>For the year ended February 29, 2016</u>	<u>For the year ended February 28, 2015</u>	<u>For the year ended February 28, 2014</u>
<b>INCREASE FROM OPERATIONS:</b>			
Net investment income	\$ 10,678,332	\$ 9,673,850	\$ 8,874,446
Net realized gain from investments	226,252	3,276,450	1,270,765
Net unrealized appreciation (depreciation) on investments	740,974	(1,942,936)	(1,648,046)
Net increase in net assets from operations	<u>11,645,558</u>	<u>11,007,364</u>	<u>8,497,165</u>
<b>DECREASE FROM SHAREHOLDER DISTRIBUTIONS:</b>			
Distributions declared	(13,045,149)	(2,156,740)	(12,534,807)
Net decrease in net assets from shareholder distributions	<u>(13,045,149)</u>	<u>(2,156,740)</u>	<u>(12,534,807)</u>
<b>CAPITAL SHARE TRANSACTIONS:</b>			
Stock dividend distribution	4,665,447	320,189	10,027,697
Repurchases of common stock	(356,792)	—	—
Offering costs	(357,931)	—	—
Net increase in net assets from capital share transactions	<u>3,950,724</u>	<u>320,189</u>	<u>10,027,697</u>
Total increase in net assets	2,551,133	9,170,813	5,990,055
Net assets at beginning of period	<u>122,598,742</u>	<u>113,427,929</u>	<u>107,437,874</u>
Net assets at end of period	<u>\$ 125,149,875</u>	<u>\$ 122,598,742</u>	<u>\$ 113,427,929</u>
Net asset value per common share	\$ 22.06	\$ 22.70	\$ 21.08
Common shares outstanding at end of period	5,672,227	5,401,899	5,379,616
Distribution in excess of net investment income	\$ (26,217,902)	\$ (23,905,603)	\$ (31,123,667)

See accompanying notes to consolidated financial statements.

**Saratoga Investment Corp.**  
**Consolidated Statements of Cash Flows**

	For the year ended February 29, 2016	For the year ended February 28, 2015	For the year ended February 28, 2014
<b>Operating activities</b>			
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 11,645,558	\$ 11,007,364	\$ 8,497,165
ADJUSTMENTS TO RECONCILE NET INCREASE IN NET ASSETS FROM OPERATIONS TO NET CASH USED BY OPERATING ACTIVITIES:			
Paid-in-kind interest income	(966,906)	(1,204,458)	(1,007,494)
Net accretion of discount on investments	(507,180)	(540,069)	(666,849)
Amortization of deferred debt financing costs	913,773	929,773	903,289
Net realized gain from investments	(226,252)	(3,276,450)	(1,270,765)
Net unrealized (appreciation) depreciation on investments	(740,974)	1,942,936	1,648,046
Proceeds from sale and redemption of investments	68,174,143	73,257,332	71,606,736
Purchase of investments	(109,191,262)	(104,872,326)	(121,073,990)
(Increase) decrease in operating assets:			
Cash and cash equivalents, reserve accounts	13,580,708	(14,882,101)	8,793,029
Interest receivable	(726,521)	102,455	317,505
Management fee receivable	1,897	(21,807)	65,747
Other assets	(128,370)	(34,930)	68,946
Receivable from unsettled trades	(300,000)	—	1,817,074
Increase (decrease) in operating liabilities:			
Management and incentive fees payable	(241,985)	482,890	(405,158)
Accounts payable and accrued expenses	73,141	10,621	389,530
Interest and debt fees payable	146,603	532,331	615,339
Due to manager	(147,727)	(32,334)	175,641
NET CASH USED BY OPERATING ACTIVITIES	<u>(18,641,354)</u>	<u>(36,598,773)</u>	<u>(29,526,209)</u>
<b>Financing activities</b>			
Borrowings on debt	35,260,000	52,300,000	18,000,000
Paydowns on debt	(20,200,000)	(13,700,000)	(28,300,000)
Issuance of notes	13,493,125	—	48,300,000
Debt financing cost	(1,096,556)	(1,972,618)	(2,821,806)
Repurchases of common stock	(356,792)	—	—
Payments of cash dividends	(7,906,304)	(1,434,349)	(2,507,112)
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>19,193,473</u>	<u>35,193,033</u>	<u>32,671,082</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	552,119	(1,405,740)	3,144,873
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,888,158	3,293,898	149,025
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,440,277</u>	<u>\$ 1,888,158</u>	<u>\$ 3,293,898</u>
Supplemental Information:			
Interest paid during the period	\$ 7,396,091	\$ 5,912,862	\$ 4,565,262
Supplemental non-cash information:			
Paid-in-kind interest income	\$ 966,906	\$ 1,204,458	\$ 1,007,494
Net accretion of discount on investments	\$ 507,180	\$ 540,069	\$ 666,849
Amortization of deferred debt financing costs	\$ 913,773	\$ 929,773	\$ 903,289
Stock dividend distribution	\$ 4,665,447	\$ 320,189	\$ 10,027,697

See accompanying notes to consolidated financial statements.

**SARATOGA INVESTMENT CORP.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**February 29, 2016**

**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 our investments.

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

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

On July 30, 2010, the Company changed its name from “GSC Investment Corp.” to “Saratoga Investment Corp.”.

The Company is externally managed and advised by the investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant to 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 Mercury, 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” or “go forth” letter inviting the Company to continue the application process to obtain a license to form and operate its second SBIC subsidiary. If approved, 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. Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and the Company has received no assurance or indication from the SBA that it will receive an SBIC license, or of the timeframe in which it would receive a license, should one be granted.

**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 subsidiary, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC). All intercompany accounts and transactions have been eliminated in consolidation. All references made to the “Company,” “we,” and “us” herein include Saratoga Investment Corp. and its consolidated subsidiary, except as stated otherwise.

The Company and SBIC LP are both considered to be investment companies for financial reporting purposes and have applied the guidance in Topic 946, “Financial Services—Investment Companies”. There have been no changes to the Company or SBIC LP’s status as investment companies during the year ended February 29, 2016.

**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.

**Correction of Immaterial Errors Related to Prior Period**

During the year ended February 28, 2015, the Company identified errors related to the accounting for the capital gains portion of the incentive fee for the years ended February 28, 2014, February 28, 2013 and February 29, 2012, as well as the cumulative impact of these errors as of February 28, 2014.

The Company assessed the materiality of these errors and concluded they were not material to any prior annual periods, but the cumulative impact of correcting them in the year ended February 28, 2015 would be quantitatively material to the results of operations of the Company for the year then ended February 28, 2015, if the entire adjustment was recorded in that period. Therefore, the consolidated financial statements as of and for the years ended February 28, 2014 have been corrected.

The effects of these prior period errors on the consolidated financial statements are as follows (in thousands, except per share amounts):

**Revised Consolidated Statement of Operations**

	<b>Year Ended February 28, 2014</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
<b>EXPENSES</b>			
Incentive management fees	\$ 692	\$ 247	\$ 939
Total expenses	13,772	247	14,019
<b>NET INVESTMENT INCOME</b>	9,121	(247)	8,874
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ 8,744	\$ (247)	\$ 8,497
<b>WEIGHTED AVERAGE—BASIC AND DILUTED EARNINGS PER COMMON SHARE</b>	<u>\$ 1.78</u>	<u>\$ (0.05)</u>	<u>\$ 1.73</u>

**Revised Consolidated Statement of Changes in Net Assets**

	<b>Year Ended February 28, 2014</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
<b>INCREASE FROM OPERATIONS</b>			
Net investment income	\$ 9,121	\$ (247)	\$ 8,874
Net increase in net assets from operations	8,744	(247)	8,497
Total increase in net assets	6,237	(247)	5,990
Net assets at beginning of period	108,687	(1,249)	107,438
Net assets at end of period	\$ 114,924	\$ (1,496)	\$ 113,428
Net asset value per common share	\$ 21.36	\$ (0.28)	\$ 21.08
Distribution in excess of net investment income	\$ (29,628)	\$ (1,496)	\$ (31,124)

**Revised Consolidated Statement of Cash Flows**

	<b>Year Ended February 28, 2014</b>		
	<b>As Previously Reported</b>	<b>Adjustments</b>	<b>As Revised</b>
<b>Operating activities</b>			
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 8,744	\$ (247)	\$ 8,497
Increase (decrease) in operating liabilities:			
Management and incentive fees payable	(652)	247	(405)

**Cash and Cash Equivalents**

Cash and cash equivalents include short-term, liquid investments in a money market fund. Cash and cash equivalents are carried at cost which approximates fair value. Per section 12(d)(1)(A) of the 1940 Act, the Company may not invest in another registered investment company such as, a money market fund if such investment would cause the Company to exceed any of the following limitations:

- we were to own more than 3.0% of the total outstanding voting stock of the money market fund;
- we were to hold securities in the money market fund having an aggregate value in excess of 5.0% of the value of our total assets; or
- we were to hold securities in money market funds and other registered investment companies and BDCs having an aggregate value in excess of 10.0% of the value of our total assets.

As of February 29, 2016, 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 our \$45.0 million senior secured revolving credit facility with Madison Capital Funding LLC. The Company is required to use these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the terms of the senior secured revolving credit facility.

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### **Investment Classification**

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

### **Investment Valuation**

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

Investments for which market quotations are readily available are fair valued at such market quotations obtained from independent third party pricing services and market makers subject to any decision by our board of directors to approve a fair value determination to reflect significant events affecting the value of these investments. We value investments for which market quotations are not readily available at fair value as approved, in good faith, by our board of directors based on input from our Manager, the audit committee of our board of directors and a third party independent valuation firm. Determinations of fair value may involve subjective judgments and estimates. The types of factors that may be considered in determining the fair value of our investments include the nature and realizable value of any collateral, the portfolio company’s ability to make payments, market yield trend analysis, the markets in which the portfolio company does business, comparison to publicly traded companies, discounted cash flow and other relevant factors.

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

- Each investment is initially valued by the responsible investment professionals of our Manager and preliminary valuation conclusions are documented and discussed with the senior management of our Manager; and
- An independent valuation firm engaged by our board of directors reviews approximately one quarter of these preliminary valuations each quarter so that the valuation of each investment for which market quotes are not readily available is reviewed by the independent valuation firm at least annually.

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

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

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Our investment in Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”) is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash 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. Our net asset value could be materially affected if the determinations regarding the fair value of our investments were materially higher or lower than the values that we ultimately realize upon the disposal of such investments.

### **Derivative Financial Instruments**

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

### **Investment Transactions and Income Recognition**

Purchases and sales of investments and the related realized gains or losses are recorded on a trade-date basis. Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis to the extent that such amounts are expected to be collected. The Company stops accruing interest on its investments when it is determined that interest is no longer collectible. Discounts and premiums on investments purchased are accreted/amortized over the life of the respective investment using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discounts and amortizations of premium on investments.

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

Interest income on our investment in Saratoga CLO is recorded using the effective interest method in accordance with the provisions of ASC Topic 325-40, *Investments-Other, Beneficial Interests in Securitized Financial Assets*, (“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.

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### **Other Income**

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

### **Paid-in-Kind Interest**

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

### **Deferred Debt Financing Costs**

Financing costs incurred in connection with our credit facility are deferred and amortized using the straight line method over the life of their respective facilities. Financing costs incurred in connection with our SBA debentures are deferred and amortized using the effective yield method over the life of the debentures.

In April 2015, the FASB has issued Accounting Standards Update (“ASU”) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). 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 recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is allowed, and is to be applied on a retrospective basis. The Company has adopted the provisions of ASU 2015-03 as of February 28, 2015, by reclassifying deferred debt financing costs from within total assets to within total liabilities as a contra-liability. 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 were reclassified to conform to the current period presentation.

### **Contingencies**

In the ordinary course of its business, the Company may enter into contracts or agreements that contain indemnifications or warranties. Future events could occur that lead to the execution of these provisions against the Company. Based on its history and experience, management feels that the likelihood of such an event is remote. Therefore, the Company has not accrued any liabilities in connection with such indemnifications.

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

### **Income Taxes**

The Company has filed an election to be treated for tax purposes as a RIC under Subchapter M of the Code and, among other things, intends to make the requisite distributions to its stockholders which will relieve the Company from federal income taxes. Therefore, no provision has been recorded for federal income taxes.

In order to qualify as a RIC, among other requirements, the Company is required to timely distribute to its stockholders at least 90.0% of its investment company taxable income, as defined by the Code, for each fiscal tax year. The Company will be subject to a nondeductible U.S. federal excise tax of 4.0% on undistributed income if it does not distribute at least 98.0% of its ordinary income in any calendar year and 98.2% of its capital gain net income for each one-year period ending on October 31.



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

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

ASC 740, *Income Taxes*, (“ASC 740”), provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions deemed to meet a “more-likely-than-not” threshold would be recorded as a tax benefit or expense in the current period. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits as income tax expense in the consolidated statements of operations. During the fiscal year ended February 29, 2016, the Company did not incur any interest or penalties. Although we file federal and state tax returns, our major tax jurisdiction is federal. The 2013, 2014 and 2015 federal tax years for the Company remain subject to examination by the IRS. As of February 29, 2016 and February 28, 2015, 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.

## New Accounting Pronouncements

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 is currently evaluating the impact the adoption of this standard has on the Company’s consolidated financial statements and disclosures.

In August 2015, the FASB issued ASU 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* (“ASU 2015-15”). ASU 2015-15 updates the accounting guidance included in ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The updated accounting guidance provided by ASU 2015-15 was the result of the Emerging Issues Task Force meeting, held on June 18, 2015, at which the SEC staff stated that the SEC would not object to an entity deferring and presenting costs related to revolving debt arrangements as an asset. As the Company previously adopted the provisions of ASU 2015-03 and reclassified all deferred debt financing costs from within total assets to within total liabilities as a contra-liability effective as of February 28, 2015, it has chosen not to avail itself of the updated accounting treatment provided by ASU 2015-15 and continues to include all deferred financing costs as a contra-liability within total liabilities.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis* (“ASU 2015-02”). ASU 2015-02 significantly changes the consolidation analysis required under GAAP and ends the deferral granted to investment companies from applying the variable interest entity guidance. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. Management does not believe these changes will have a material impact on the Company’s consolidated financial statements and disclosures.

In August 2014, the FASB issued new accounting guidance that requires management to assess an entity’s ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments provide a definition of the term “substantial doubt” and include principles for considering the mitigating effect of management’s plans. The amendments also require an evaluation every reporting period, including interim periods for a period of one year after the date that the financial statements are issued (or available to be issued), and certain disclosures when substantial doubt is alleviated or not alleviated. The amendments in this update are effective for reporting periods ending after December 15, 2016. Management does not believe these changes will 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. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, and early application is not permitted. Management is currently evaluating the impact these changes will have on the Company’s consolidated financial statements and disclosures.

## **Risk Management**

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

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

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

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

## **Note 3. Investments**

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

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

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

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

In addition to using the above inputs in investment valuations, the Company continues to employ the valuation policy approved by the board of directors that is consistent with ASC 820 and the 1940 Act (see Note 2). Consistent with our Company's valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

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The following table presents fair value measurements of investments, by major class, as of February 29, 2016 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Syndicated loans	\$ —	\$ —	\$ 11,868	\$ 11,868
First lien term loans	—	—	144,643	144,643
Second lien term loans	—	—	88,178	88,178
Structured finance securities	—	—	12,828	12,828
Equity interest	—	—	26,479	26,479
Total	\$ —	\$ —	\$283,996	\$283,996

The following table presents fair value measurements of investments, by major class, as of February 28, 2015 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Syndicated loans	\$ —	\$ —	\$ 18,302	\$ 18,302
First lien term loans	—	—	145,207	145,207
Second lien term loans	—	—	35,603	35,603
Unsecured notes	—	—	4,230	4,230
Structured finance securities	—	—	17,031	17,031
Equity interest	—	—	20,165	20,165
Total	\$ —	\$ —	\$240,538	\$240,538

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 29, 2016 (dollars in thousands):

	Syndicated loans	First lien term loans	Second lien term loans	Unsecured notes	Structured finance securities	Common stock/equities	Total
Balance as of February 28, 2015	\$ 18,302	\$ 145,207	\$ 35,603	\$ 4,230	\$ 17,031	\$ 20,165	\$ 240,538
Net unrealized appreciation (depreciation) on investments	(1,914)	(1,850)	(1,163)	3,136	(1,281)	3,813	741
Purchases and other adjustments to cost	56	35,854	72,422	670	—	1,663	110,665
Sales and redemptions	(4,607)	(31,280)	(19,502)	(5,917)	(2,922)	(3,946)	(68,174)
Net realized gain (loss) from investments	31	(865)	187	(2,220)	—	3,093	226
Transfers In	—	—	631	101	—	1,691	2,423
Transfers Out	—	(2,423)	—	—	—	—	(2,423)
Balance as of February 29, 2016	\$ 11,868	\$ 144,643	\$ 88,178	\$ —	\$ 12,828	\$ 26,479	\$ 283,996

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

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

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Transfers between levels, if any, are recognized at the beginning of the period in which transfers occur.

The net change in unrealized appreciation (depreciation) for the year ended February 29, 2016 on investments still held as of February 29, 2016 is (\$2,798,986) and is included in net unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the year ended February 28, 2015 (dollars in thousands):

	Syndicated loans	First lien term loans	Second lien term loans	Unsecured notes	Structured finance securities	Common stock/ equities	Total
Balance as of February 28, 2014	\$ 32,390	\$ 110,278	\$ 27,804	\$ 5,471	\$ 19,570	\$ 10,332	\$ 205,845
Net unrealized appreciation (depreciation) on investments	(763)	(206)	(409)	(1,458)	(1,936)	2,829	(1,943)
Purchases and other adjustments to cost	56	83,456	18,667	217	—	4,221	106,617
Sales and redemptions	(13,461)	(42,445)	(10,522)	—	(603)	(6,226)	(73,257)
Net realized gain from investments	80	387	63	—	—	2,746	3,276
Transfers In	—	—	—	—	—	6,263	6,263
Transfers Out	—	(6,263)	—	—	—	—	(6,263)
Balance as of February 28, 2015	<u>\$ 18,302</u>	<u>\$ 145,207</u>	<u>\$ 35,603</u>	<u>\$ 4,230</u>	<u>\$ 17,031</u>	<u>\$ 20,165</u>	<u>\$ 240,538</u>

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

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

Transfers between levels, if any, are recognized at the beginning of the period in which transfers occur.

The net change in unrealized gain/(loss) for the year ended February 28, 2015 on investments still held as of February 28, 2015 is (\$1,456,791) and is included in net unrealized appreciation (depreciation) on investments in the consolidated statements of operations.

The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 29, 2016 were as follows (dollars in thousands):

	Fair Value	Valuation Technique	Unobservable Input	Range
Syndicated loans	11,868	Market Comparables	Third-Party Bid	72.5% - 98.2%
First lien term loans	144,643	Market Comparables	Market Yield (%)	6.8% - 15.5%
			EBITDA Multiples (x)	1.0x
			Revenue Multiples Third-Party Bid	91.3 - 98.9
Second lien term loans	88,178	Market Comparables	Market Yield (%)	0.0% - 15.0%
			Third-Party Bid	91.5% - 98.6%
Structured finance securities	12,828	Discounted Cash Flow	Discount Rate (%)	20.0%
Equity interests	26,479	Market Comparables	EBITDA Multiples (x)	
			Revenue Multiples	6.8x - 16.4x

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The valuation techniques and significant unobservable inputs used in recurring Level 3 fair value measurements of assets as of February 28, 2015 were as follows (dollars in thousands):

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Syndicated loans	18,302	Market Comparables	Third-Party Bid	93.6% - 100.4%
First lien term loans	145,207	Market Comparables	Market Yield (%)	5.8% - 17.7%
			EBITDA Multiples (x)	3.0x
			Third-Party Bid	79.3 - 105.0
Second lien term loans	35,603	Market Comparables	Market Yield (%)	8.5% - 15.0%
			Third-Party Bid	98.3% - 98.3%
Unsecured notes	4,230	Market Comparables	Market Yield (%)	13.2% - 20.3%
Structured finance securities	17,031	Discounted Cash Flow	Discount Rate (%)	12.0%
Equity interests	20,165	Market Comparables	EBITDA Multiples (x)	5.0x - 12.1x

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

The composition of our investments as of February 29, 2016, at amortized cost and fair value were as follows (dollars in thousands):

	<u>Investments at Amortized Cost</u>	<u>Amortized Cost Percentage of Total Portfolio</u>	<u>Investments at Fair Value</u>	<u>Fair Value Percentage of Total Portfolio</u>
Syndicated loans	\$ 14,138	5.0%	\$ 11,868	4.2%
First lien term loans	146,246	52.0	144,643	50.9
Second lien term loans	89,486	31.9	88,178	31.1
Structured finance securities	13,031	4.6	12,828	4.5
Equity interest	18,275	6.5	26,479	9.3
Total	<u>\$ 281,176</u>	<u>100.0%</u>	<u>\$ 283,996</u>	<u>100.0%</u>

The composition of our investments as of February 28, 2015, at amortized cost and fair value were as follows (dollars in thousands):

	<u>Investments at Amortized Cost</u>	<u>Amortized Cost Percentage of Total Portfolio</u>	<u>Investments at Fair Value</u>	<u>Fair Value Percentage of Total Portfolio</u>
Syndicated loans	\$ 18,658	7.8%	\$ 18,302	7.6%
First lien term loans	144,959	60.8	145,207	60.3
Second lien term loans	35,748	15.0	35,603	14.8
Unsecured notes	7,366	3.1	4,230	1.8
Structured finance securities	15,953	6.7	17,031	7.1
Equity interest	15,774	6.6	20,165	8.4
Total	<u>\$ 238,458</u>	<u>100.0%</u>	<u>\$ 240,538</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

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participant would use to value the security in a current hypothetical sale using a market yield valuation methodology. In applying the market yield valuation methodology, we determine the fair value based on such factors as market participant assumptions including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If, in our judgment, the market yield methodology is not sufficient or appropriate, we may use additional methodologies such as an asset liquidation or expected recovery model.

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

Our investment in Saratoga Investment Corp. CLO 2013-1, Ltd. ("Saratoga CLO") is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. For the quarter ended November 30, 2013, in connection with the refinancing of the Saratoga CLO liabilities, we ran Intex models based on assumptions about the refinanced Saratoga CLO's structure, including capital structure, cost of liabilities and reinvestment period. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flows analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO at February 29, 2016. The significant inputs for the valuation model include:

- Default rates: 2.0%
- Recovery rates: 35-70%
- Prepayment rate: 20.0%
- Reinvestment rate / price: L+375bps / \$97.00 Year 1, \$99.00 thereafter.

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

On January 22, 2008, we invested \$30 million in all of the outstanding subordinated notes of GSC Investment Corp. CLO 2007, Ltd., a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with GSC Investment Corp. CLO 2007, Ltd. pursuant to which we act as collateral manager to it. The Saratoga CLO was refinanced in October 2013 and its reinvestment period ends in October 2016. The Saratoga CLO remains 100% owned and managed by Saratoga Investment Corp. We receive a base management fee of 0.25% and a subordinated management fee of 0.25% of the fee basis amount at the beginning of the collection period, paid quarterly to the

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extent of available proceeds. We are also entitled to an incentive management fee equal to 20.0% of the remaining interest proceeds and principal proceeds, if any, after the subordinated notes have realized the incentive management fee target return of 12.0%, in accordance with the Priority of Payments after making the prior distributions on the relevant payment date. For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, we accrued \$1.5 million, \$1.5 million, and \$1.8 million in management fee income, respectively, and \$2.7 million, \$2.7 million, and \$3.4 million in interest income, respectively, from Saratoga CLO. We did not accrue any amounts related to the incentive management fee as the 12.0% hurdle rate has not yet been achieved.

At February 29, 2016, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$12.8 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 29, 2016, Saratoga CLO had investments with a principal balance of \$302.7 million and a weighted average spread over LIBOR of 4.3%, and had debt with a principal balance of \$282.4 million with a weighted average spread over LIBOR of 1.8%. As a result, Saratoga CLO earns a “spread” between the interest income it receives on its investments and the interest expense it pays on its debt and other operating expenses, which is distributed quarterly to the Company as the holder of its subordinated notes. At February 29, 2016, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$13.1 million, which had a present value of approximately \$12.8 million, using a 20.0% discount rate.

At February 28, 2015, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$17.0 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, 2015, Saratoga CLO had investments with a principal balance of \$296.9 million and a weighted average spread over LIBOR of 4.3%, and had debt with a principal balance of \$282.4 million with a weighted average spread over LIBOR of 1.8%. As a result, Saratoga CLO earns a “spread” between the interest income it receives on its investments and the interest expense it pays on its debt and other operating expenses, which is distributed quarterly to the Company as the holder of its subordinated notes. At February 28, 2015, the total “spread”, or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$17.3 million, which had a present value of approximately \$17.0 million, using a 12.0% discount rate.

The separate audited financial statements of Saratoga CLO as of February 29, 2016 and February 28, 2015, pursuant to Rule 3-09 of SEC rules Regulation S-X, and for the twelve months ended February 29, 2016, February 28, 2015 and 2014, are presented on page S-1.

### **Note 5. Income Taxes**

The Company intends to operate so as to qualify to be taxed as a RIC under Subchapter M of the Code and, as such, will not be subject to federal income tax on the portion of taxable income and gains distributed to stockholders.

The Company owns 100.0% of Saratoga CLO, an exempted company incorporated in the Cayman Islands. For financial reporting purposes, the Saratoga CLO is not included as part of the consolidated financial statements. For federal income tax purposes, the Company has requested and received approval from the Internal Revenue Service to treat the Saratoga CLO as a disregarded entity. As such, for federal income tax purposes and for purposes of meeting the RIC qualification and diversification tests, the results of operations of the Saratoga CLO are included with those of the Company.

To qualify as a RIC, the Company is required to meet certain income and asset diversification tests in addition to distributing at least 90.0% of its investment company taxable income, as defined by the Code.



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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 29, 2016 and February 28, 2015, the Company reclassified for book purposes amounts arising from permanent book/tax differences primarily related to nondeductible excise tax, meals & entertainment, market discount, interest income with respect to the Saratoga CLO which is consolidated for tax purposes, and the tax character of distributions as follows (dollars in thousands):

	February 29, 2016	February 28, 2015
Accumulated net investment income/(loss)	\$ 55	\$ (299)
Accumulated net realized gains on investments	59	593
Additional paid-in-capital	(114)	(294)

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 29, 2016, February 28, 2015 and February 28, 2014 was as follows (dollars in thousands):

	February 29, 2016	February 28, 2015	February 28, 2014
Ordinary Income	\$ 13,045	\$ 2,157	\$ 12,535
Capital gains	—	—	—
Return of capital	—	—	—
Total	<u>\$ 13,045</u>	<u>\$ 2,157</u>	<u>\$ 12,535</u>

For federal income tax purposes, as of February 29, 2016, the aggregate net unrealized depreciation for all securities is \$15.4 million. The aggregate cost of securities for federal income tax purposes is \$571.4 million.

For federal income tax purposes, as of February 28, 2015, the aggregate net unrealized depreciation for all securities is \$3.6 million. The aggregate cost of securities for federal income tax purposes is \$522.4 million.

At February 29, 2016 and February 28, 2015, the components of accumulated losses on a tax basis as detailed below differ from the amounts reflected per the Company's consolidated statements of assets and liabilities by temporary book/tax differences primarily arising from the consolidation of the Saratoga CLO for tax purposes, market discount and original issue discount income, interest income accrual on defaulted bonds, write-off of investments, and amortization of organizational expenditures (dollars in thousands).

	February 29, 2016	February 28, 2015
Post October loss deferred	\$ —	\$ (27,303)
Accumulated capital losses	(58,929)	(32,308)
Other temporary differences	(1,941)	(2,684)
Undistributed ordinary income	8,103	10,578
Unrealized depreciation	(15,428)	(3,662)
Total components of accumulated losses	<u>\$ (68,195)</u>	<u>\$ (55,379)</u>

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

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At February 29, 2016 and February 28, 2015, the Company had a short term capital loss of \$11.2 million and \$0 million, respectively, and a long-term capital loss of \$15.4 million and \$0 million, respectively, 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% 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% 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. For the calendar year ended December 31, 2015, the Company did not distribute at least 98% of its ordinary income and 98.2% of its capital gains and subsequently paid \$113,808 in federal excise taxes.

Management has analyzed the Company's tax positions taken on federal income tax returns for all open years (fiscal years 2013-2016), 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-Mercury, Inc., SIA-TT, Inc., and SIA-Vector, Inc., 100% owned by the Company, are each filing standalone C Corporate 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 is two years, with automatic, one-year renewals at the end of each year subject to certain approvals by our board of directors and/or our stockholders. On July 8, 2015, 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 (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter, subject to a “catch-up” provision. Under this provision, in any fiscal quarter, our Manager receives no incentive fee unless our pre-incentive fee net investment income exceeds the hurdle rate of 1.875%. Our Manager will receive 100.0% of pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than or equal to 2.344% in any fiscal quarter (9.376% annualized); and 20.0% of the amount of the our pre-incentive fee net investment income, if any, that exceeds 2.344% in any fiscal quarter (9.376% annualized).

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

For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, the Company incurred \$4.5 million, \$4.2 million and \$3.3 million in base management fees, respectively. For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, the Company incurred \$2.3 million, \$2.2 million and \$1.0 million in incentive fees related to pre-incentive fee net investment income. For the year ended February 29, 2016, there was a reduction of \$0.05 million in incentive fees related to capital gains. For the year ended February 28, 2015, we accrued of \$0.3 million in incentive fees related to capital gains. For the year ended February 28, 2014, there was a reduction of \$0.1 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 29, 2016, the base management fees accrual was \$1.2 million and the incentive fees accrual was \$4.4 million and is included in base management and incentive fees payable in the accompanying consolidated statements of assets and liabilities. As of February 28, 2015, the base management

fees accrual was \$1.0 million and the incentive fees accrual was \$4.8 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. In addition, our board of directors intends to review the new cap in the next three to six months to determine whether it should be further adjusted in light of differences between our projected and actual expenses and other similar factors.

For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, we recognized \$1.2 million, \$1.0 million and \$1.0 million, in administrator expenses for the periods, respectively, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses. As of February 29, 2016, \$0.2 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, 2015, \$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 29, 2016, February 28, 2015 and 2014, the Company bought investments fair valued at \$0.0 million, \$0.0 million, and \$0.3 million, respectively, from the Saratoga CLO and sold no investments to related parties.

## **Note 7. Borrowings**

### ***Credit Facility***

As a BDC, we are only allowed to employ leverage to the extent that our asset coverage, as defined in the 1940 Act, equals at least 200.0% after giving effect to such leverage. The amount of leverage that we employ at any time depends on our assessment of the market and other factors at the time of any proposed borrowing.

On April 11, 2007, we entered into a \$100.0 million revolving securitized credit facility (the “Revolving Facility”). On May 1, 2007, we entered into a \$25.7 million term securitized credit facility (the “Term Facility” and, together with the Revolving Facility, the “Facilities”), which was fully drawn at closing. In December 2007, we consolidated the Facilities by using a draw under the Revolving Facility to repay the Term Facility. In response to the market wide decline in financial asset prices, which negatively affected the value of our portfolio, we terminated the revolving period of the Revolving Facility effective January 14, 2009 and commenced a two-year amortization period during which all principal proceeds from the collateral was used to repay outstanding borrowings. A significant percentage of our total assets had been pledged under the Revolving Facility to secure our obligations thereunder. Under the Revolving Facility, funds were borrowed from or through certain lenders and interest was payable monthly at the greater of the commercial paper rate and our lender’s prime rate plus 4.00% plus a default rate of 2.00% or, if the commercial paper market was unavailable, the greater of the prevailing LIBOR rates and our lender’s prime rate plus 6.00% plus a default rate of 3.00%.

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

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

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

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

- expand the borrowing capacity under the credit facility from \$40.0 million to \$45.0 million;
- extend the period during which we may make and repay borrowings under the credit facility from July 30, 2013 to February 24, 2015 (the "Revolving Period"). The Revolving Period may upon the occurrence of an event of default, by action of the lenders or automatically. All borrowings and other amounts payable under the credit facility are due and payable five years after the end of the Revolving Period; and
- remove the condition that we may not acquire additional loan assets without the prior written consent of Madison Capital Funding LLC.

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

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

As of February 29, 2016, there was no outstanding borrowings under the Credit Facility and the Company was in compliance with all of the limitations and requirements of the Credit Facility. As of February 28, 2015, there was \$9.6 million outstanding under the Credit Facility and the Company was in compliance with all of the limitations and requirements of the Credit Facility. Financing costs of \$2.7 million related to the Credit Facility have been capitalized and are being amortized over the term of the facility. For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, we recorded \$0.7 million, \$0.9 million and \$1.0 million of interest expense, respectively. For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, we recorded \$0.1 million, \$0.3 million and \$0.4 million of amortization of deferred financing costs related to the Credit Facility and Revolving Facility, respectively. The interest rates during the years ended February 29, 2016, February 28, 2015 and February 28, 2014 on the outstanding borrowings under the Credit Facility were 6.00%, 6.75% and 7.50%, respectively. During the years ended February 29, 2016 and February 28, 2015, the average dollar amount of outstanding borrowings under the Credit Facility was \$4.4 million and \$6.0 million, respectively.

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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 LIBOR rate and 2.00%, plus an applicable margin of 5.50%. At the Company’s option, funds may be borrowed based on an alternative base rate, which in no event will be less than 3.00%, and the applicable margin over such alternative base rate is 4.50%. In addition, the Company will pay the lenders a commitment fee of 0.75% per year on the unused amount of the Credit Facility for the duration of the Revolving Period.

Our borrowing base under the Credit Facility was \$21.8 million subject to the Credit Facility cap of \$45.0 million at February 29, 2016. For purposes of determining the borrowing base, most assets are assigned the values set forth in our most recent Annual Report on Form 10-K or Quarterly Report on Form 10-Q filed with the SEC. Accordingly, the February 29, 2016 borrowing base relies upon the valuations set forth in the Quarterly Report on Form 10-Q for the quarter ended November 30, 2015. 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 29, 2016, we have funded SBIC LP with \$75.0 million of equity capital, and have \$103.7 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.

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.

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

As of February 29, 2016 and February 28, 2015, there was \$103.7 million and \$79.0 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, \$3.6 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 29, 2016, February 28, 2015 and February 28, 2014 we recorded \$2.6 million, \$2.0 million and \$1.3 million of interest expense related to the SBA debentures, respectively. For the years ended February 29, 2016, February 28, 2015 and February 28, 2014, we recorded \$0.4 million, \$0.3 million and \$0.2 million of amortization of deferred financing costs related to the SBA debentures, respectively. The weighted average interest rate during the years ended February 29, 2016 and February 28, 2015 on the outstanding borrowings of the SBA debentures was 3.12% and 2.93%, respectively. During the years ended February 29, 2016 and February 28, 2015, the average dollar amount of SBA debentures outstanding was \$83.0 million and \$67.9 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” or “go forth” letter inviting us to continue our application process to obtain a license to form and operate its second SBIC subsidiary. If approved, a second SBIC license would provide us an incremental source of long-term capital by permitting us to issue up to \$150 million of additional SBA-guaranteed debentures in addition to the \$150 million already approved under the first license. Receipt of a green light letter from the SBA does not assure an applicant that the SBA will ultimately issue an SBIC license and we have received no assurance or indication from the SBA that it will receive an SBIC license, or of the timeframe in which it would receive a license, should one be granted.

### **Notes**

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

On May 17, 2013, the Company closed an additional \$6.3 million in aggregate principal amount of the Notes, pursuant to the full exercise of the underwriters’ option to purchase additional Notes. On May 29, 2015, the Company entered into a Debt Distribution Agreement with Landenburg 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 Notes through an At-the-Market (“ATM”) offering. As of February 29, 2016, the Company sold 539,725 bonds with a principal of \$13,493,125 at an average price of \$25.31 for aggregate net proceeds of \$13,385,766 (net of transaction costs).

As of February 29, 2016, the carrying amount and fair value of the Notes was \$61.8 million and \$60.2 million, respectively. The fair value of the Notes, which are publicly traded, is based upon closing market quotes as of the measurement date and would be classified as a level 1 liability within the fair value hierarchy. As

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of February 29, 2016, \$2.7 million of financing costs related to the Notes (including underwriting commissions and net of issuance premiums) have been capitalized and are being amortized over the term of the 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 Notes. As of February 28, 2015, the carrying amount and fair value of the Notes was \$48.3 million and \$49.8 million, respectively. As of February 28, 2015, \$2.5 million of financing costs related to the Notes have been capitalized and are being amortized over the term of the Notes. For the years ended February 28, 2015 and February 28, 2014, we recorded \$3.6 million and \$2.9 million of interest expense, respectively, and \$0.3 million and \$0.3 million, respectively, of amortization of deferred financing costs related to the Notes. During the years ended February 29, 2016 and February 28, 2015, the average dollar amount of Notes outstanding was \$55.7 million and \$48.3 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 29, 2016:

	Total	Payment Due by Period			More Than 5 Years
		Less Than 1 Year	1 - 3 Years	3 - 5 Years	
Long-Term Debt Obligations	\$165,453	\$ —	\$ —	\$61,793	\$ 103,660

#### Off-balance sheet arrangements

The Company's off-balance sheet arrangements consisted of \$2.0 million and \$11.2 million of unfunded commitments to provide debt financing to its portfolio companies or to fund limited partnership interests as of February 29, 2016 and February 28, 2015, 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 29, 2016 and February 28, 2015 is shown in the table below (dollars in thousands):

	As of	
	February 29, 2016	February 28, 2015
Avionte Holdings, LLC	\$ 1,000	\$ 1,000
Identity Automation	1,000	—
Bristol Hospice, LLC	—	7,500
HMN Holdco, LLC	—	2,400
Knowland Technology Holdings, L.L.C.	—	300
Total	\$ 2,000	\$ 11,200

### 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



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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 29, 2016, February 28, 2015 and February 28, 2014, we accrued \$0.2 million, \$0.2 million, and \$0.2 million for directors' fees expense, respectively. As of February 29, 2016 and February 28, 2015, \$0.03 million and \$0.03 million in directors' fees expense were unpaid and included in accounts payable and accrued expenses in the consolidated statements of assets and liabilities. As of February 29, 2016, 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 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 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. As of February 29, 2016, the Company purchased 25,417 shares of common stock, at the average price of \$14.03, for approximately \$0.4 million pursuant to this repurchase plan. 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 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 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 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 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 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.

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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 our DRIP. Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,764 newly issued shares of common stock.

### **Note 11. Earnings Per Share**

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

The following information sets forth the computation of the weighted average basic and diluted net increase in net assets per share from operations for the years ended February 29, 2016, February 28, 2015 and February 28, 2014 (dollars in thousands except share and per share amounts):

<u>Basic and diluted</u>	<u>February 29, 2016</u>	<u>February 28, 2015</u>	<u>February 28, 2014</u>
Net increase in net assets from operations	\$ 11,645	\$ 11,007	\$ 8,497
Weighted average common shares outstanding	5,582,453	5,385,049	4,920,517
Weighted average earnings per common share-basic and diluted	\$ 2.09	\$ 2.04	\$ 1.73

### **Note 12. Dividend**

On January 12, 2016, the Company's 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 the Company's DRIP.

Based on shareholder elections, the dividend consisted of approximately \$1.4 million in cash and 66,764 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's 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 the Company's 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.

On July 8, 2015, the Company's 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 the Company's 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

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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's 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 the Company's 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's 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 the Company's 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 payable 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 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, 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 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. 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

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of shares of common stock comprising the stock portion was calculated based on a price of \$15.439 per share, which equaled the volume weighted average trading price per share of the common stock on December 11, 13, and 16, 2013.

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

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 payable on December 30, 2011. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$2.0 million or \$0.60 per share.

Based on shareholder elections, the dividend consisted of approximately \$2.0 million in cash and 599,584 shares of common stock, or 18.0% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 20.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$13.1171 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2011.

On November 12, 2010, the Company declared a dividend of \$4.40 per share payable on December 23, 2010. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to approximately \$1.2 million or \$0.44 per share.

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

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The following tables summarize dividends declared during the years ended February 29, 2016, February 28, 2015, February 28, 2014, February 28, 2013 and February 29, 2012 (dollars in thousands except per share amounts):

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
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	October 30, 2014	November 28, 2014	\$ 0.18	\$ 968
September 24, 2014	January 29, 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>

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
November 9, 2012	November 20, 2012	December 31, 2012	\$ 4.25	\$16,476
Total dividends declared			<u>\$ 4.25</u>	<u>\$16,476</u>

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount Per Share*</u>	<u>Total Amount</u>
November 15, 2011	November 25, 2011	December 30, 2011	\$ 3.00	\$9,831
Total dividends declared			<u>\$ 3.00</u>	<u>\$9,831</u>

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

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The following is a schedule of financial highlights for the years ended February 29, 2016, February 28, 2015, February 28, 2014, February 28, 2013 and February 29, 2012:

	February 29, 2016	February 28, 2015	February 28, 2014	February 28, 2013	February 29, 2012
<b>Per share data:</b>					
Net asset value at beginning of period	\$ 22.70	\$ 21.08	\$ 22.71	\$ 24.94	\$ 26.20
Net investment income(1)	1.91	1.80	1.80	1.57	1.52
Net realized and unrealized gains and losses on investments and derivatives	0.18	0.24	(0.07)	1.85	2.21
Net increase in net assets from operations	2.09	2.04	1.73	3.42	3.73
Distributions declared from net investment income	(2.36)	(0.40)	(2.65)	(4.25)	(3.00)
Total distributions to stockholders	(2.36)	(0.40)	(2.65)	(4.25)	(3.00)
Dilution(4)	(0.37)	(0.02)	(0.71)	(1.40)	(1.99)
Net asset value at end of period	\$ 22.06	\$ 22.70	\$ 21.08	\$ 22.71	\$ 24.94
Net assets at end of period	\$125,149,875	\$122,598,742	\$113,427,929	\$107,437,874	\$96,689,122
Shares outstanding at end of period	5,672,227	5,401,899	5,379,616	4,730,116	3,876,661
Per share market value at end of period	\$ 14.22	\$ 15.76	\$ 15.85	\$ 17.02	\$ 15.88
Total return based on market value(2)	4.27%	1.63%	9.11%	36.67%	12.82%
Total return based on net asset value(3)	11.10%	10.09%	8.75%	16.12%	16.98%
<b>Ratio/Supplemental data:</b>					
Ratio of net investment income to average, net assets	8.52%	8.11%	7.97%	6.26%	5.64%
Ratio of operating expenses to average net assets	6.93%	6.52%	6.28%	5.22%	5.66%
Ratio of incentive management fees to average net assets	1.78%	2.14%	0.84%	2.52%	1.85%
Ratio of credit facility related expenses to average net assets	6.75%	6.19%	5.46%	2.46%	1.40%
Ratio of total expenses to average net assets	15.46%	14.85%	12.59%	10.19%	8.91%
Portfolio turnover rate(5)	26.22%	31.28%	37.82%	17.30%	36.34%

As described in Note 2 to the consolidated financial statements and notes thereto, we identified errors that impacted the years ended February 28, 2014, February 28, 2013 and February 29, 2012. The corrections for the errors, which we have concluded are immaterial to all prior period consolidated financial statements, are reflected in the consolidated financial statements and selected financial data included in this Form 10-K.

(1) Net investment income per share is calculated using the weighted average shares outstanding during the period.

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- (2) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.
- (3) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.
- (4) Represents the dilutive effect of issuing common stock below net asset value per share during the period in connection with the satisfaction of the Company's annual RIC distribution requirement. See Note 12, Dividend.
- (5) Portfolio turnover rate is calculated using the lesser of year-to-date sales or year-to-date purchases over the average of the invested assets at fair value.

### Note 14. Selected Quarterly Data (Unaudited)

(\$ in thousands, except per share numbers)	2016			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio 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 (decrease) 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

(\$ in thousands, except per share numbers)	2015			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio income	\$ 7,451	\$ 7,305	\$ 6,475	\$ 6,144
Net investment income	2,889	2,629	2,093	2,063
Net realized and unrealized gain (loss)	(184)	756	1,064	(303)
Net increase in net assets resulting from operations	2,705	3,385	3,157	1,760
Net investment income per common share at end of each quarter	\$ 0.50	\$ 0.49	\$ 0.39	\$ 0.38
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ (0.03)	\$ 0.14	\$ 0.20	\$ (0.06)
Dividends declared per common share	\$ 0.22	\$ 0.18	\$ —	\$ —
Net asset value per common share	\$ 22.70	\$ 22.45	\$ 22.00	\$ 21.41

(\$ in thousands, except per share numbers)	2014			
	Qtr 4	Qtr 3	Qtr 2	Qtr 1
Interest and related portfolio income	\$ 5,687	\$ 5,801	\$ 5,388	\$ 6,018
Net investment income	1,525	2,407	2,629	2,313
Net realized and unrealized gain (loss)	2,236	(1,630)	(2,313)	1,330
Net increase (decrease) in net assets resulting from operations	3,761	777	316	3,644
Net investment income per common share at end of each quarter	\$ 0.28	\$ 0.50	\$ 0.56	\$ 0.49
Net realized and unrealized gain (loss) per common share at end of each quarter	\$ 0.42	\$ (0.34)	\$ (0.49)	\$ 0.28
Dividends declared per common share	\$ —	\$ 2.65	\$ —	\$ —
Net asset value per common share	\$ 21.08	\$ 20.39	\$ 23.55	\$ 23.48



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As described in Note 2 to the consolidated financial statements and notes thereto, we identified errors that impacted the years ended February 28, 2014, February 28, 2013, and February 29, 2012. The corrections for the errors, which we have concluded are immaterial to all prior period consolidated financial statements, are reflected in the consolidated financial statements and selected financial data included in this Form 10-K.

**Note 15. 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 disclosures in the consolidated financial statements except for the following:

On March 31, 2016, the Company 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 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.

**INDEX TO OTHER FINANCIAL STATEMENTS**

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

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<a href="#">Statements of Assets and Liabilities as of February 29, 2016 and February 28, 2015</a>	S-3
<a href="#">Statements of Operations for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	S-4
<a href="#">Schedules of Investments as of February 29, 2016 and February 28, 2015</a>	S-5
<a href="#">Statements of Changes in Net Assets for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	S-21
<a href="#">Statements of Cash Flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	S-22
<a href="#">Notes to Financial Statements</a>	S-23

**IMPORTANT NOTE**

In accordance with certain SEC rules, Saratoga Investment Corp. (the “Company”) is providing additional information regarding one of its portfolio companies, Saratoga Investment Corp. CLO 2013-1, Ltd. (“Saratoga CLO”). The Company owns 100% of the subordinated notes of the Saratoga CLO. The additional financial information regarding the Saratoga CLO does not directly impact the Company’s financial position, results of operations or cash flows.

## Report of Independent Auditors

The Collateral Manager and Directors,

Saratoga Investment Corp. CLO 2013-1, Ltd.

We have audited the accompanying financial statements of Saratoga Investment Corp. CLO 2013-1, Ltd., which comprise the statements of assets and liabilities, including the schedules of investments, as of February 29, 2016 and February 28, 2015, and the statements of operations, changes in net assets and cash flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014, 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 29, 2016 and February 28, 2015, and the results of its operations, changes in its net assets and its cash flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young

New York, New York  
May 17, 2016

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

## Statements of Assets and Liabilities

	As of	
	February 29, 2016	February 28, 2015
<b>ASSETS</b>		
Investments		
Fair Value Loans (amortized cost of \$300,112,538 and \$295,193,588, respectively)	\$ 284,652,926	\$ 294,621,817
Fair Value Other/Structured finance securities (amortized cost of \$3,531,218 and \$2,566,752, respectively)	191,863	617,451
Total investments at fair value (amortized cost of \$303,643,756 and \$297,760,340, respectively)	284,844,789	295,239,268
Cash and cash equivalents	2,349,633	5,831,797
Receivable from open trades	2,691,831	2,119,687
Interest receivable	1,698,562	1,290,637
Total assets	<u>\$ 291,584,815</u>	<u>\$ 304,481,389</u>
<b>LIABILITIES</b>		
Interest payable	\$ 626,040	\$ 631,886
Payable from open trades	7,123,854	5,214,331
Accrued base management fee	85,008	85,957
Accrued subordinated management fee	85,008	85,957
Class A-1 Notes—SIC CLO 2013-1, Ltd.	170,000,000	170,000,000
Discount on Class A-1 Notes—SIC CLO 2013-1, Ltd.	(1,319,258)	(1,495,802)
Class A-2 Notes—SIC CLO 2013-1, Ltd.	20,000,000	20,000,000
Discount on Class A-2 Notes—SIC CLO 2013-1, Ltd.	(136,750)	(155,050)
Class B Notes—SIC CLO 2013-1, Ltd.	44,800,000	44,800,000
Discount on Class B Notes—SIC CLO 2013-1, Ltd.	(888,328)	(1,007,205)
Class C Notes—SIC CLO 2013-1, Ltd.	16,000,000	16,000,000
Discount on Class C Notes—SIC CLO 2013-1, Ltd.	(553,078)	(627,091)
Class D Notes—SIC CLO 2013-1, Ltd.	14,000,000	14,000,000
Discount on Class D Notes—SIC CLO 2013-1, Ltd.	(717,938)	(814,013)
Class E Notes—SIC CLO 2013-1, Ltd.	13,100,000	13,100,000
Discount on Class E Notes—SIC CLO 2013-1, Ltd.	(1,353,521)	(1,534,650)
Class F Notes—SIC CLO 2013-1, Ltd.	4,500,000	4,500,000
Discount on Class F Notes—SIC CLO 2013-1, Ltd.	(492,300)	(558,180)
Deferred debt financing costs, SIC CLO 2013-1, Ltd. Notes	(1,716,554)	(1,941,595)
Subordinated Notes	30,000,000	30,000,000
Total liabilities	<u>\$ 313,142,183</u>	<u>\$ 310,284,545</u>
Commitments and contingencies (See Note 6)		
<b>NET ASSETS</b>		
Ordinary equity, par value \$1.00, 250 ordinary shares authorized, 250 and 250 issued and outstanding, respectively	\$ 250	\$ 250
Accumulated loss	(5,803,406)	(3,343,488)
Net loss	(15,754,212)	(2,459,918)
Total net assets	<u>(21,557,368)</u>	<u>(5,803,156)</u>
Total liabilities and net assets	<u>\$ 291,584,815</u>	<u>\$ 304,481,389</u>

See accompanying notes to financial statements.

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

	<b>For the year ended February 29, 2016</b>	<b>For the year ended February 28, 2015</b>	<b>For the year ended February 28, 2014</b>
<b>INVESTMENT INCOME</b>			
Interest from investments	\$ 14,372,377	\$ 13,091,019	\$ 15,486,413
Interest from cash and cash equivalents	1,213	1,446	6,792
Other income	316,187	188,180	945,441
<b>Total investment income</b>	<b>14,689,777</b>	<b>13,280,645</b>	<b>16,438,646</b>
<b>EXPENSES</b>			
Interest expense	11,696,757	9,635,136	11,678,514
Professional fees	292,754	219,293	433,073
Miscellaneous fee expense	23,742	34,303	175,283
Base management fee	747,390	760,102	517,563
Subordinated management fee	747,390	760,102	1,257,578
Trustee expenses	121,299	123,999	83,221
Amortization expense	955,858	953,862	994,602
Loss on extinguishment of debt	—	—	3,442,442
<b>Total expenses</b>	<b>14,585,190</b>	<b>12,486,797</b>	<b>18,582,276</b>
<b>NET INVESTMENT INCOME (LOSS)</b>	<b>104,587</b>	<b>793,848</b>	<b>(2,143,630)</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>			
Net realized gain (loss) on investments	419,096	620,817	(8,815,296)
Net unrealized appreciation/(depreciation) on investments	(16,277,895)	(3,874,583)	6,776,871
<b>Net loss on investments</b>	<b>(15,858,799)</b>	<b>(3,253,766)</b>	<b>(2,038,425)</b>
<b>NET DECREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ (15,754,212)</b>	<b>\$ (2,459,918)</b>	<b>\$ (4,182,055)</b>

See accompanying notes to financial statements.

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

**Schedule of Investments**

**February 29, 2016**

<b>Issuer Name</b>	<b>Industry</b>	<b>Asset Name</b>	<b>Asset Type</b>	<b>Current Rate</b>	<b>Maturity Date</b>	<b>Principal/ Number of Shares</b>	<b>Cost</b>	<b>Fair Value</b>
Education Management II LLC	Leisure Goods/ Activities/Movies	A-1 Preferred Shares	Equity	0.00%		6,692	\$ 669,214	\$ 1,673
Education Management II LLC	Leisure Goods/ Activities/Movies	A-2 Preferred Shares	Equity	0.00%		18,975	1,897,538	95
New Millennium Holdco, Inc.	Healthcare & Pharmaceuticals	Common Stock	Equity	0.00%		14,813	964,466	190,095
24 Hour Holdings III LLC	Leisure Goods/ Activities/Movies	Term Loan	Loan	4.75%	5/28/2021	\$ 492,500	488,586	455,154
Acosta Holdco Inc.	Media	Term Loan B1	Loan	4.25%	9/26/2021	\$ 1,972,936	1,959,834	1,855,389
Aspen Dental Management, Inc.	Healthcare & Pharmaceuticals	Term Loan Initial	Loan	5.50%	4/29/2022	\$ 497,500	495,228	495,221
Advantage Sales & Marketing Inc.	Services: Business	Delayed Draw						
AgroFresh	Food Services	Term Loan	Loan	4.25%	7/25/2021	\$ 2,471,231	2,468,039	2,342,826
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term Loan	Loan	5.75%	7/30/2021	\$ 1,990,000	1,980,704	1,935,275
Akorn, Inc.	Healthcare & Pharmaceuticals	Term B Loan	Loan	5.50%	2/24/2021	\$ 985,000	985,000	797,850
Albertson's LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	6.00%	4/16/2021	\$ 398,056	396,681	396,066
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	5.50%	8/25/2021	\$ 3,384,425	3,367,410	3,302,623
Alere Inc. (fka IM US Holdings, LLC)	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/20/2022	\$ 927,265	925,091	925,365
Alion Science T/L B (1st Lien)	High Tech Industries	Term Loan B (First Lien)	Loan	5.50%	8/19/2021	\$ 2,985,000	2,971,074	2,824,555
Alliance HealthCare T/L B	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/3/2019	\$ 994,856	990,161	906,981
Alliant Holdings T/L B (1st Lien)	Banking, Finance, Insurance & Real Estate	Term Loan B (First Lien)	Loan	4.50%	8/12/2022	\$ 995,000	992,679	960,921
Alvogen Pharma US, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	6.00%	4/4/2022	\$ 480,447	478,240	456,425
American Beacon Advisors, Inc.	Financial Intermediaries	Term Loan (First Lien)	Loan	5.50%	4/30/2022	\$ 248,749	247,612	244,190
Aramark Corporation	Food Products	LC-2 Facility	Loan	0.29%	7/26/2016	\$ 9,447	9,445	9,305
Aramark Corporation	Food Products	LC-3 Facility	Loan	0.29%	7/26/2016	\$ 5,244	5,244	5,166
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	\$ 3,150,423	3,150,423	3,126,133
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	5.00%	5/24/2019	\$ 2,596,480	2,573,245	2,441,237
Asurion, LLC (fka Asurion Corporation)	Insurance	Term Loan B4 (First Lien)	Loan	5.00%	8/4/2022	\$ 2,478,125	2,466,303	2,270,582
Auction.com	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.00%	5/13/2019	\$ 2,522,992	2,522,722	2,491,455
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/24/2017	\$ 2,156,953	2,153,896	2,135,384
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	Term Loan	Loan	4.00%	6/5/2020	\$ 1,488,750	1,485,895	1,397,564
Belmond Interfin Ltd.	Lodging & Casinos	Term Loan	Loan	4.00%	3/19/2021	\$ 491,249	489,361	477,127
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	\$ 1,314,499	1,305,069	1,291,903
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	\$ 1,476,196	1,475,409	1,401,161

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Blue Coat Systems	Technology	Term Loan B	Loan	4.50%	5/20/2022	\$ 997,500	995,159	945,131
BMC Software	Technology	Term Loan	Loan	5.00%	9/10/2020	\$ 1,979,798	1,926,080	1,571,821
Brickman Group Holdings, Inc.	Brokers/Dealers/ Investment Houses	Initial Term Loan (First Lien)	Loan	4.00%	12/18/2020	\$ 1,476,212	1,464,327	1,426,390
Brock Holdings III, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	6.00%	3/16/2017	\$ 1,917,168	1,924,101	1,802,138
Burlington Coat Factory Warehouse Corporation	Retailers (Except Food and Drugs)	Term B-2 Loan	Loan	4.25%	8/13/2021	\$ 1,861,667	1,853,426	1,845,843
BWAY Holding Company	Leisure Goods/ Activities/Movies	Term Loan B	Loan	5.50%	8/14/2020	\$ 985,000	976,335	930,826
Caesars Entertainment Corp.	Lodging & Casinos	Term B-7 Loan	Loan	13.25%	3/1/2017	\$ 995,000	991,037	814,656
Camp International Holding Company	Aerospace and Defense	2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	\$ 1,940,113	1,940,984	1,806,730
Capital Automotive L.P.	Conglomerate	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	\$ 2,051,828	2,055,060	2,044,564
Catalent Pharma Solutions, Inc	Drugs	Initial Term B Loan	Loan	4.25%	5/20/2021	\$ 492,501	490,549	487,271
Cengage Learning Acquisitions, Inc.	Publishing	Term Loan	Loan	7.00%	3/31/2020	\$ 2,647,871	2,670,807	2,539,758
Charter Communications Operating, LLC	Cable and Satellite Television	Term F Loan	Loan	3.00%	12/31/2020	\$ 2,628,783	2,621,343	2,566,823
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term G Loan	Loan	3.75%	12/31/2019	\$ 1,022,569	994,876	974,212
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term H Loan	Loan	4.00%	1/27/2021	\$ 1,881,500	1,828,566	1,785,920
Cinedigm Digital Funding I, LLC	Services: Business	Term Loan	Loan	3.75%	2/28/2018	\$ 298,828	297,362	295,840
CITGO Petroleum Corporation	Oil & Gas	Term Loan B	Loan	4.50%	7/29/2021	\$ 1,984,975	1,962,423	1,865,876
Communications Sales & Leasing, Inc.	Telecommunications	Term Loan B (First Lien)	Loan	5.00%	10/24/2022	\$ 1,990,000	1,978,594	1,847,596
CommScope, Inc.	Telecommunications	Term Loan B	Loan	3.75%	12/29/2022	\$ 498,750	497,568	494,176
Consolidated Aerospace Manufacturing, LLC	Aerospace and Defense	Term Loan (First Lien)	Loan	4.75%	8/11/2022	\$ 1,437,500	1,430,556	1,329,688
Concordia Healthcare Corp	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.25%	10/21/2021	\$ 2,000,000	1,894,483	1,920,000
CPI Acquisition Inc.	Technology	Term Loan B (First Lien)	Loan	5.50%	8/17/2022	\$ 1,436,782	1,415,977	1,396,667
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term B Loan	Loan	4.25%	11/17/2017	\$ 1,564,182	1,564,182	1,501,615
Crosby US Acquisition Corp.	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.00%	11/23/2020	\$ 735,000	734,245	536,550
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan	Loan	5.25%	12/1/2021	\$ 1,485,038	1,471,665	1,433,061
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	\$ 771,625	742,910	721,469
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	\$ 783,162	754,065	734,214
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	\$ 470,093	466,690	304,973
DAE Aviation (StandardAero)	Aerospace and Defense	Term Loan	Loan	5.25%	7/7/2022	\$ 1,995,000	1,985,759	1,970,063

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DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	8.75%	3/19/2018	\$2,409,739	2,397,948	2,409,739
Dell International LLC	Technology	Term Loan B2	Loan	4.00%	4/29/2020	\$2,904,989	2,892,348	2,889,854
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	4.75%	7/30/2021	\$1,000,000	995,870	925,000
Deluxe Entertainment Service Group, Inc.	Leisure Goods/ Activities/Movies	Term Loan (First Lien)	Loan	6.50%	2/28/2020	\$1,882,983	1,884,279	1,751,174
Diamond Resorts International	Lodging & Casinos	Term Loan	Loan	5.50%	5/7/2021	\$ 926,971	923,222	897,614
Diamond Resorts International	Lodging & Casinos	Term Loan (Add-On)	Loan	5.50%	5/7/2021	\$1,000,000	980,687	968,330
DJO Finance LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	4.25%	6/8/2020	\$ 497,500	495,435	478,222
DPX Holdings B.V.	Healthcare & Pharmaceuticals	Term Loan 2015	Loan	4.25%	3/11/2021	\$2,955,000	2,948,456	2,799,863
Drew Marine Group Inc.	Chemicals/Plastics	Incr Dollar Term Loan (First Lien)	Loan	4.25%	11/19/2020	\$2,472,161	2,445,601	2,299,110
DTZ U.S. Borrower LLC	Construction & Building	Term Loan B Add-on	Loan	4.25%	11/4/2021	\$2,985,000	2,970,317	2,869,331
Edelman Financial Group Inc.	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	6.50%	12/19/2022	\$1,500,000	1,470,617	1,459,695
Education Management LLC	Leisure Goods/ Activities/Movies	Term Loan A	Loan	5.50%	7/2/2020	\$ 501,970	485,313	160,630
Education Management LLC	Leisure Goods/ Activities/Movies	Term Loan B (2.00% Cash/6.50% PIK)	Loan	8.50%	7/2/2020	\$ 893,447	867,647	56,582
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	8/1/2021	\$ 484,659	482,690	473,148
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	7.75%	8/1/2022	\$ 500,000	497,844	468,750
Emerald 2 Limited	Chemicals/Plastics	Term Loan B1A	Loan	5.00%	5/14/2021	\$1,000,000	991,762	866,670
Endo International plc	Healthcare & Pharmaceuticals	Term Loan B	Loan	3.75%	9/26/2022	\$1,000,000	997,602	987,780
EnergySolutions, LLC	Environmental Industries	Term Loan B	Loan	6.75%	5/29/2020	\$ 937,857	923,660	731,528
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	\$ 965,081	963,406	719,951
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	\$1,967,406	1,962,950	1,908,383
Federal-Mogul Corporation	Automotive	Tranche C Term Loan	Loan	4.75%	4/15/2021	\$2,955,000	2,943,580	2,345,530
First Data Corporation	Financial Intermediaries	First Data Corp T/L (2018 New Dollar)	Loan	3.93%	3/23/2018	\$2,790,451	2,748,229	2,752,780
First Data Corporation	Financial Intermediaries	First Data T/L Ext (2021)	Loan	4.43%	3/24/2021	\$2,111,028	2,034,284	2,077,779
First Eagle Investment Management	Banking, Finance, Insurance & Real Estate	Term Loan	Loan	4.75%	12/1/2022	\$1,500,000	1,470,946	1,412,504
Fitness International, LLC	Leisure Goods/ Activities/Movies	Term Loan B	Loan	5.50%	7/1/2020	\$1,976,234	1,945,935	1,850,249
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/ Minerals	Loan	Loan	4.25%	6/28/2019	\$1,962,387	1,962,515	1,504,738
Garda World Security Corporation	Services: Business	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	\$ 199,120	198,391	187,344
Garda World Security Corporation	Services: Business	Term B Loan	Loan	4.00%	11/6/2020	\$ 778,380	775,586	732,346
Gardner Denver, Inc.	High Tech Industries	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	\$2,451,137	2,445,005	2,016,452



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Gates Global LLC	Leisure Goods/ Activities/Movies	Term Loan (First Lien)	Loan	4.25%	7/5/2021	\$ 493,750	488,813	433,883
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.50%	5/31/2020	\$ 693,858	684,537	676,511
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	\$4,131,271	4,121,165	4,012,497
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	5.00%	5/26/2020	\$2,725,318	2,717,647	2,237,023
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	3.75%	4/30/2019	\$2,000,000	1,974,077	2,005,000
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/ Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	\$1,264,036	1,259,418	1,191,354
GTCR Valor Companies, Inc.	Services: Business	Term Loan (First Lien)	Loan	6.00%	6/1/2021	\$1,974,982	1,941,456	1,959,340
Harland Clarke Holdings Corp. (fka Clarke American Corp.)	Publishing	Tranche B-4 Term Loan	Loan	6.00%	8/2/2019	\$ 475,000	473,378	421,561
HCA Inc.	Healthcare & Pharmaceuticals	Tranche B-4 Term Loan	Loan	3.36%	5/1/2018	\$2,119,664	2,053,127	2,116,294
Headwaters Incorporated	Building & Development	Term Loan	Loan	4.50%	3/24/2022	\$ 248,750	247,628	248,285
Hercules Achievement Holdings, Inc.	Retailers (Except Food and Drugs)	Term Loan B	Loan	5.00%	12/10/2021	\$ 249,370	246,940	244,929
Hertz Corporation, The	Automotive	Tranche B-1 Term Loan	Loan	3.75%	3/12/2018	\$2,910,000	2,933,230	2,879,998
Hoffmaster Group, Inc.	Containers/Glass Products	Term Loan	Loan	5.25%	5/8/2020	\$1,970,000	1,955,325	1,915,825
Hostess Brand, LLC	Beverage, Food & Tobacco	Term Loan B (First Lien)	Loan	4.50%	8/3/2022	\$ 997,500	995,241	983,784
Huntsman International LLC	Chemicals/Plastics	Term Loan B (First Lien)	Loan	3.52%	4/19/2019	\$3,840,541	3,814,577	3,727,245
Husky Injection Molding Systems Ltd. Infor (US), Inc. (fka Lawson Software Inc.)	Services: Business	Term Loan B	Loan	4.25%	6/30/2021	\$ 491,196	489,277	465,757
Insight Global Informatica Corporation	Services: Business High Tech Industries	Term Loan	Loan	3.75%	6/3/2020	\$2,188,296	2,174,333	2,015,049
J. Crew Group, Inc.	Services: Business	Term Loan	Loan	6.00%	10/29/2021	\$1,979,592	1,971,967	1,961,439
Jazz Acquisition, Inc	Retailers (Except Food and Drugs)	Term Loan B-1 Loan Retired 03/05/2014	Loan	4.00%	3/5/2021	\$ 955,481	955,481	639,379
J.Jill Group, Inc.	Aerospace and Defense	First Lien 6/14	Loan	4.50%	6/19/2021	\$ 492,727	491,745	434,832
Kinetic Concepts, Inc.	Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	6.00%	5/9/2022	\$ 995,000	990,362	925,350
Koosharem, LLC	Healthcare & Pharmaceuticals	Dollar Term D-1 Loan	Loan	4.50%	5/4/2018	\$2,452,586	2,436,004	2,392,645
Kraton Polymers, LLC	Services: Business	Term Loan	Loan	7.50%	5/15/2020	\$2,965,050	2,942,458	2,683,370
LPL Holdings	Chemicals/Plastics	Term Loan (Initial)	Loan	6.00%	1/6/2022	\$2,500,000	2,252,500	2,250,000
Mauser Holdings, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B (2022)	Loan	4.75%	11/21/2022	\$2,000,000	1,980,543	1,900,000
Michaels Stores, Inc.	Containers/Glass Products	Term Loan	Loan	4.50%	7/31/2021	\$ 493,750	491,750	475,234
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term B Loan	Loan	3.75%	1/28/2020	\$ 486,250	486,250	479,792
Micro Holding Corp.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	4.00%	1/28/2020	\$1,212,794	1,208,220	1,201,042
Microsemi Corporation	High Tech Industries	Term Loan	Loan	4.75%	7/8/2021	\$ 992,447	987,851	950,268
	Electronics/Electric	Term Loan B	Loan	5.25%	1/15/2023	\$2,183,824	2,119,162	2,180,177

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Midas Intermediate Holdco II, LLC		Term Loan (Initial)	Loan	4.50%	8/18/2021	\$ 246,875	245,802	244,098
MPH Acquisition Holdings LLC	Automotive							
MSC Software Corp.	Healthcare & Pharmaceuticals	Term Loan	Loan	3.75%	3/31/2021	\$ 376,136	375,400	366,500
National Veterinary Associates, Inc	Services: Business	Term Loan	Loan	5.00%	5/29/2020	\$ 985,000	977,601	886,500
National Vision, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	8/14/2021	\$ 987,526	984,296	959,549
Neptune Finco (CSC Holdings)	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	6.75%	3/11/2022	\$ 250,000	249,729	218,750
New Millennium Holdco	Cable and Satellite Television	Term Loan	Loan	5.00%	10/7/2022	\$ 1,000,000	985,784	989,750
Nortek, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	7.50%	12/21/2020	\$ 2,007,042	1,811,375	1,822,655
NorthStar Asset Management Group Inc.	Electronics/Electric	Loan B	Loan	3.50%	10/30/2020	\$ 985,022	974,747	939,464
Novelis, Inc.	Banking, Finance, Insurance & Real Estate	Term Loan B	Loan	4.63%	1/30/2023	\$ 2,000,000	1,930,000	1,950,000
Novetta Solutions	Conglomerate	Loan B	Loan	4.00%	6/2/2022	\$ 4,771,058	4,749,389	4,440,090
Novetta Solutions	Aerospace and Defense	Term Loan (200MM)	Loan	6.00%	10/16/2022	\$ 2,000,000	1,980,636	1,940,000
NPC International, Inc.	Aerospace and Defense	Term Loan (2nd Lien)	Loan	9.50%	9/29/2023	\$ 1,000,000	990,269	950,000
NRG Energy, Inc.	Food Services	Term Loan (2013)	Loan	4.75%	12/28/2018	\$ 481,250	481,250	472,829
Numericable	Utilities	Term Loan (2013)	Loan	2.75%	7/2/2018	\$ 3,821,925	3,808,282	3,751,449
NuSil Technology LLC.	Broadcast Radio and Television	Term Loan B-5	Loan	4.56%	7/31/2022	\$ 997,500	995,164	953,171
Onex Carestream Finance LP	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	\$ 789,045	789,045	774,645
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	5.00%	6/7/2019	\$ 3,832,558	3,821,232	3,244,912
OpenLink International LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	10/1/2021	\$ 493,749	490,644	459,435
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Services: Business	Term Loan	Loan	6.25%	10/30/2017	\$ 2,944,496	2,943,282	2,811,994
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Food/Drug Retailers	Term Borrowing	Loan	4.25%	6/24/2019	\$ 1,432,750	1,427,110	1,336,039
Penn Products Terminal, LLC	Services: Business	Term Loan (First Lien)	Loan	5.00%	10/30/2020	\$ 980,000	976,133	774,200
PetCo Animal Supplies Stores, Inc.	Chemicals/Plastics	Term Loan B	Loan	4.75%	4/13/2022	\$ 248,125	246,994	218,350
PetCo Animal Supplies Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-1	Loan	5.75%	1/15/2023	\$ 1,000,000	980,217	978,590
Petsmart, Inc. (Argos Merger Sub, Inc.)	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	5.62%	1/15/2023	\$ 1,000,000	980,216	978,960
PGX Holdings, Inc.	Financial Intermediaries	Term Loan B1	Loan	4.25%	3/11/2022	\$ 992,500	987,862	961,176
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Financial Intermediaries	Term Loan	Loan	5.75%	9/29/2020	\$ 954,643	947,123	941,917
Phillips-Medisize Corporation	Conglomerate	Term Loan	Loan	4.25%	8/18/2022	\$ 1,920,848	1,911,850	1,872,346
Physio-Control International, Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	4.75%	6/16/2021	\$ 492,500	490,535	458,025
Pinnacle Foods Finance LLC	Healthcare & Pharmaceuticals	Loan B	Loan	5.50%	6/6/2022	\$ 498,750	496,371	498,127
	Food Products	New Term Loan G	Loan	3.00%	4/29/2020	\$ 2,581,332	2,577,286	2,553,737

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Planet Fitness Holdings LLC	Leisure Goods/ Activities/Movies	Term Loan	Loan	4.75%	3/31/2021	\$ 2,417,118	2,410,079	2,368,776
PrePaid Legal Services, Inc.	Services: Business	Term Loan	Loan	6.50%	7/1/2019	\$ 724,167	721,080	716,020
Presidio, Inc.	Services: Business	Term Loan	Loan	5.25%	2/2/2022	\$ 1,902,292	1,846,615	1,816,688
Prime Security Services (Protection One)	Services: Business	Term Loan	Loan	5.00%	7/1/2021	\$ 1,995,000	1,985,640	1,924,178
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	4.25%	10/1/2021	\$ 938,354	936,008	886,745
Ranpak Holdings, Inc.	Services: Business	Term Loan (Second Lien)	Loan	8.25%	10/3/2022	\$ 500,000	497,866	400,000
Redtop Acquisitions Limited		Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	\$ 490,000	487,461	482,444
Regal Cinemas Corporation	Electronics/Electric Services: Consumer	Term Loan	Loan	3.75%	4/1/2022	\$ 497,500	496,320	496,256
Research Now Group, Inc.	Media	Loan B	Loan	5.50%	3/18/2021	\$ 2,058,445	2,048,627	1,996,692
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	\$ 1,630,123	1,631,387	1,557,647
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.50%	12/1/2018	\$ 1,910,551	1,910,551	1,902,946
Riverbed Technology, Inc.	Technology	Term Loan B	Loan	6.00%	2/25/2022	\$ 992,500	988,224	970,873
Rocket Software, Inc.	Services: Business	Term Loan (First Lien)	Loan	5.75%	2/8/2018	\$ 1,901,835	1,889,759	1,889,150
Rovi Solutions Corporation / Rovi Guides, Inc.		Tranche B-3 Term Loan	Loan	3.75%	7/2/2021	\$ 1,477,500	1,471,640	1,422,094
Royal Adhesives and Sealants	Electronics/Electric	Term Loan (First Lien)	Loan	4.50%	6/20/2022	\$ 497,500	495,187	479,675
Royal Adhesives and Sealants	Chemicals/Plastics	Term Loan (Second Lien)	Loan	8.50%	6/19/2023	\$ 500,000	496,388	478,335
RPI Finance Trust	Chemicals/Plastics	Term B-4 Term Loan	Loan	3.50%	11/9/2020	\$ 5,155,193	5,155,193	5,132,665
Sable International Finance Ltd	Financial Intermediaries	Term Loan	Loan	5.50%	12/2/2022	\$ 825,000	808,500	800,770
Sable International Finance Ltd	Telecommunications	Loan B1	Loan	5.50%	12/2/2022	\$ 675,000	661,500	655,175
SBP Holdings LP	Telecommunications	Loan B2	Loan	5.50%	12/2/2022	\$ 675,000	661,500	655,175
SBP Holdings LP	Industrial Equipment	Term Loan (First Lien)	Loan	5.00%	3/27/2021	\$ 982,500	978,645	707,400
Scientific Games International, Inc.	Electronics/Electric	Loan B2	Loan	6.00%	10/1/2021	\$ 990,000	981,872	904,613
SCS Holdings (Sirius Computer)	High Tech Industries	Term Loan (First Lien)	Loan	6.00%	10/30/2022	\$ 1,977,528	1,939,305	1,937,978
Seadrill Operating LP	Oil & Gas	Term Loan B	Loan	4.00%	2/21/2021	\$ 987,406	919,799	407,305
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	4.50%	5/9/2017	\$ 1,905,121	1,902,477	1,826,534
ServiceMaster Company, The		Tranche B Term Loan	Loan	4.25%	7/1/2021	\$ 1,975,000	1,959,254	1,956,889
Shearers Foods LLC	Conglomerate Food Services	Term Loan (First Lien)	Loan	4.94%	6/30/2021	\$ 987,500	985,421	952,938
Sitel Worldwide	Telecommunications	Term Loan	Loan	6.50%	9/18/2021	\$ 1,995,000	1,976,131	1,931,160
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.75%	12/10/2020	\$ 222,750	222,282	220,801
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	4.75%	12/10/2020	\$ 1,262,250	1,259,600	1,251,205

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Sophia, L.P.	Electronics/Electric	Term Loan (Closing Date)	Loan	4.75%	9/30/2022	\$ 1,995,000	1,985,507	1,911,469
SourceHOV LLC	Services: Business	Term Loan B (First Lien)	Loan	7.75%	10/31/2019	\$ 1,937,500	1,891,680	1,541,281
SRAM, LLC	Industrial Equipment	Term Loan (First Lien)	Loan	4.00%	4/10/2020	\$ 2,904,577	2,896,630	2,207,479
Staples, Inc.	Retailers (Except Food and Drugs)	Term Loan 1/16	Loan	4.75%	4/23/2021	\$ 1,000,000	990,308	992,130
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	4.75%	3/19/2021	\$ 965,341	957,952	946,034
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	\$ 222,900	220,105	67,520
Survey Sampling International	Services: Business	Term Loan B	Loan	6.00%	12/16/2020	\$ 992,500	990,554	970,169
Sybil Finance BV	High Tech Industries	Term Loan	Loan	4.25%	3/20/2020	\$ 1,272,143	1,270,803	1,253,061
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	\$ 479,913	476,927	311,944
TaxACT, Inc.	Services: Business	Term Loan B	Loan	7.00%	1/3/2023	\$ 1,860,000	1,805,035	1,804,200
TGI Friday's, Inc.	Food Services	Term Loan B	Loan	5.25%	7/15/2020	\$ 1,651,816	1,647,936	1,636,669
Townsquare Media, Inc.	Media	Term Loan B	Loan	4.25%	4/1/2022	\$ 932,522	928,333	915,624
TPF II Power LLC and TPF II Covert Midco LLC	Utilities	Term Loan B	Loan	5.50%	10/2/2021	\$ 1,491,826	1,433,943	1,396,722
TransDigm, Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	\$ 4,277,294	4,283,815	4,148,975
Travel Leaders Group, LLC	Hotel, Gaming and Leisure	Term Loan B	Loan	7.00%	12/7/2020	\$ 1,946,300	1,939,729	1,917,107
Tricorbrown, Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	\$ 1,836,625	1,831,636	1,776,935
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare & Pharmaceuticals	New Tranche B Term Loan	Loan	4.50%	6/6/2019	\$ 482,603	476,598	480,494
Twin River Management Group, Inc.	Lodging & Casinos	Term Loan B	Loan	5.25%	7/10/2020	\$ 886,192	887,853	875,673
U.S. Security Associates Holdings, Inc.	Services: Business	Delayed Draw Loan	Loan	6.25%	7/28/2017	\$ 156,888	156,328	155,973
U.S. Security Associates Holdings, Inc.	Services: Business	Term B Loan	Loan	6.25%	7/28/2017	\$ 921,426	918,393	916,054
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	4.25%	7/1/2022	\$ 2,992,500	2,978,573	2,840,810
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	\$ 2,916,556	2,903,859	2,832,705
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	3.50%	2/13/2019	\$ 2,545,588	2,539,315	2,385,700
Verint Systems Inc.	Services: Business	Term Loan	Loan	3.50%	9/6/2019	\$ 1,014,058	1,011,203	1,005,692
Vertafore, Inc.	Services: Business	Term Loan (2013)	Loan	4.25%	10/3/2019	\$ 2,484,603	2,484,603	2,452,775
Vizient Inc.	Healthcare & Pharmaceuticals	Term Loan	Loan	6.25%	2/13/2023	\$ 1,000,000	970,144	993,750
Vouvray US Finance	Industrial Equipment	Term Loan	Loan	4.75%	6/27/2021	\$ 492,500	490,508	478,134

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Washington Inventory Service		U.S. Term Loan						
	Services: Business	(First Lien)	Loan	5.75%	12/20/2018	\$1,736,392	1,749,291	1,475,934
West Corporation		Term B-10						
	Telecommunications	Loan	Loan	3.25%	6/30/2018	\$2,534,892	2,558,782	2,490,861
ZEP Inc.		Term Loan						
	Chemicals/Plastics	B	Loan	5.50%	6/27/2022	\$2,985,000	2,971,139	2,932,763
							<u>\$303,643,756</u>	<u>\$284,844,789</u>
						<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Cash and cash equivalents</b>								
U.S. Bank Money Market (a)						<u>\$2,349,633</u>	<u>\$2,349,633</u>	<u>\$ 2,349,633</u>
<b>Total cash and cash equivalents</b>						<u>\$2,349,633</u>	<u>\$2,349,633</u>	<u>\$ 2,349,633</u>

(a) Included within cash and cash equivalents in Saratoga CLO's Statements of Assets and Liabilities as of February 29, 2016.

Saratoga Investment Corp. CLO 2013-1 Ltd.

Schedule of Investments

February 28, 2015

Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Education Management II LLC	Leisure Goods/Activities/Movies	A-1 Preferred Shares	Equity	0.00%		6,692	\$ 669,214	\$ 437,188
Education Management II LLC	Leisure Goods/Activities/Movies	A-2 Preferred Shares	Equity	0.00%		18,975	1,897,538	180,263
24 Hour Holdings III LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.75%	5/28/2021	\$ 497,500	493,004	492,276
Acosta Holdco Inc.	Media	Term Loan B	Loan	5.00%	9/27/2021	\$ 1,995,000	1,981,328	2,004,416
Aderant North America, Inc.	Services: Business	Term Loan (First Lien)	Loan	5.25%	12/20/2018	\$ 3,260,898	3,260,898	3,240,517
Advantage Sales & Marketing Inc.	Services: Business	Delayed Draw Term Loan	Loan	4.25%	7/25/2021	\$ 1,995,000	1,993,940	1,984,287
AECOM Technology Corporation	Services: Business	Term Loan B	Loan	3.75%	10/15/2021	\$ 319,903	318,380	321,304
Aegis Toxicology Science Corporation	Healthcare & Pharmaceuticals	Term B Loan	Loan	5.50%	2/24/2021	\$ 995,000	995,000	997,488
Akorn, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.50%	4/16/2021	\$ 498,750	496,691	500,411
Albertson's LLC	Retailers (Except Food and Drugs)	Term Loan B-4	Loan	5.50%	8/25/2021	\$ 3,410,000	3,389,632	3,437,723
Alere Inc. (fka IM US Holdings, LLC)	Healthcare & Pharmaceuticals	Incremental B-1 Term Loan	Loan	4.25%	6/30/2017	\$ 1,529,610	1,529,610	1,529,610
American Tire Distributors Inc	Automotive	Term Loan	Loan	5.75%	6/1/2018	\$ 496,487	496,486	497,108
Aramark Corporation	Food Products	LC-2 Facility	Loan	3.74%	7/26/2016	\$ 79,187	79,178	78,395
Aramark Corporation	Food Products	LC-3 Facility	Loan	3.74%	7/26/2016	\$ 43,961	43,961	43,521
Aramark Corporation	Food Products	U.S. Term F Loan	Loan	3.25%	2/24/2021	\$ 3,182,489	3,182,489	3,168,581
ARG IH Corp	Food Services	Term Loan	Loan	4.75%	11/15/2020	\$ 495,000	494,038	495,312
Asurion, LLC (fka Asurion Corporation)	Insurance	Incremental Tranche B-1 Term Loan	Loan	5.00%	5/24/2019	\$ 5,412,086	5,370,590	5,424,642
Auction.Com, LLC	Services: Business	Term Loan A-4	Loan	4.40%	2/28/2017	\$ 914,567	914,567	905,422
Avantor Performance Materials Holdings, Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/24/2017	\$ 4,319,115	4,309,242	4,297,520
Avast Software	Electronics/Electric	Term Loan	Loan	4.75%	3/20/2020	\$ 1,925,000	1,923,275	1,937,031
AZ Chem US Inc.	Chemicals/Plastics	Term Loan	Loan	5.25%	6/12/2021	\$ 467,123	464,958	466,614
Bass Pro Group, LLC	Retailers (Except Food and Drugs)	New Term Loan	Loan	3.75%	11/20/2019	\$ 493,623	493,111	492,236
Bayonne Energy Center	Oil & Gas	Term Loan B	Loan	5.00%	8/19/2021	\$ 969,671	965,093	964,416
Belmond Hotels	Lodging & Casinos	Term Loan	Loan	4.00%	3/19/2021	\$ 496,250	494,055	495,009
Berry Plastics Corporation	Chemicals/Plastics	Term E Loan	Loan	3.75%	1/6/2021	\$ 1,814,499	1,802,403	1,812,648
Big Heart Pet Brands (fka Del Monte Corporation)	Food/Drug	Initial Term Loan	Loan	3.50%	3/9/2020	\$ 2,977,500	2,996,769	2,971,307
Biomet, Inc.	Healthcare & Pharmaceuticals	Dollar Term B-2 Loan	Loan	3.65%	7/25/2017	\$ 1,840,718	1,840,718	1,838,601

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/Number of Shares	Cost	Fair Value
BJ's Wholesale Club, Inc.	Food/Drug Retailers	New 2013 (November) Replacement Loan (First Lien)	Loan	4.50%	9/26/2019	\$1,489,975	1,488,922	1,483,374
Bombardier Recreational Products Inc.	Leisure Goods/Activities/Movies	Term B Loan Initial Term Loan	Loan	4.00%	1/30/2019	\$ 754,286	750,287	747,120
Brickman Group Holdings, Inc.	Brokers/Dealers/Investment Houses	Term Loan (First Lien)	Loan	4.00%	12/18/2020	\$1,491,237	1,478,800	1,478,935
Brock Holdings III, Inc.	Industrial Equipment Retailers (Except Food and Drugs)	Term Loan (First Lien)	Loan	6.00%	3/16/2017	\$1,938,503	1,952,391	1,904,580
Burlington Coat Factory Warehouse Corporation BWAY	Leisure Goods/Activities/Movies	Term B-2 Loan	Loan	4.25%	8/13/2021	\$1,945,000	1,935,814	1,942,219
Caesars Entertainment Corp.	Lodging & Casinos	Term Loan B	Loan	5.50%	8/14/2020	\$ 995,000	985,881	998,423
Camp International Holding Company	Aerospace and Defense	Term B-7 Loan	Loan	9.75%	1/28/2018	\$ 995,000	989,028	917,141
Capital Automotive L.P.	Conglomerate	2013 Replacement Term Loan (First Lien)	Loan	4.75%	5/31/2019	\$1,960,046	1,965,495	1,969,846
Catalent Pharma Solutions, Inc	Drugs	Tranche B-1 Term Loan Facility	Loan	4.00%	4/10/2019	\$2,079,313	2,083,783	2,084,511
Celanese US Holdings LLC	Chemicals/Plastics	Initial Term B Loan	Loan	4.25%	5/20/2021	\$ 497,500	495,170	498,401
Cengage Learning	Cable and Satellite	Dollar Term C-2 Commitment	Loan	2.49%	10/31/2018	\$2,154,560	2,180,598	2,157,533
Charter Communications Operating, LLC	Television	Term Loan	Loan	7.00%	3/31/2020	\$2,731,869	2,761,735	2,733,235
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	Term F Loan 2017 Term E Loan	Loan	3.00%	12/31/2020	\$2,655,745	2,646,932	2,646,344
CHS/Community Health Systems, Inc.	Healthcare & Pharmaceuticals	2021 Term D Loan	Loan	3.49%	1/25/2017	\$1,097,818	1,074,945	1,097,193
Cinedigm Digital Funding I, LLC	Services: Business	Term Loan	Loan	4.25%	1/27/2021	\$2,926,052	2,844,886	2,935,210
CITGO Petroleum	Oil & Gas	Term Loan B	Loan	3.75%	2/28/2018	\$ 562,001	557,872	561,298
ClubCorp Club Operations, Inc.	Lodging & Casinos	Term Loan B	Loan	4.50%	7/29/2021	\$ 997,500	994,095	979,106
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Electronics/Electric	Term Loan B	Loan	4.50%	7/24/2020	\$ 500,000	496,250	500,315
Crosby US Acquisition Corp.	Industrial Equipment	Initial Term Loan (First Lien)	Loan	4.25%	11/17/2017	\$3,595,331	3,595,331	3,570,631
Crown Castle Operating Company	Telecommunications/Cellular	Extended Incremental Tranche B-2 Term Loan	Loan	3.75%	11/23/2020	\$ 742,500	741,718	681,244
CT Technologies Intermediate Hldgs, Inc	Healthcare & Pharmaceuticals	Term Loan (First Lien)	Loan	3.00%	1/31/2021	\$2,435,594	2,433,546	2,430,723
Culligan International Company	Conglomerate	Term Loan (First Lien)	Loan	6.00%	12/1/2021	\$1,500,000	1,485,423	1,505,625
Culligan International Company	Conglomerate	Dollar Loan (First Lien)	Loan	6.25%	12/19/2017	\$ 779,642	736,275	765,998
Culligan International Company	Conglomerate	Dollar Loan (Second Lien)	Loan	9.50%	6/19/2018	\$ 783,162	739,367	727,033
Cumulus Media Holdings Inc.	Broadcast Radio and Television	Term Loan	Loan	4.25%	12/23/2020	\$ 470,093	466,100	466,863
Custom Sensors	Industrial Equipment	Term Loan	Loan	4.50%	9/30/2021	\$ 498,750	497,651	498,750

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
DaVita HealthCare Partners Inc. (fka DaVita Inc.)	Healthcare & Pharmaceuticals	Tranche B Term Loan	Loan	3.50%	6/24/2021	\$ 497,500	495,228	498,062
DCS Business Services, Inc.	Financial Intermediaries	Term B Loan	Loan	7.25%	3/19/2018	\$3,460,027	3,436,485	3,413,835
Dealertrack Technologies, Inc.	Leisure Goods/ Activities/Movies	Term B Loan	Loan	3.25%	2/26/2021	\$ 477,011	475,991	474,230
Dell International LLC	Retailers (Except Food and Drugs)	Term B Loan	Loan	4.50%	4/29/2020	\$2,969,962	2,957,576	2,980,684
Delos Finance SARL	Financial Intermediaries	Term Loan	Loan	3.50%	3/6/2021	\$ 500,000	497,835	499,790
Delta 2 (Lux) S.a.r.l.	Lodging & Casinos	Term Loan B-3	Loan	4.75%	7/30/2021	\$1,000,000	995,314	995,630
Deluxe Entertainment Service Group, Inc.	Leisure Goods/ Activities/Movies	Term Loan (First Lien)	Loan	6.50%	2/28/2020	\$1,882,983	1,884,624	1,835,908
Devix US, Inc.	Chemicals/Plastics	Term Loan	Loan	4.25%	5/2/2021	\$ 250,000	247,710	250,938
Devix US, Inc.	Chemicals/Plastics	Term Loan (Second Lien)	Loan	8.00%	5/2/2022	\$ 497,500	495,324	497,500
Diamond Resorts International	Lodging & Casinos	Term Loan	Loan	5.50%	5/9/2021	\$ 995,000	990,370	999,975
Dollar Tree	Retail	Term Loan B (3950MM)	Loan	4.25%	3/9/2022	\$1,000,000	995,000	1,007,500
DPX Holdings B.V.	Healthcare & Pharmaceuticals	Term Loan	Loan	4.25%	3/11/2021	\$2,985,000	2,978,605	2,962,075
Drew Marine Group Inc.	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	11/19/2020	\$1,489,975	1,495,721	1,473,213
Education Management LLC	Leisure Goods/ Activities/Movies	Term Loan A	Loan	5.50%	7/2/2020	\$ 501,970	482,120	457,295
Education Management LLC	Leisure Goods/ Activities/Movies	Term Loan B		8.50% (2.00% Cash/6.50% PIK)	7/2/2020	\$ 836,617	805,283	672,882
EIG Investors Corp.	Services: Business	Term Loan	Loan	5.00%	11/8/2019	\$ 987,500	983,552	989,969
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	4.50%	8/1/2021	\$ 498,750	496,403	496,102
Emerald Performance Materials, LLC	Chemicals/Plastics	Term Loan (Second Lien)	Loan	7.75%	8/1/2022	\$ 500,000	497,553	484,845
EnergySolutions, LLC	Oil & Gas	Term Loan B	Loan	6.75%	5/29/2020	\$ 937,857	921,126	942,546
Enviromental Resources Management	Services: Business	Term Loan	Loan	5.00%	5/14/2021	\$1,000,000	990,000	985,000
Evergreen Acqco 1 LP	Retailers (Except Food and Drugs)	New Term Loan	Loan	5.00%	7/9/2019	\$ 975,056	972,887	955,555
EWT Holdings III Corp. (fka WTG Holdings III Corp.)	Industrial Equipment	Term Loan (First Lien)	Loan	4.75%	1/15/2021	\$1,987,481	1,982,274	1,972,575
Federal-Mogul Corporation	Automotive	Tranche C Term Loan 2017	Loan	4.75%	4/15/2021	\$2,985,000	2,971,883	2,975,687
First Data Corporation	Financial Intermediaries	Second New Dollar Term Loan	Loan	3.74%	3/23/2018	\$2,790,451	2,729,399	2,785,568
First Data Corporation	Financial Intermediaries	2018 Dollar Term Loan	Loan	4.24%	3/24/2021	\$2,111,028	2,021,476	2,115,777
Fitness International, LLC	Leisure Goods/ Activities/Movies	Term Loan B	Loan	5.50%	7/1/2020	\$1,492,500	1,482,322	1,421,606
FMG Resources (August 2006) Pty LTD (FMG America Finance, Inc.)	Nonferrous Metals/ Minerals	Term Loan	Loan	3.75%	6/28/2019	\$1,982,462	1,982,212	1,835,423



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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Four Seasons Holdings Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	3.50%	6/27/2020	\$ 493,750	493,750	491,281
Garda World Security Corporation	Services: Business	Term B Delayed Draw Loan	Loan	4.00%	11/6/2020	\$ 201,157	200,308	199,146
Garda World Security Corporation Gardner Denver, Inc.	Services: Business Oil & Gas	Term B Loan	Loan	4.00%	11/6/2020	\$ 786,343	783,060	778,479
Gates Global LLC	Leisure Goods/ Activities/Movies	Initial Dollar Term Loan	Loan	4.25%	7/30/2020	\$ 2,476,212	2,467,608	2,377,164
Generac Power Systems, Inc.	Industrial Equipment	Term Loan (First Lien)	Loan	4.25%	7/3/2021	\$ 498,750	493,763	494,885
Generac Power Systems, Inc.	Industrial Equipment	Term Loan B	Loan	3.25%	5/29/2020	\$ 802,956	789,932	797,182
General Nutrition Centers, Inc.	Retailers (Except Food and Drugs)	Amended Tranche B Term Loan	Loan	3.25%	3/4/2019	\$ 4,724,136	4,709,712	4,649,353
Global Tel*Link Corporation	Services: Business	Term Loan (First Lien)	Loan	5.00%	5/26/2020	\$ 2,755,515	2,747,025	2,719,914
Goodyear Tire & Rubber Company, The	Chemicals/Plastics	Loan (Second Lien)	Loan	4.75%	4/30/2019	\$ 3,333,333	3,296,753	3,347,933
Grosvenor Capital Management Holdings, LP	Brokers/Dealers/ Investment Houses	Initial Term Loan	Loan	3.75%	1/4/2021	\$ 3,395,892	3,381,240	3,353,443
GTCR Valor Companies, Inc.	Services: Business	Term Loan (First Lien)	Loan	6.00%	6/1/2021	\$ 1,995,000	1,981,582	1,965,075
Harland Clarke Holdings Corp. (fka Clarke American Corp.) HCA Inc.	Publishing Healthcare & Pharmaceuticals	Tranche B-4 Term Loan	Loan	6.00%	8/2/2019	\$ 487,500	485,460	488,963
		Tranche B-4 Term Loan	Loan	2.99%	5/1/2018	\$ 5,663,006	5,409,534	5,658,872
Hertz Corporation, The	Automotive Containers/Glass	Tranche B-1 Term Loan	Loan	4.00%	3/12/2018	\$ 2,940,000	2,975,234	2,927,152
Hoffmaster Group, Inc.	Products	Term Loan	Loan	5.25%	5/8/2020	\$ 1,990,000	1,972,040	1,999,950
Huntsman International LLC	Chemicals/Plastics	Term Loan Extended Term B	Loan	2.69%	4/19/2017	\$ 3,880,270	3,866,113	3,872,199
Husky Injection	Services: Business	Loan	Loan	2.69%	4/19/2017	\$ 3,880,270	3,866,113	3,872,199
Ikaria, Inc.	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.25%	6/30/2021	\$ 498,099	495,886	495,818
Ikaria, Inc.	Healthcare & Pharmaceuticals	Initial Term Loan (First Lien)	Loan	5.00%	2/12/2021	\$ 435,702	433,809	434,251
Infor (US), Inc. (fka Lawson Software Inc.)	Services: Business	Tranche B-5 Term Loan	Loan	3.75%	6/3/2020	\$ 2,211,036	2,194,068	2,190,650
Insight Global	Services: Business	Loan	Loan	3.75%	6/3/2020	\$ 2,211,036	2,194,068	2,190,650
J. Crew Group, Inc.	Retailers (Except Food and Drugs)	Term Loan	Loan	6.00%	10/29/2021	\$ 2,000,000	1,990,539	1,993,760
Jazz Acquisition, Inc	Aerospace and Defense	Term B-1 Loan	Loan	4.00%	3/5/2021	\$ 965,206	965,206	906,493
Kinetic Concepts, Inc. Koosharem, LLC	Healthcare & Pharmaceuticals Services: Business	Retired 03/05/2014 First Lien	Loan	4.00%	3/5/2021	\$ 965,206	965,206	906,493
		6/14 Dollar Term D-1 Loan	Loan	4.50%	6/19/2021	\$ 497,576	496,332	492,913
		Loan	Loan	4.00%	5/4/2018	\$ 2,477,613	2,453,687	2,477,167
		Term Loan	Loan	7.50%	5/15/2020	\$ 2,995,000	2,968,450	2,961,306
La Quinta Holdings, Inc.	Lodging & Casinos	Term Loan (First Lien)	Loan	4.00%	4/14/2021	\$ 451,283	449,626	450,719
Level 3 Financing, Inc.	Telecommunications	Term Loan B	Loan	4.50%	1/31/2022	\$ 500,000	496,541	502,085
Mauser Holdings, Inc. Michaels Stores, Inc.	Containers/Glass Products Retailers (Except Food and Drugs)	Term Loan	Loan	4.50%	7/31/2021	\$ 498,750	496,409	491,269
		Term B Loan	Loan	3.75%	1/28/2020	\$ 491,250	491,250	488,258

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/ Number of Shares	Cost	Fair Value
Michaels Stores, Inc.	Retailers (Except Food and Drugs)	Term Loan B-2	Loan	4.00%	1/28/2020	\$ 1,492,500	1,485,638	1,488,769
Microsemi Corporation	Electronics/Electric	Incremental Term Loan	Loan	3.50%	2/19/2020	\$ 2,393,981	2,389,500	2,381,509
Microsemi Corporation	Electronics/Electric	Term Loan Delayed Draw Term Loan	Loan	3.75%	2/19/2020	\$ 172,170	172,170	171,309
Midas Intermediate Holdco II, LLC	Automotive	Term Loan B	Loan	4.75%	8/18/2021	\$ 25,253	25,253	25,364
Midas Intermediate Holdco II, LLC	Automotive	Term Loan B	Loan	4.75%	8/18/2021	\$ 224,122	223,063	225,103
Millenium Laboratories, LLC	Drugs	Term Loan	Loan	5.25%	4/16/2021	\$ 1,492,500	1,479,041	1,489,396
Mitel US Holdings, Inc.	Telecommunications	Term Loan	Loan	5.25%	1/31/2020	\$ 196,558	195,710	196,411
MPH Acquisition Holdings LLC	Healthcare & Pharmaceuticals	Term Loan	Loan	3.75%	3/31/2021	\$ 445,455	444,453	442,033
MSC Software Corp.	Services: Business	Term Loan	Loan	5.00%	5/29/2020	\$ 995,000	986,186	996,244
National CineMedia, LLC	Leisure Goods/ Activities/Movies	Term Loan (2013)	Loan	2.95%	11/26/2019	\$ 1,086,207	1,058,933	1,067,198
National Veterinary Associates, Inc	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	8/14/2021	\$ 997,500	992,907	996,253
National Vision, Inc.	Retailers (Except Food and Drugs)	Term Loan (Second Lien)	Loan	6.75%	3/11/2022	\$ 250,000	249,730	240,418
Newsday, LLC	Publishing	Term Loan	Loan	3.69%	10/12/2016	\$ 2,215,385	2,214,305	2,201,538
Nortek, Inc.	Electronics/Electric	Term B Loan	Loan	3.75%	10/30/2020	\$ 995,000	992,803	986,921
Novelis, Inc.	Conglomerate	Initial Term Loan	Loan	3.75%	3/10/2017	\$ 4,807,530	4,817,740	4,799,502
NPC International, Inc.	Food Services	Term Loan (2013)	Loan	4.00%	12/28/2018	\$ 486,250	486,250	480,780
NRG Energy, Inc.	Utilities	Term Loan (2013)	Loan	2.75%	7/2/2018	\$ 3,861,225	3,842,164	3,850,761
NuSil Technology LLC.	Chemicals/Plastics	Term Loan	Loan	5.25%	4/7/2017	\$ 797,986	797,986	791,004
Ollie's Bargain Outlet, Inc	Retailers (Except Food and Drugs)	Term Loan	Loan	4.75%	9/30/2019	\$ 977,052	972,882	962,396
On Assignment, Inc.	Services: Business	Initial Term B Loan	Loan	3.50%	5/15/2020	\$ 1,311,364	1,303,451	1,301,528
Onex Carestream Finance LP	Healthcare & Pharmaceuticals	Term Loan (First Lien 2013)	Loan	5.00%	6/7/2019	\$ 4,074,401	4,059,378	4,078,842
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Delayed Draw Term Loan	Loan	4.75%	10/1/2021	\$ —	—	—
OnexYork Acquisition Co	Healthcare & Pharmaceuticals	Term Loan B	Loan	4.75%	10/1/2021	\$ 498,750	495,208	496,466
OpenLink International LLC	Services: Business	Term B Loan	Loan	6.25%	10/28/2017	\$ 970,000	970,000	957,875
Orbitz Worldwide, Inc.	Services: Business	Term Loan (First Lien)	Loan	4.50%	4/15/2021	\$ 1,494,994	1,492,711	1,494,755
P.F. Chang's China Bistro, Inc. (Wok Acquisition Corp.)	Food/Drug Retailers	Term Borrowing Term Loan	Loan	4.25%	6/24/2019	\$ 1,447,901	1,440,712	1,406,274
P2 Upstream Acquisition Co. (P2 Upstream Canada BC ULC)	Services: Business	Term Loan (First Lien)	Loan	5.00%	10/30/2020	\$ 990,000	985,444	947,925
Par Pharmaceutical	Healthcare & Pharmaceuticals	Term Loan B3	Loan	4.25%	9/28/2019	\$ 500,000	497,502	499,065
PetCo Animal Supplies Stores, Inc.	Retailers (Except Food and Drugs)	New Loans	Loan	4.00%	11/24/2017	\$ 1,469,388	1,468,520	1,467,066
PetSmart	Retail	Term Loan B	Loan	5.00%	3/11/2022	\$ 1,000,000	995,000	1,007,050
PGX Holdings, Inc.	Financial Intermediaries	Term Loan	Loan	6.25%	9/29/2020	\$ 993,750	984,482	993,750

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Issuer Name	Industry	Asset Name	Asset Type	Current Rate	Maturity Date	Principal/Number of Shares	Cost	Fair Value
Pharmaceutical Product Development, Inc. (Jaguar Holdings, LLC)	Conglomerate Healthcare & Pharmaceuticals	2013 Term Loan	Loan	4.00%	12/5/2018	\$ 1,940,400	1,918,409	1,935,898
Phillips-Medisize Corporation	Pharmaceuticals	Term Loan	Loan	4.75%	6/16/2021	\$ 497,500	495,245	495,948
Pinnacle Foods Finance LLC	Food Products	New Term Loan G	Loan	3.00%	4/29/2020	\$ 2,581,332	2,576,466	2,565,560
Planet Fitness Holdings LLC	Leisure Goods/Activities/Movies	Term Loan	Loan	4.75%	3/31/2021	\$ 1,488,750	1,482,052	1,488,750
Polymer Group, Inc.	Chemicals/Plastics	Initial Loan	Loan	5.25%	12/19/2019	\$ 495,000	492,860	495,619
Presidio	Services: Business	Term Loan B	Loan	6.25%	2/2/2022	\$ 2,000,000	1,940,655	1,973,760
Prestige Brands, Inc.	Drugs	Term B-1 Loan	Loan	4.13%	1/31/2019	\$ 344,697	341,112	344,697
Prestige Brands, Inc.	Leisure Goods/Activities/Movies	Term Loan	Loan	4.50%	9/3/2021	\$ 1,861,111	1,858,280	1,860,534
QoL Meds, LLC	Healthcare & Pharmaceuticals	Term Loan B	Loan	5.50%	7/15/2020	\$ 1,995,000	1,985,909	1,990,013
Quintiles Transnational Corp.	Conglomerate	Term B-3 Loan	Loan	3.75%	6/8/2018	\$ 3,627,678	3,600,425	3,628,802
Ranpak Holdings, Inc.	Services: Business	Term Loan	Loan	4.75%	10/1/2021	\$ 997,500	995,145	996,882
Ranpak Holdings, Inc.	Services: Business	Term Loan (Second Lien)	Loan	8.25%	9/30/2022	\$ 500,000	497,672	496,250
Redtop Acquisitions Limited	Electronics/Electric	Initial Dollar Term Loan (First Lien)	Loan	4.50%	12/3/2020	\$ 495,000	491,974	494,381
Rexnord LLC/RBS Global, Inc.	Industrial Equipment	Term B Loan	Loan	4.00%	8/21/2020	\$ 1,646,799	1,648,172	1,642,172
Reynolds Group Holdings Inc.	Industrial Equipment	Incremental U.S. Term Loan	Loan	4.00%	12/1/2018	\$ 1,960,200	1,960,200	1,965,767
Riverbed Technology	Technology	Term Loan B	Loan	6.00%	2/25/2022	\$ 1,000,000	995,000	1,007,500
Rocket Software, Inc.	Services: Business	Term Loan (First Lien)	Loan	5.75%	2/8/2018	\$ 1,916,674	1,898,764	1,906,285
Rovi Solutions Corporation / Rovi Guides, Inc.	Electronics/Electric	Tranche B-3 Term Loan	Loan	3.75%	7/2/2021	\$ 1,492,500	1,485,607	1,479,441
RPI Finance Trust	Drugs	Term B-2 Term Loan	Loan	3.25%	5/9/2018	\$ 5,207,431	5,188,396	5,219,147
SBP Holdings LP	Industrial Equipment	Term Loan (First Lien)	Loan	5.00%	3/27/2021	\$ 992,500	988,065	863,475
Scientific Games International, Inc.	Electronics/Electric	Term Loan B2	Loan	6.00%	10/1/2021	\$ 1,000,000	990,433	998,040
Scitor Corporation	Services: Business	Term Loan	Loan	5.00%	2/15/2017	\$ 463,977	462,387	461,077
Seadrill	Oil & Gas	Term Loan B	Loan	4.00%	2/21/2021	\$ 997,481	917,590	806,294
Sensata Technologies B.V./Sensata Technology Finance Company, LLC	Industrial Equipment	Term Loan	Loan	3.25%	5/13/2019	\$ 1,509,445	1,509,445	1,511,603
Sensus USA Inc. (fka Sensus Metering Systems)	Utilities	Term Loan (First Lien)	Loan	4.50%	5/9/2017	\$ 1,925,067	1,920,548	1,925,067
ServiceMaster Company, The	Conglomerate	Tranche B Term Loan	Loan	4.25%	7/1/2021	\$ 1,995,000	1,976,650	1,994,641
Shearers Foods LLC	Food Services	Term Loan (First Lien)	Loan	4.50%	6/30/2021	\$ 997,500	995,166	996,253
Sonneborn, LLC	Chemicals/Plastics	Term Loan (First Lien)	Loan	5.50%	12/10/2020	\$ 225,000	224,471	225,000
Sonneborn, LLC	Chemicals/Plastics	Initial US Term Loan	Loan	5.50%	12/10/2020	\$ 1,275,000	1,272,004	1,275,000

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Sophia, L.P.	Electronics/Electric	Term B Loan	Loan	4.00%	7/19/2018	\$ 886,138	877,732	884,756
SourceHOV LLC	Services: Business	Term Loan B (First Lien)	Loan	7.75%	10/31/2019	\$2,000,000	1,942,284	1,915,000
Southwire Company, LLC (f.k.a Southwire Company)	Building and Development	Initial Term Loan	Loan	3.25%	2/10/2021	\$ 496,250	495,181	485,084
SRAM, LLC	Industrial	Term Loan (First Lien)	Loan	4.00%	4/10/2020	\$2,967,681	2,957,888	2,952,842
Steak 'n Shake Operations, Inc.	Food Services	Term Loan	Loan	4.75%	3/19/2021	\$ 992,500	983,723	975,131
STHI Holding	Healthcare & Pharmaceuticals	Term Loan	Loan	4.50%	8/6/2021	\$ 997,500	997,500	994,388
SunGard Data Systems Inc. (Solar Capital Corp.)	Conglomerate	Tranche C Term Loan	Loan	3.90%	2/28/2017	\$ 285,352	283,117	285,084
SunGard Data Systems Inc. (Solar Capital Corp.)	Conglomerate	Tranche E Term Loan	Loan	4.00%	3/9/2020	\$3,707,953	3,618,899	3,706,804
SuperMedia Inc. (fka Idearc Inc.)	Publishing	Loan	Loan	11.60%	12/30/2016	\$ 238,660	232,462	203,756
Syniverse Holdings, Inc.	Telecommunications	Initial Term Loan	Loan	4.00%	4/23/2019	\$ 479,913	476,105	473,314
TGI Friday's	Food Services	Term Loan B	Loan	5.25%	7/15/2020	\$ 267,977	266,768	267,642
TGI Friday's	Food Services	Term Loan (Second Lien)	Loan	9.25%	7/15/2021	\$2,000,000	2,016,250	2,000,000
TPF II Power LLC and TPF II Covert Midco LLC	Utilities	Term Loan B	Loan	5.50%	10/2/2021	\$ 500,000	496,689	504,790
TransDigm, Inc.	Aerospace and Defense	Tranche C Term Loan	Loan	3.75%	2/28/2020	\$4,847,054	4,856,484	4,824,661
TransFirst	Financial Intermediaries	Term Loan	Loan	5.50%	11/12/2021	\$ 500,000	495,182	502,815
TransUnion	Financial Intermediaries	Term Loan	Loan	4.00%	4/9/2021	\$ 496,250	495,138	493,977
Tricorbraun, Inc. (fka Kranson Industries, Inc.)	Containers/Glass Products	Term Loan	Loan	4.00%	5/3/2018	\$1,850,000	1,843,008	1,822,250
Truven Health Analytics Inc. (fka Thomson Reuters (Healthcare) Inc.)	Healthcare & Pharmaceuticals	New Tranche B Term Loan	Loan	4.50%	6/6/2019	\$ 487,566	479,874	481,471
Twin River Management Group, Inc.	Lodging & Casinos	Term Loan B	Loan	5.25%	7/10/2020	\$ 974,167	976,455	975,998
U.S. Security Associates Holdings, Inc.	Services: Business	Delayed Draw Loan	Loan	6.25%	7/28/2017	\$ 158,518	157,610	156,734
U.S. Security Associates Holdings, Inc.	Services: Business	Term B Loan	Loan	6.25%	7/28/2017	\$ 931,046	926,144	920,572
United Surgical Partners International, Inc.	Healthcare & Pharmaceuticals	New Tranche B Term Loan	Loan	4.75%	4/3/2019	\$2,431,749	2,408,580	2,431,749
Univar Inc.	Chemicals/Plastics	Term B Loan	Loan	5.00%	6/30/2017	\$3,844,964	3,844,749	3,813,935
Univision Communications Inc.	Telecommunications	Replacement First-Lien Term Loan	Loan	4.00%	3/1/2020	\$2,947,446	2,931,982	2,940,549
Valeant Pharmaceuticals International, Inc.	Drugs	Series D2 Term Loan B	Loan	3.50%	2/13/2019	\$2,545,588	2,537,415	2,539,683
Verint Systems Inc.	Services: Business	Term Loan	Loan	3.50%	9/6/2019	\$1,264,058	1,259,623	1,259,634
Vertafore, Inc.	Services: Business	Term Loan (2013)	Loan	4.25%	10/3/2019	\$2,881,003	2,881,003	2,878,294
Vouvray US Finance	Industrial Equipment	Term Loan	Loan	5.00%	6/28/2021	\$ 497,500	495,243	499,366

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<u>Issuer Name</u>	<u>Industry</u>	<u>Asset Name</u>	<u>Asset Type</u>	<u>Current Rate</u>	<u>Maturity Date</u>	<u>Principal/ Number of Shares</u>	<u>Cost</u>	<u>Fair Value</u>
Washington Inventory Service	Services: Business	U.S. Term Loan (First Lien)	Loan	5.75%	12/20/2018	\$ 1,832,876	1,851,978	1,796,218
Waste Industries	Environmental	Term Loan B	Loan	4.25%	2/27/2020	\$ 250,000	249,375	250,520
Wendy's International, Inc	Food Services	Term B Loan	Loan	3.25%	5/15/2019	\$ 673,630	668,099	670,545
West Corporation	Telecommunications	Term B-10 Loan	Loan	3.25%	6/30/2018	\$ 2,571,560	2,605,923	2,562,998
							<b>\$ 297,760,340</b>	<b>\$ 295,239,268</b>
						<b>Principal/ Number of Shares</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Cash and cash equivalents</b>								
U.S. Bank Money Market(a)						\$ 5,831,797	\$ 5,831,797	\$ 5,831,797
<b>Total cash and cash equivalents</b>						\$ 5,831,797	\$ 5,831,797	\$ 5,831,797

(a) Included within cash and cash equivalents in Saratoga CLO's Statements of Assets and Liabilities as of February 28, 2015.

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

	<u>For the year ended February 29, 2016</u>	<u>For the year ended February 28, 2015</u>	<u>For the year ended February 28, 2014</u>
<b>INCREASE FROM OPERATIONS:</b>			
Net investment income (loss)	\$ 104,587	\$ 793,848	\$ (2,143,630)
Net realized gain (loss) from investments	419,096	620,817	(8,815,296)
Net unrealized appreciation (depreciation) on investments	(16,277,895)	(3,874,583)	6,776,871
Net decrease in net assets from operations	(15,754,212)	(2,459,918)	(4,182,055)
Total decrease in net assets	(15,754,212)	(2,459,918)	(4,182,055)
Net assets at beginning of period	(5,803,156)	(3,343,238)	838,817
Net assets at end of period	<u>\$ (21,557,368)</u>	<u>\$ (5,803,156)</u>	<u>\$ (3,343,238)</u>

See accompanying notes to financial statements.

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

## Statements of Cash Flows

	For the year ended February 29, 2016	For the year ended February 28, 2015	For the year ended February 28, 2014
<b>Operating activities</b>			
NET DECREASE IN NET ASSETS FROM OPERATIONS	\$ (15,754,212)	\$ (2,459,918)	\$ (4,182,055)
ADJUSTMENTS TO RECONCILE NET DECREASE IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY (USED BY) OPERATING ACTIVITIES:			
Paid-in-kind interest income	(56,830)	(167,097)	(10,122)
Net accretion of discount on investments	(280,310)	(454,809)	(568,674)
Amortization of deferred debt financing costs	955,858	953,862	994,602
Loss on extinguishment of debt	—	—	3,442,442
Net realized (gain) loss from investments	(419,096)	(620,817)	8,815,296
Net unrealized (appreciation) depreciation on investments	16,277,895	3,874,583	(6,776,871)
Proceeds from sale and redemption of investments	142,862,138	141,358,326	128,190,654
Purchase of investments	(147,989,317)	(138,738,379)	(55,721,381)
(Increase) decrease in operating assets:			
Interest receivable	(407,925)	160,315	134,033
Receivable from open trades	(572,144)	(318,421)	3,330,272
Other assets	—	91,336	(91,336)
Increase (decrease) in operating liabilities:			
Interest payable	(5,846)	9,410	(43,645)
Payable from open trades	1,909,523	(4,230,669)	(6,901,250)
Accrued base management fee	(949)	10,904	31,882
Accrued subordinated management fee	(949)	10,904	(97,629)
NET CASH (USED BY) PROVIDED BY OPERATING ACTIVITIES	<u>(3,482,164)</u>	<u>(520,470)</u>	<u>70,546,218</u>
<b>Financing activities</b>			
Borrowings on debt	—	—	277,711,620
Paydowns on debt	—	(1,666,666)	(366,793,378)
Deferred debt financing costs	—	—	(2,250,398)
NET CASH USED BY FINANCING ACTIVITIES	<u>—</u>	<u>(1,666,666)</u>	<u>(91,332,156)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,482,164)	(2,187,136)	(20,785,938)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,831,797	8,018,933	28,804,871
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 2,349,633</u>	<u>\$ 5,831,797</u>	<u>\$ 8,018,933</u>
Supplemental Information:			
Interest paid during the period	\$ 11,702,603	\$ 9,625,726	\$ 11,722,159
Supplemental non-cash information:			
Paid-in-kind interest income	\$ 56,830	\$ 167,097	\$ 10,122
Net accretion of discount on investments	\$ 280,310	\$ 454,809	\$ 568,674
Amortization of deferred debt financing costs	\$ 955,858	\$ 953,862	\$ 994,602

See accompanying notes to financial statements.

**SARATOGA INVESTMENT CORP. CLO 2013-1, LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Organization and Purpose**

Saratoga Investment Corp. CLO 2013-1, Ltd. (the “Issuer”, “we”, “our”, “us”, “CLO” and “Saratoga CLO”), an exempted company with limited liability incorporated under the laws of the Cayman Islands was formed on November 28, 2007 and commenced operations on January 22, 2008. The Issuer was established to acquire or participate in U.S. dollar-denominated corporate debt obligations.

On January 22, 2008, the Issuer issued \$400.0 million of notes, consisting of Class A Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes (collectively the “Secured Notes”), and Subordinated Notes. The notes were issued pursuant to an indenture, dated January 22, 2008 (the “Indenture”), with U.S. Bank National Association (the “Trustee”) servicing as the Trustee there under.

On October 17, 2013, in a refinancing transaction, the Issuer issued \$284.9 million of notes (the “2013-1 CLO Notes”), consisting of Class X Floating Rate Senior Notes, Class A-1 Floating Rate Senior Notes, Class A-2 Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes, and Class F Deferrable Floating Rate Notes. The 2013-1 CLO Notes were issued pursuant to the Indenture with the same Trustee. Proceeds of the issuance of the 2013-1 CLO Notes were used, along with existing assets held by the Trustee, to redeem all of the Secured Notes issued in 2008. As of February 29, 2016, Saratoga Investment Corp. owned 100% of the Subordinated Notes of the CLO.

Pursuant to an investment management agreement (the “Investment Management Agreement”), Saratoga Investment Corp. (the “Investment Manager”), provides investment management services to the Issuer, and makes day-to-day investment decisions concerning the assets of the Issuer. The Investment Manager also performs certain administrative services on behalf of the Issuer under the Investment Management Agreement.

**2. Significant Accounting Policies**

*Basis of Presentation*

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and are stated in U.S. dollars. The following is a summary of the significant accounting policies followed by the Issuer in the preparation of its financial statements.

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 29, 2016.

*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,



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which are carried at fair value. At February 29, 2016 and February 28, 2015, cash and cash equivalents amounted to \$2.3 million and \$5.8 million, respectively, and are swept on an overnight basis into a money market deposit account and invested in shares of JP Morgan Liquidity Institutional fund held at the Trustee.

### *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.

### *Paid-in-Kind Interest*

The Issuer holds debt investments in its portfolio that contain a PIK interest provision. The PIK interest, which represents contractually deferred interest added to the investment balance that is generally due at maturity,

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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, net*

In April 2015, the FASB has issued Accounting Standards Update (“ASU”) No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (“ASU 2015-03”). 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 recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, and early adoption is allowed, and is to be applied on a retrospective basis. Management has adopted the provisions of ASU 2015-03 as of February 28, 2015, by reclassifying deferred debt financing costs from within total assets to within total liabilities as a contra-liability. The adoption of the provisions of ASU 2015-03 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.

Included in deferred debt financing costs of \$1.7 million as of February 29, 2016 and \$1.9 million as of February 28, 2015 are structuring fees of the investment bank, rating agency fees and legal fees associated with the issuance of the 2013-1 CLO Notes on October 17, 2013. Such costs have been capitalized and amortized using an effective yield method, over the life of the related notes.

Deferred debt financing costs of \$1.6 million, incurred in connection with the issuance of the Secured Notes, were expensed when the Secured Notes were extinguished on October 17, 2013.

### *Management Fees*

The Issuer is externally managed by the Investment Manager pursuant to the Investment Management Agreement. As compensation for the performance of its obligations under the Investment Management Agreement, the Investment Manager is entitled to receive from the Issuer a base management fee (the “Base Management Fee”), a subordinated management fee (the “Subordinated Management Fee”) and an incentive management fee (the “Incentive Management Fee”). The Base Management Fee is payable in arrears quarterly (subject to availability of funds and to the satisfaction of payment obligations on the debt obligations of the Issuer (the “Priority of Payments”) in an amount equal to 0.25% per annum of the fee basis amount at the beginning of the collection period. The Subordinated Management Fee is payable in arrears quarterly (subject to availability of funds and to the Priority of Payments) in an amount equal to 0.25% per annum of the fee basis amount at the beginning of the Collection Period. The Incentive Management Fee equals 20% of the remaining interest proceeds and principal proceeds, if any, after the Subordinated Notes have realized the incentive management fee target return of 12.0%, in accordance with the Priority of Payments after making the prior distributions on the relevant payment date. For the years ended February 29, 2016, February 28, 2015 and 2014, no Incentive Management Fees have been paid.

### *Expenses*

The Issuer bears its own organizational and offering expenses, all expenses related to its investment program and expenses incurred in connection with its operations including, but not limited to, external legal, administrative, trustee, accounting, tax and audit expenses, costs related to trading, acquiring, monitoring or disposing of investments of the Issuer, and interest and other borrowing expenses, expenses of preparing and distributing reports, financial statements, and litigation or other extraordinary expenses. The Issuer has retained the Trustee to provide trustee services. Additionally, the Trustee performs loan administration, debt covenant compliance calculations, and monitoring and reporting services. For the years ended February 29, 2016, February 28, 2015 and 2014, the Issuer paid \$0.1 million, \$0.1 million, \$0.1 million, respectively, for trustee services provided and is included in other expenses in the statements of operations.

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### *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 29, 2016, February 28, 2015 and 2014, \$5.6 million, \$3.7 million and \$5.7 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.

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.

### *New Accounting Pronouncements*

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 is currently evaluating the impact the adoption of this standard has on the Issuer's financial statements and disclosures.

In August 2015, the FASB issued ASU 2015-15, *Interest—Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* ("ASU 2015-15"). ASU 2015-15 updates the accounting guidance included in ASU 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The updated accounting guidance provided by ASU 2015-15 was the result of the Emerging Issues Task Force meeting, held on June 18, 2015, at which the SEC staff stated that the SEC would not object to an entity deferring and presenting costs related to revolving debt arrangements as an asset. As the Issuer previously adopted the provisions of ASU 2015-03 and reclassified all deferred debt financing costs from within total assets to within total liabilities as a contra-liability effective as of February 28, 2015, it has chosen not to avail itself of the updated accounting treatment provided by ASU 2015-15 and continues to include all deferred debt financing costs as a contra-liability within total liabilities.

In February 2015, the FASB issued ASU 2015-02, *Consolidation (ASC Topic 810): Amendments to the Consolidation Analysis* ("ASU 2015-02"). ASU 2015-02 significantly changes the consolidation analysis required under GAAP and ends the deferral granted to investment companies from applying the variable interest entity guidance. ASU 2015-02 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015 and early adoption is permitted. Management does not believe these changes will have a material impact on the Issuer's financial statements and disclosures.

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In August 2014, the FASB issued new accounting guidance that requires management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The amendments provide a definition of the term "substantial doubt" and include principles for considering the mitigating effect of management's plans. The amendments also require an evaluation every reporting period, including interim periods for a period of one year after the date that the financial statements are issued (or available to be issued), and certain disclosures when substantial doubt is alleviated or not alleviated. The amendments in this update are effective for reporting periods ending after December 15, 2016. Management does not believe these changes will 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. This guidance is effective for annual and interim reporting periods beginning after December 15, 2016, and early application is not permitted. Management is currently evaluating the impact these changes will have 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.

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

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

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Issuer has the ability to access.
- Level 2—Valuations based on inputs other than quoted prices in active markets, which are either directly or indirectly observable.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The inputs used in the determination of fair value may require significant management judgment or estimation. Such information may be the result of consensus pricing information or broker quotes which include a disclaimer that the broker would not be held to such a price in an actual transaction. The non-binding nature of consensus pricing and/or quotes accompanied by disclaimer would result in classification as 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 1940 Act.

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The following table presents fair value measurements of investments, by major class, as of February 29, 2016, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$239,255,853	\$45,397,073	\$284,652,926
Equity interest	—	190,095	1,768	191,863
<b>Total</b>	<b>\$ —</b>	<b>\$239,445,948</b>	<b>\$45,398,841</b>	<b>\$284,844,789</b>

The following table presents fair value measurements of investments, by major class, as of February 28, 2015, according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
Term loans	\$ —	\$294,621,817	\$ —	\$294,621,817
Equity interest	—	617,451	—	617,451
<b>Total</b>	<b>\$ —</b>	<b>\$295,239,268</b>	<b>\$ —</b>	<b>\$295,239,268</b>

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 29, 2016:

	Term Loans	Equity Interest	Total
Balance as of February 28, 2015	\$ —	\$ —	\$ —
Net unrealized depreciation	(2,839,083)	(615,683)	(3,454,766)
Purchases and other adjustments to cost	19,713,411	—	19,713,411
Sales and redemptions	(10,930,430)	—	(10,930,430)
Net realized gain from investments	6,887	—	6,887
Net transfers in Level 3(1)	39,446,288	617,451	40,063,739
<b>Balance as of February 29, 2016</b>	<b>\$ 45,397,073</b>	<b>\$ 1,768</b>	<b>\$ 45,398,841</b>

- (1) The Issuer's investment in Level 3 investments were classified as such during the year ended February 29, 2016, as market quotes for these investments are only provided by one trading desk.

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, 2015:

	Term Loans
Balance as of February 28, 2014	\$ 2,618,899
Net unrealized appreciation	18,651
Purchases and other adjustments to cost	3,840
Sales and redemptions	(2,658,626)
Net realized gain from investments	17,236
<b>Balance as of February 28, 2015</b>	<b>\$ —</b>

Transfers into or out of Level 3 are recognized at the reporting date.

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

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

The net unrealized depreciation on Level 3 investments held as of February 29, 2016 was \$3.4 million, and is included in net unrealized depreciation on investments in the statements of operations. There were no Level 3 investments held as of February 28, 2015.

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 29, 2016 were as follows:

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
Term loans	45,397,073	Market Comparables	Third-Party Bid	32.00% - 100.00%
Equity interest	1,768	Market Comparables	Third-Party Bid	0.01% - 12.83%

## 4. Financing

On January 22, 2008, the Issuer issued \$400.0 million of notes, consisting of Class A Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes (collectively the "Secured Notes"), and Subordinated Notes. The notes were issued pursuant to the Indenture.

The Secured Notes are limited recourse obligations of the Issuer. The Subordinated Notes are unsecured, limited recourse debt obligations of the Issuer.

On October 17, 2013, the Issuer issued \$284.9 million of notes (the "2013-1 CLO Notes"), consisting of Class X Floating Rate Senior Notes, Class A-1 Floating Rate Senior Notes, Class A-2 Floating Rate Senior Notes, Class B Floating Rate Senior Notes, Class C Deferrable Floating Rate Notes, Class D Deferrable Floating Rate Notes, Class E Deferrable Floating Rate Notes, and Class F Deferrable Floating Rate Notes. The 2013-1 CLO Notes were issued pursuant to the Indenture with the same Trustee. Proceeds of the issuance of the 2013-1 CLO Notes were used along with existing assets held by the Trustee to redeem all of the Secured Notes issued in 2008. The Subordinated Notes were not included in the refinancing transaction.

The 2013-1 CLO Notes are limited recourse obligations of the Issuer. The Subordinated Notes are unsecured, limited recourse debt obligations of the Issuer.

The relative order of seniority of payment of each class of securities is, as follows: first, Class X Notes, second, Class A-1 Notes, third, Class A-2 Notes, fourth, Class B Notes, fifth, Class C Notes, sixth, Class D Notes, seventh, Class E Notes, eighth, Class F Notes, and ninth, the Subordinated Notes, with (a) each class of securities (other than the Subordinated Notes) in such list being senior to each other class of securities that follows such class of securities in such list and (b) each class of securities (other than the Class X Notes) in such list being subordinate to each other class of securities that precedes such class of securities in such list. The Subordinated Notes are subordinated to the 2013-1 CLO Notes and are entitled to periodic payments from interest proceeds available in accordance with the Priority of Payments.

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The table below sets forth certain information for each outstanding class of notes issued, pursuant to the Indenture on October 17, 2013, at February 29, 2016:

<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 + 1.30%	October 20, 2023	\$170,000,000	\$170,000,000
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	October 20, 2023	20,000,000	20,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.00%	October 20, 2023	44,800,000	44,800,000
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	October 20, 2023	16,000,000	16,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	October 20, 2023	14,000,000	14,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	October 20, 2023	13,100,000	13,100,000
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	October 20, 2023	4,500,000	4,500,000
Subordinated Notes	N/A	October 20, 2023	30,000,000	30,000,000
			<u>\$312,400,000</u>	<u>\$312,400,000</u>

The table below sets forth certain information for each outstanding class of notes issued, pursuant to the Indenture on October 17, 2013, at February 28, 2015:

<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 + 1.30%	October 20, 2023	\$170,000,000	\$170,000,000
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	October 20, 2023	20,000,000	20,000,000
Class B Floating Rate Senior Notes	LIBOR + 2.00%	October 20, 2023	44,800,000	44,800,000
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	October 20, 2023	16,000,000	16,000,000
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	October 20, 2023	14,000,000	14,000,000
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	October 20, 2023	13,100,000	13,100,000
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	October 20, 2023	4,500,000	4,500,000
Subordinated Notes	N/A	October 20, 2023	30,000,000	30,000,000
			<u>\$312,400,000</u>	<u>\$312,400,000</u>

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The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 29, 2016:

<b>Debt Security</b>	<b>February 29, 2016</b>
Class A-1 Floating Rate Senior Notes	\$ 168,738,419
Class A-2 Floating Rate Senior Notes	19,899,837
Class B Floating Rate Senior Notes	43,780,120
Class C Deferrable Floating Rate Notes	14,987,621
Class D Deferrable Floating Rate Notes	12,941,289
Class E Deferrable Floating Rate Notes	10,358,170
Class F Deferrable Floating Rate Notes	3,027,150
Subordinated Notes	12,827,980
	<u>\$ 286,560,586</u>

The following table shows each outstanding class of notes issued, pursuant to the Indenture, at fair value at February 28, 2015:

<b>Debt Security</b>	<b>February 28, 2015</b>
Class A-1 Floating Rate Senior Notes	\$ 168,987,651
Class A-2 Floating Rate Senior Notes	19,973,973
Class B Floating Rate Senior Notes	44,569,451
Class C Deferrable Floating Rate Notes	15,898,369
Class D Deferrable Floating Rate Notes	13,737,672
Class E Deferrable Floating Rate Notes	12,404,616
Class F Deferrable Floating Rate Notes	4,234,225
Subordinated Notes	17,031,146
	<u>\$ 296,837,103</u>

These notes are fair valued based on a discounted cash flow model, specifically using Intex cash flow models, to form the basis for the valuation and would be classified as level 3 liabilities within the fair value hierarchy.

The following table provides the weighted average interest rate for the years ended February 29, 2016, February 28, 2015 and February 28, 2014:

<b>Debt Security</b>	<b>Interest Rate</b>	<b>Weighted Average Interest Rate</b>		
		<b>February 29, 2016</b>	<b>February 28, 2015</b>	<b>February 28, 2014</b>
<b>2013-1 CLO Notes</b>				
Class X Floating Rate Senior Notes	LIBOR + 1.05%	N/A	1.28%	1.29%
Class A-1 Floating Rate Senior Notes	LIBOR + 1.30%	1.62%	1.53%	1.54%
Class A-2 Floating Rate Senior Notes	LIBOR + 1.50%	1.82%	1.73%	1.74%
Class B Floating Rate Senior Notes	LIBOR + 2.00%	2.32%	2.23%	2.24%
Class C Deferrable Floating Rate Notes	LIBOR + 2.90%	3.22%	3.13%	3.14%
Class D Deferrable Floating Rate Notes	LIBOR + 3.50%	3.82%	3.73%	3.74%
Class E Deferrable Floating Rate Notes	LIBOR + 4.50%	4.82%	4.73%	4.74%
Class F Deferrable Floating Rate Notes	LIBOR + 5.75%	6.07%	5.98%	5.99%
Subordinated Notes	N/A	N/A	N/A	N/A



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Debt Security	Interest Rate	Weighted Average Interest Rate		
		February 29, 2016	February 28, 2015	February 28, 2014
<b>Secured Notes</b>				
Class A Floating Rate Senior Notes	LIBOR + 0.75%	N/A	N/A	1.03%
Class B Floating Rate Senior Notes	LIBOR + 2.50%	N/A	N/A	2.78%
Class C Deferrable Floating Rate Notes	LIBOR + 3.75%	N/A	N/A	4.03%
Class D Deferrable Floating Rate Notes	LIBOR + 4.70%	N/A	N/A	4.98%
Class E Deferrable Floating Rate Notes	LIBOR + 6.45%	N/A	N/A	6.73%

The Indenture provides that payments on the Subordinated Notes shall rank subordinate in priority of payment to payments due on all classes of 2013-1 CLO Notes and subordinate in priority of payment to the payment of fees and expenses. Distributions on the Subordinated Notes are limited to the assets of the Issuer remaining after payment of all of the liabilities of the Issuer that rank senior in priority of payment to the Subordinated Notes. To the extent that the proceeds from the collateral are not sufficient to make distributions on the Subordinated Notes the Issuer will have no further obligation in respect of the Subordinated Notes.

Interest proceeds and, after the 2013-1 CLO Notes have been paid in full, principal proceeds, in each case will be distributed to the holders of the Subordinated Notes in accordance with the Indenture.

Distributions, if any, on the Subordinated Notes will be payable quarterly on the 20th day of each January, April, July and October of each calendar year or, if any such day is not a business day, on the next succeeding business day (each, a "Payment Date"), commencing on the first Payment Date, and on January 21, 2020 (or if any such day is not a business day, the next succeeding business day) (the "Stated Redemption Date") (if not redeemed prior to such date) sequentially in order of seniority. At the Stated Redemption Date, the Subordinated Notes will be redeemed after payment in full of all of the 2013-1 CLO Notes and the payment of all administrative and other fees and expenses. The failure to pay interest proceeds or principal proceeds to the holders of the Subordinated Notes will not be an event of default under the Indenture.

In May of 2009, the Issuer defaulted on its Class E overcollateralization ratio of 105.10%, at which point, \$4.0 million of interest proceeds were used to repay the Class E Notes through November 2009. Interest on the 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 29, 2016, 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 \$1.3 million, \$0.1 million, \$0.9 million, \$0.6 million, \$0.7 million, \$1.4 million, and \$0.5 million, respectively.

As of February 28, 2015, 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 \$1.5 million, \$0.2 million, \$1.0 million, \$0.6 million, \$0.8 million, \$1.5 million, and \$0.6 million, respectively.

## 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

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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 (2013—2016). The Issuer identifies its major tax jurisdictions as U.S. Federal, state and foreign jurisdictions where the Issuer makes investments. As of February 29, 2016 and February 28, 2015, 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 29, 2016, February 28, 2015 and 2014. 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 29, 2016, February 28, 2015 and 2014.

### **6. Commitments and Contingencies**

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

In the ordinary course of business, the Issuer may directly or indirectly be a defendant or plaintiff in legal actions with respect to bankruptcy, insolvency or other types of proceedings. Such lawsuits may involve claims that could adversely affect the value of certain financial instruments owned by the Issuer. As of February 29, 2016 and February 28, 2015, the Issuer is not subject to any material legal proceedings.

The terms of Collateralized Debt Investments may require the Issuer to provide funding for any unfunded portion of a Collateralized Debt Investment at the request of the borrower. At February 29, 2016 and February 28, 2015, the Issuer had no unfunded commitments.

### **7. Related-Party Transactions**

In the ordinary course of business and as permitted per the terms of the Indenture, the Issuer may acquire or sell investments to or from related parties at the fair value at such time. For the years ended February 29, 2016, February 28, 2015 and 2014, the Issuer bought no investments from related parties and sold investments fair valued at \$0.0 million, \$0.0 million, and \$0.3 million, respectively, to the Investment Manager.

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 29, 2016, February 28, 2015 and 2014, \$5.6 million, \$3.7 million, and \$5.7 million of payments to the Subordinated Notes were included in interest expense in the statements of operations, respectively.

### **8. Shareholders' Capital**

Capital contributions and distributions shall be made at such time and in such amounts as determined by the Investment Manager and the Indenture.

The majority holder of the Subordinated Notes has various control rights over the CLO, including the ability to call the CLO prior to its legal maturity, replace the Investment Manager under certain circumstances, and refinance any of the outstanding debt tranches. The voting structure of the Subordinated Notes may require either majority or unanimous approval depending upon the issue.

The authorized share capital of the Issuer consists of 50,000 ordinary shares, 250 of which are owned by Maples Finance Limited and are held under the terms of a declaration of trust.

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As of February 29, 2016 and February 28, 2015, net assets were \$(21.6) million and \$(5.8) million, respectively. These amounts include accumulated losses of \$(5.8) million and \$(3.3) 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 29, 2016, February 28, 2015 and 2014:

	February 29, 2016	February 28, 2015	February 28, 2014
Average subordinated notes' capital balance(1)	\$18,382,072	\$25,077,372	\$28,471,910
<b>Ratio and supplemental data:</b>			
Total Return(2)	(49.59)%	5.34%	4.65%
Net investment income(3)	0.57%	3.17%	(7.53)%
Total expenses(3)	79.34%	49.79%	65.27%
Base management fee(3)	4.07%	3.03%	1.82%
Subordinated management fee(3)	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 29, 2016 through May 17, 2016, 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.

**\$55,000,000**  
**[ ]% Notes due 20XX**

# **SARATOGA INVESTMENT CORP.**

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**Prospectus**

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***Underwriters (Joint Book-Running Managers)***

**Ladenburg Thalmann**

**BB&T Capital Markets**

**Compass Point**

**William Blair**

, 2016

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**PART C—OTHER INFORMATION****Item 25. Financial Statements and Exhibits**1. *Financial Statements***Unaudited Consolidated Financial Statements**

	<u>Page</u>
<a href="#">Consolidated Statements of Assets and Liabilities as of August 31, 2016 (unaudited) and February 29, 2016</a>	F-2
<a href="#">Consolidated Statements of Operations for the three and six months ended August 31, 2016 and August 31, 2015 (unaudited)</a>	F-3
<a href="#">Consolidated Schedules of Investments as of August 31, 2016 (unaudited) and February 29, 2016</a>	F-4
<a href="#">Consolidated Statements of Changes in Net Assets for the six months ended August 31, 2016 and August 31, 2015 (unaudited)</a>	F-11
<a href="#">Consolidated Statements of Cash Flows for the six months ended August 31, 2016 and August 31, 2015 (unaudited)</a>	F-12
<a href="#">Notes to Consolidated Financial Statements as of August 31, 2016 (unaudited)</a>	F-13

**Audited Consolidated Financial Statements**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	F-52
<a href="#">Consolidated Statements of Assets and Liabilities as of February 29, 2016 and February 28, 2015</a>	F-53
<a href="#">Consolidated Statements of Operations for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	F-54
<a href="#">Consolidated Schedules of Investments as of February 29, 2016 and February 28, 2015</a>	F-55
<a href="#">Consolidated Statements of Changes in Net Assets for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	F-63
<a href="#">Consolidated Statements of Cash Flows for the years ended February 29, 2016, February 28, 2015 and February 28, 2014</a>	F-64
<a href="#">Notes to Consolidated Financial Statements</a>	F-65

2. **Exhibits**

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

<u>Exhibit Number</u>	<u>Description</u>
(a)(1)	Articles of Incorporation of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Form 10-Q for the quarterly period ended May 31, 2007).
(a)(2)	Articles of Amendment of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed August 3, 2010).
(a)(3)	Articles of Amendment of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed August 13, 2010).
(b)	Amended and Restated Bylaws of Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on March 5, 2008).
(c)	Not applicable.
(d)(1)	Specimen certificate of Saratoga Investment Corp.'s common stock, par value \$0.001 per share. (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-169135, filed on September 1, 2010).

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<u>Exhibit Number</u>	<u>Description</u>
(d)(2)	Registration Rights Agreement dated July 30, 2010 between Saratoga Investment Corp., GSC CDO III L.L.C., and the investors party thereto (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(d)(4)	Form of Indenture by and between the Company and U.S. Bank National Association, as trustee (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).
(d)(5)	Statement of Eligibility of Trustee on Form T-1.**
(d)(6)	Form of First Supplemental Indenture between the Company and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).
(d)(7)	Form of Note (Filed as Exhibit A to First Supplemental Indenture referred to in Exhibit (d)(6)) (incorporated by reference to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-186323, filed on April 30, 2013).
(d)(8)	Form of Second Supplemental Indenture between the Company and U.S. Bank National Association.**
(d)(9)	Form of Global Note (incorporated by reference to Exhibit (d)(8) hereto, and Exhibit A therein).
(d)(10)	Form of Warrant Certificate and Warrant Agreement*
(d)(11)	Form of Subscription Certificate and Subscription Agreement*
(d)(12)	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).
(e)	Dividend Reinvestment Plan (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on September 24, 2014).
(f)	Not applicable.
(g)	Investment Advisory and Management Agreement dated July 30, 2010 between Saratoga Investment Corp. and Saratoga Investment Advisors, LLC (incorporated by reference to Amendment No. 1 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-196526, filed on December 5, 2014).
(h)(1)	Form of Underwriting Agreement.**
(h)(2)	Form of Debt Distribution Agreement dated May 29, 2015, by and among Saratoga Investment Corp., Saratoga Investments Advisors, LLC and Ladenburg Thalmann & Co. Inc. (incorporated by reference to Saratoga Investment Corp.'s registration statement on Form N-2 Post-Effective Amendment No. 1, File No. 333-196526, filed on May 29, 2015).
(i)	Not applicable.
(j)	Custodian Agreement dated March 21, 2007 between Saratoga Investment LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Form 10-Q for the quarterly period ended May 31, 2007).
(k)(1)	Administration Agreement dated July 30, 2010 between Saratoga Investment Corp. and Saratoga Investment Advisors, LLC (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(k)(2)	Trademark License Agreement dated July 30, 2010 between Saratoga Investment Advisors, LLC and Saratoga Investment Corp. (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).

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<u>Exhibit Number</u>	<u>Description</u>
(k)(3)	Credit, Security and Management Agreement dated July 30, 2010 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on August 3, 2010).
(k)(4)	Amendment No. 1 to Credit, Security and Management Agreement dated February 24, 2012 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on February 29, 2012).
(k)(5)	Form of Indemnification Agreement between Saratoga Investment Corp. and each officer and director of Saratoga Investment Corp. (incorporated by reference to Amendment No. 2 to Saratoga Investment Corp.'s Registration Statement on Form N-2 filed on January 12, 2007).
(k)(6)	Indenture, dated as of October 17, 2013, among Saratoga Investment Corp. CLO 2013-1, Ltd., Saratoga Investment Corp. CLO 2013-1, Inc. and U.S. Bank National Association (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).
(k)(7)	Amended and Restated Collateral Management Agreement, dated October 17, 2013, by and between Saratoga Investment Corp. and Saratoga Investment Corp. CLO 2013-1, Ltd. (incorporated by reference to Amendment No. 1 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-196526, filed on December 5, 2014).
(k)(8)	Amendment No. 2 to Credit, Security and Management Agreement dated September 17, 2014 by and among Saratoga Investment Funding LLC, Saratoga Investment Corp., Saratoga Investment Advisors, LLC, Madison Capital Funding LLC and U.S. Bank National Association (incorporated by reference to Saratoga Investment Corp.'s Current Report on Form 8-K filed on September 18, 2014).
(l)	Opinion and Consent of Sutherland Asbill & Brennan LLP, counsel for Saratoga Investment Corp.**
(m)	Not applicable.
(n)(1)	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm, relating to Saratoga Investment Corp. and Saratoga Investment Corp. CLO 2013-1, Ltd.**
(n)(2)	Report of Ernst & Young LLP regarding the senior securities table contained herein.**
(o)	Not applicable.
(p)	Not applicable.
(q)	Not applicable.
(r)	Code of Ethics of the Company adopted under Rule 17j-1 (incorporated by reference to Amendment No. 7 to Saratoga Investment Corp.'s Registration Statement on Form N-2, File No. 333-138051, filed on March 22, 2007).
99.1	Statement of Computation of Ratios of Earnings to Fixed Charges.*

\* To be filed by pre- or post-effective amendment, if applicable.

\*\* Filed herewith.

### **Item 26. Marketing Arrangements**

The information contained under the heading "Plan of Distribution" on this Registration Statement is incorporated herein by reference.

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### Item 27. Other Expenses of Issuance and Distribution

Securities and Exchange Commission registration fee	\$ 7,330.68
FINRA filing fee	9,987.50
New York Stock Exchange listing fees	26,050
Printing expenses(1)	25,000
Accounting fees and expenses(1)	80,000
Legal fees and expenses(1)	150,000
Miscellaneous(1)	6,921
Total	<u>\$ 305,289.18</u>

(1) The amounts set forth above, with the exception of the Securities and Exchange Commission fee, are in each case estimated. All expenses set forth above will be borne by the Registrant.

### Item 28. Persons Controlled by or Under Common Control

The Registrant has two subsidiaries, Saratoga Investment Funding LLC, a Delaware limited liability company, and Saratoga Investment Corp. SBIC LP, a Delaware limited partnership. The Registrant owns 100% of the outstanding equity interests of Saratoga Investment Funding LLC and Saratoga Investment Corp. SBIC LP.

In addition, the Registrant may be deemed to control Saratoga Investment Corp. CLO 2013-1 Ltd. one of the Registrant's portfolio companies.

### Item 29. Number of Holders of Securities

The following table sets forth the approximate number of record holders of the Company's common stock as of December 9, 2016.

<u>Title of Class</u>	<u>Number of Record Holders</u>
Common Stock, \$0.001 par value	21

### Item 30. Indemnification

Reference is made to Section 2-418 of the Maryland General Corporation Law, Article VII of the Registrant's charter and Article XI of the Registrant's Amended and Restated Bylaws.

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages except for liability resulting from (a) actual receipt of an improper benefit or profit in money, property or services or (b) active and deliberate dishonesty established by a final judgment as being material to the cause of action. The Registrant's charter contains such a provision which eliminates directors' and officers' liability to the maximum extent permitted by Maryland law, subject to the requirements of the Investment Company Act of 1940, as amended (the "1940 Act").

The Registrant's charter authorizes the Registrant, to the maximum extent permitted by Maryland law and subject to the requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee, from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding. The Registrant's bylaws obligate the Registrant, to the maximum extent permitted by Maryland law and subject to the



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requirements of the 1940 Act, to indemnify any present or former director or officer or any individual who, while serving as the Registrant's director or officer and at the Registrant's request, serves or has served another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or other enterprise as a director, officer, partner or trustee and who is made, or threatened to be made, a party to the proceeding by reason of his or her service in that capacity from and against any claim or liability to which that person may become subject or which that person may incur by reason of his or her service in any such capacity and to pay or reimburse his or her reasonable expenses in advance of final disposition of a proceeding. The charter and bylaws also permit the Registrant to indemnify and advance expenses to any person who served a predecessor of the Registrant in any of the capacities described above and any of the Registrant's employees or agents or any employees or agents of the Registrant's predecessor. In accordance with the 1940 Act, the Registrant will not indemnify any person for any liability to which such person would be subject by reason of such person's willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his or her office.

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

### **Adviser and Administrator**

The investment advisory agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Saratoga Investment Advisors, LLC (the "investment adviser") and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of the investment adviser's services under the investment advisory agreement or otherwise as an investment adviser of the Registrant.

The administration agreement provides that, absent willful misfeasance, bad faith or gross negligence in the performance of its duties or by reason of the reckless disregard of its duties and obligations, Saratoga Investment Advisors, LLC and its officers, managers, agents, employees, controlling persons, members and any other person or entity affiliated with it are entitled to indemnification from the Registrant for any damages, liabilities, costs and expenses (including reasonable attorneys' fees and amounts reasonably paid in settlement) arising from the rendering of Saratoga Investment Advisors, LLC's services under the administration agreement or otherwise as administrator for the Registrant.

The law also provides for comparable indemnification for corporate officers and agents. Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the "Securities Act") may be

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permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The Registrant has entered into indemnification agreements with its directors. The indemnification agreements are intended to provide the Registrant's directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that the Registrant shall indemnify the director who is a party to the agreement (an "Indemnitee"), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, other than a proceeding by or in the right of the Registrant.

### **Item 31. Business and Other Connections of Investment Adviser**

A description of any other business, profession, vocation or employment of a substantial nature in which the Adviser, and each managing director, director or executive officer of the Adviser, is or has been during the past two fiscal years, engaged in for his or her own account or in the capacity of director, officer, employee, partner or trustee, is set forth in Part A of this Registration Statement in the sections entitled "Management." Additional information regarding the Adviser and its officers and directors will be set forth in its Form ADV to be filed with the Securities and Exchange Commission.

### **Item 32. Location of Accounts and Records**

All accounts, books and other documents required to be maintained by Section 31(a) of the Investment Company Act of 1940, and the rules thereunder are maintained at the offices of:

- (1) the Registrant, Saratoga Investment Corp., 535 Madison Avenue, New York, New York 20022;
- (2) the Transfer Agent, American Stock Transfer & Trust Company, 59 Maiden Lane, Plaza Level, New York, New York 10038;
- (3) the Custodian, U.S. Bank National Association, 214 N. Tryon Street, 12th Floor, Charlotte, North Carolina 28202; and
- (4) the Adviser, Saratoga Investment Advisors, LLC, 535 Madison Avenue, New York, New York 20022.

### **Item 33. Management Services**

Not Applicable.

### **Item 34. Undertakings**

- (1) Registrant undertakes to suspend the offering of the securities covered hereby until it amends the prospectus contained herein if (a) subsequent to the effective date of this Registration Statement, its net asset value declines more than 10% from its net asset value as of the effective date of this Registration Statement, or (b) its net asset value increases to an amount greater than its net proceeds as stated in the prospectus contained herein.
- (2) Not applicable.

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- (3) Registrant undertakes in the event that the securities being registered are to be offered to existing stockholders pursuant to warrants or rights, and any securities not taken by shareholders are to be reoffered to the public, to supplement the prospectus, after the expiration of the subscription period, to set forth the results of the subscription offer, the transactions by the underwriters during the subscription period, the amount of unsubscribed securities to be purchased by underwriters, and the terms of any subsequent underwriting thereof. Registrant further undertakes that if any public offering by the underwriters of the securities being registered is to be made on terms differing from those set forth on the cover page of the prospectus, the Registrant shall file a post-effective amendment to set forth the terms of such offering.
- (4) Registrant undertakes:
- (a) to file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:
    - (i) to include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;
    - (ii) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and
    - (iii) to include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement.
  - (b) that, for the purpose of determining any liability under the Securities Act of 1933, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at the time shall be deemed to be the initial *bona fide* offering thereof;
  - (c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;
  - (d) that, for the purpose of determining liability under the Securities Act of 1933 to any purchaser, if the Registrant is subject to Rule 430C: Each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the Securities Act of 1933 as part of a registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the Securities Act of 1933, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the Registration Statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use; and
  - (e) that for the purpose of determining liability of the Registrant under the Securities Act of 1933 to any purchaser in the initial distribution of securities:

the undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

    - (i) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the Securities Act of 1933;

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- (ii) the portion of any advertisement pursuant to Rule 482 under the Securities Act of 1933 relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and
  - (iii) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.
- (5) The Registrant hereby undertakes to file a post-effective amendment to the registration statement under Section 8(a) of the Securities Act if the cumulative dilution to its net asset value (“NAV”) per share arising from an offering from the effective date of the current registration statement through and including any follow-on offering would exceed 15% based on the anticipated pricing of such follow-on offering. This limit would be measured separately for each offering pursuant to the current registration statement by calculating the percentage dilution or accretion to aggregate NAV from that offering and then summing the anticipated percentage dilution from each subsequent offering. If the Registrant files a new post-effective amendment, the threshold would reset.

**SIGNATURES**

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Pre-Effective Amendment No. 2 to the Registration Statement on Form N-2 to be signed on its behalf by the undersigned, thereunto duly authorized, in The City of New York, in the State of New York, on the 9th day of December 2016.

**SARATOGA INVESTMENT CORP.**

By: /s/ Christian L. Oberbeck

Name: Christian L. Oberbeck

Title: *Chief Executive Officer*

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Christian L. Oberbeck</u> Christian L. Oberbeck	Chief Executive Officer and Director (Principal Executive Officer)	December 9, 2016
<u>/s/ Henri J. Steenkamp</u> Henri J. Steenkamp	Chief Compliance Officer and Secretary (Principal Financial and Accounting Officer)	December 9, 2016
<u>*</u> Michael J. Grisius	President and Director	December 9, 2016
<u>*</u> Steven M. Looney	Director	December 9, 2016
<u>*</u> Charles S. Whitman III	Director	December 9, 2016
<u>*</u> G. Cabell Williams	Director	December 9, 2016

\* Signed by Henri J. Steenkamp pursuant to power of attorney granted on October 20, 2016.

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

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**FORM T-1**

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**STATEMENT OF ELIGIBILITY  
UNDER THE TRUST INDENTURE ACT OF 1939  
OF A CORPORATION DESIGNATED TO ACT AS TRUSTEE** Check if an Application to Determine Eligibility of a Trustee Pursuant to Section 305(b)(2)

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**U.S. BANK NATIONAL ASSOCIATION**(Exact name of Trustee as specified in its charter)

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31-0841368

I.R.S. Employer Identification No.

**800 Nicollet Mall  
Minneapolis, Minnesota**  
(Address of principal executive offices)**55402**  
(Zip Code)**Karen R. Beard  
U.S. Bank National Association  
One Federal Street – 10<sup>th</sup> Floor  
Boston, MA 02110  
(617) 603-6565**  
(Name, address and telephone number of agent for service)

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**Saratoga Investment Corp**  
(Issuer with respect to the Securities)

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**New York**  
(State or other jurisdiction of  
incorporation or organization)**20-8700615**  
(I.R.S. Employer  
Identification No.)**535 Madison Avenue  
New York, NY**  
(Address of Principal Executive Offices)**10022**  
(Zip Code)

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**Debt Securities**  
(Title of the Indenture Securities)

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**FORM T-1**

**Item 1. GENERAL INFORMATION.** Furnish the following information as to the Trustee.

- a) *Name and address of each examining or supervising authority to which it is subject.*  
Comptroller of the Currency  
Washington, D.C.
- b) *Whether it is authorized to exercise corporate trust powers.*  
Yes

**Item 2. AFFILIATIONS WITH OBLIGOR.** *If the obligor is an affiliate of the Trustee, describe each such affiliation.*  
None

**Items 3-15** *Items 3-15 are not applicable because to the best of the Trustee's knowledge, the obligor is not in default under any Indenture for which the Trustee acts as Trustee.*

**Item 16. LIST OF EXHIBITS:** *List below all exhibits filed as a part of this statement of eligibility and qualification.*

- 1. A copy of the Articles of Association of the Trustee.\*
- 2. A copy of the certificate of authority of the Trustee to commence business, attached as Exhibit 2.
- 3. A copy of the certificate of authority of the Trustee to exercise corporate trust powers, attached as Exhibit 3.
- 4. A copy of the existing bylaws of the Trustee.\*\*
- 5. A copy of each Indenture referred to in Item 4. Not applicable.
- 6. The consent of the Trustee required by Section 321(b) of the Trust Indenture Act of 1939, attached as Exhibit 6.
- 7. Report of Condition of the Trustee as of September 30, 2016 published pursuant to law or the requirements of its supervising or examining authority, attached as Exhibit 7.

\* Incorporated by reference to Exhibit 25.1 to Amendment No. 2 to registration statement on S-4, Registration Number 333-128217 filed on November 15, 2005.

\*\* Incorporated by reference to Exhibit 25.1 to registration statement on form S-3ASR, Registration Number 333-199863 filed on November 5, 2014.

**SIGNATURE**

Pursuant to the requirements of the Trust Indenture Act of 1939, as amended, the Trustee, U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, has duly caused this statement of eligibility and qualification to be signed on its behalf by the undersigned, thereunto duly authorized, all in the City of Boston, Commonwealth of Massachusetts on the 6<sup>th</sup> day of December, 2016.

By: /s/ Karen R. Beard  
Karen R. Beard  
Vice President





**CERTIFICATION OF CORPORATE EXISTENCE**

I, Thomas J. Curry, Comptroller of the Currency, do hereby certify that:

1. The Comptroller of the Currency, pursuant to Revised Statutes 324, et seq, as amended, and 12 USC 1, et seq, as amended, has possession, custody, and control of all records pertaining to the chartering, regulation, and supervision of all national banking associations.
2. "U.S. Bank National Association," Cincinnati, Ohio (Charter No. 24), is a national banking association formed under the laws of the United States and is authorized thereunder to transact the business of banking on the date of this certificate.

IN TESTIMONY WHEREOF, today,  
June 15, 2016, I have hereunto  
subscribed my name and caused my seal  
of office to be affixed to these presents at  
the U.S. Department of the Treasury, in  
the City of Washington, District of  
Columbia.

  
\_\_\_\_\_  
Comptroller of the Currency




**CERTIFICATION OF FIDUCIARY POWERS**

I, Thomas J. Curry, Comptroller of the Currency, do hereby certify that:

1. The Office of the Comptroller of the Currency, pursuant to Revised Statutes 324, et seq, as amended, and 12 USC 1, et seq, as amended, has possession, custody, and control of all records pertaining to the chartering, regulation, and supervision of all national banking associations.
2. "U.S. Bank National Association," Cincinnati, Ohio (Charter No. 24), was granted, under the hand and seal of the Comptroller, the right to act in all fiduciary capacities authorized under the provisions of the Act of Congress approved September 28, 1962, 76 Stat. 668, 12 USC 92a, and that the authority so granted remains in full force and effect on the date of this certificate.

IN TESTIMONY WHEREOF, today,  
June 15, 2016, I have hereunto  
subscribed my name and caused my seal  
of office to be affixed to these presents at  
the U.S. Department of the Treasury, in  
the City of Washington, District of  
Columbia.



  
Comptroller of the Currency

**Exhibit 6**

**CONSENT**

In accordance with Section 321(b) of the Trust Indenture Act of 1939, the undersigned, U.S. BANK NATIONAL ASSOCIATION hereby consents that reports of examination of the undersigned by Federal, State, Territorial or District authorities may be furnished by such authorities to the Securities and Exchange Commission upon its request therefor.

Dated: December 6, 2016

By: /s/ Karen R. Beard

Karen R. Beard  
Vice President

**Exhibit 7**  
**U.S. Bank National Association**  
**Statement of Financial Condition**  
**As of 9/30/2016**

(\$000's)

	<b>9/30/2016</b>
<b>Assets</b>	
Cash and Balances Due From Depository Institutions	\$ 23,641,632
Securities	109,767,226
Federal Funds	38,946
Loans & Lease Financing Receivables	272,221,647
Fixed Assets	5,761,293
Intangible Assets	12,599,811
Other Assets	24,370,650
<b>Total Assets</b>	<b>\$448,401,205</b>
<b>Liabilities</b>	
Deposits	\$345,417,164
Fed Funds	1,412,924
Treasury Demand Notes	0
Trading Liabilities	1,823,679
Other Borrowed Money	36,430,473
Acceptances	0
Subordinated Notes and Debentures	3,800,000
Other Liabilities	13,542,899
<b>Total Liabilities</b>	<b>\$402,427,139</b>
<b>Equity</b>	
Common and Preferred Stock	18,200
Surplus	14,266,915
Undivided Profits	30,877,711
Minority Interest in Subsidiaries	811,240
<b>Total Equity Capital</b>	<b>\$ 45,974,066</b>
<b>Total Liabilities and Equity Capital</b>	<b>\$448,401,205</b>

**SECOND SUPPLEMENTAL INDENTURE**

between

**SARATOGA INVESTMENT CORP.**

and

**U.S. BANK NATIONAL ASSOCIATION,**as **Trustee****Dated as of [                      ], 2016****SECOND SUPPLEMENTAL INDENTURE**

THIS SECOND SUPPLEMENTAL INDENTURE (this "Second Supplemental Indenture"), dated as of [                      ], 2016, is between Saratoga Investment Corp., a Maryland corporation (the "Company"), and U.S. Bank National Association, as trustee (the "Trustee"). All capitalized terms used herein shall have the meaning set forth in the Base Indenture (as defined below).

**RECITALS OF THE COMPANY**

The Company and the Trustee executed and delivered an Indenture, dated as of May 10, 2013 (the "Base Indenture" and, as supplemented by this Second Supplemental Indenture, the "Indenture"), to provide for the issuance by the Company from time to time of the Company's unsecured debentures, notes or other evidences of indebtedness (the "Securities"), to be issued in one or more series as provided in the Indenture.

The Company desires to issue and sell up to \$[                      ] aggregate principal amount (or up to \$[                      ] aggregate principal amount if the underwriters' option to purchase additional Securities is exercised in full) of the Company's [                      ]% Notes due 20[                      ] (the "Notes").

The Company previously entered into the First Supplemental Indenture, dated as of May 10, 2013 (the "First Supplemental Indenture"), which amended and supplemented the Base Indenture. The First Supplemental Indenture is not applicable to the Notes.

Sections 901(4) and 901(6) of the Base Indenture provide that without the consent of Holders of the Securities of any series issued under the Indenture, the Company, when authorized by or pursuant to a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental to the Base Indenture to (i) change or eliminate any of the provisions of the Indenture when there is no Security Outstanding of any series created prior to the execution of the supplemental indenture that is entitled to the benefit of such provision and (ii) establish the form or terms of Securities of any series as permitted by Section 201 and Section 301 of the Base Indenture.

The Company desires to establish the form and terms of the Notes and to modify, alter, supplement and change certain provisions of the Base Indenture for the benefit of the Holders of the Notes (except as may be provided in a future supplemental indenture to the Indenture (“Future Supplemental Indenture”)).

The Company has duly authorized the execution and delivery of this Second Supplemental Indenture to provide for the issuance of the Notes and all acts and things necessary to make this Second Supplemental Indenture a valid, binding, and legal obligation of the Company and to constitute a valid agreement of the Company, in accordance with its terms, have been done and performed.

NOW, THEREFORE, for and in consideration of the premises and the purchase of the Notes by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Notes, as follows:

## ARTICLE I TERMS OF THE NOTES

**Section 1.01 Terms of the Notes.** The following terms relating to the Notes are hereby established:

(a) The Notes shall constitute a series of Senior Securities having the title “[ ]% Notes due 20[ ].” The Notes shall bear a CUSIP number of [ ] and an ISIN number of [ ].

(b) The aggregate principal amount of the Notes that may be initially authenticated and delivered under the Indenture (except for Notes authenticated and delivered upon registration of, transfer of, or in exchange for, or in lieu of, other Notes pursuant to Sections 304, 305, 306, 906, 1107 or 1305 of the Base Indenture, and except for any Securities that, pursuant to Section 303 of the Base Indenture, are deemed never to have been authenticated and delivered under the Indenture) shall be up to \$[ ] (or up to \$[ ] aggregate principal amount if the underwriters’ option to purchase additional Securities is exercised in full). Under a Board Resolution, Officers’ Certificate pursuant to Board Resolutions or an indenture supplement, the Company may from time to time, without the consent of the Holders of Notes, issue additional Notes (in any such case “Additional Notes”) having the same ranking and the same interest rate, maturity and other terms as the Notes. Any Additional Notes and the existing Notes will constitute a single series under the Indenture and all references to the relevant Notes herein shall include the Additional Notes unless the context otherwise requires.

(c) The entire outstanding principal of the Notes shall be payable on [ ], 20[ ].

(d) The rate at which the Notes shall bear interest shall be [ ]% per annum (the “Applicable Interest Rate”). The date from which interest shall accrue on the Notes shall be [ ], 2016, or the most recent Interest Payment Date to which interest has been paid or provided for; the Interest Payment Dates for the Notes shall be [ ], [ ], [ ] and [ ] of each year, commencing [ ], 2017 (if an Interest Payment Date falls on a day that is not a Business Day, then the applicable interest payment will be made on the next succeeding Business Day and no additional interest will accrue as a result of such delayed payment); the initial interest period will be the period from and including [ ], 2016, to, but excluding, the initial Interest Payment Date, and the subsequent interest periods will be the periods from and including an Interest Payment Date to, but excluding, the next Interest Payment Date or the Stated Maturity, as the case may be; the interest so payable, and punctually paid or duly provided for, on any Interest Payment Date, will be paid to the Person in whose name the Note (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be [ ], [ ], [ ] or [ ] (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Payment of principal of (and premium, if any, on) and any such interest on the Notes will be made at the office of the Trustee located at 60 Livingston Avenue, St. Paul, MN 55107, Attention: Saratoga Investment Corp. ([ ]% Notes Due 20[ ]) and at such other address as designated by the Trustee, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; *provided, however*, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; *provided, further, however*, that so long as the Notes are registered to Cede & Co., such payment will be made by wire transfer in accordance with the procedures established by The Depository Trust Company and the Trustee. Interest on the Notes will be computed on the basis of a 360-day year of twelve 30-day months.

(e) The Notes shall be initially issuable in global form (each such Note, a “Global Note”). The Global Notes and the Trustee’s certificate of authentication thereon shall be substantially in the form of Exhibit A to this Second Supplemental Indenture. Each Global Note shall represent the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate amount of outstanding Notes from time to time endorsed thereon and that the aggregate amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the amount of outstanding Notes represented thereby shall be made by the Trustee or the Security Registrar, in accordance with Sections 203 and 305 of the Base Indenture.

(f) The depository for such Global Notes (the “Depository”) shall be The Depository Trust Company, New York, New York. The Security Registrar with respect to the Global Notes shall be the Trustee.

(g) The Notes shall be defeasible pursuant to Section 1402 or Section 1403 of the Base Indenture. Covenant defeasance contained in Section 1403 of the Base Indenture shall apply to the covenants contained in Sections 1006, 1008 and 1009 of the Indenture.

(h) The Notes shall be redeemable pursuant to Section 1101 of the Base Indenture and as follows:

(i) The Notes will be redeemable in whole or in part at any time or from time to time, at the option of the Company, on or after [                      ], 20[                      ], at a redemption price equal to 100% of the outstanding principal amount thereof, plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to, but excluding, the date fixed for redemption.

(ii) Notice of redemption shall be given in writing and mailed, first-class postage prepaid or by overnight courier guaranteeing next-day delivery, to each Holder of the Notes to be redeemed, not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, at the Holder's address appearing in the Security Register. All notices of redemption shall contain the information set forth in Section 1104 of the Base Indenture.

(iii) Any exercise of the Company's option to redeem the Notes will be done in compliance with the Investment Company Act, to the extent applicable.

(iv) If the Company elects to redeem only a portion of the Notes, the Trustee will determine the method for selecting the particular Notes to be redeemed, in accordance with Section 1103 of the Base Indenture and the Investment Company Act and the rules of any national securities exchange or quotation system on which the Notes are listed, in each case to the extent applicable.

(v) Unless the Company defaults in payment of the Redemption Price, on and after the Redemption Date, interest will cease to accrue on the Notes called for redemption hereunder.

(i) The Notes shall not be subject to any sinking fund pursuant to Section 1201 of the Base Indenture.

(j) The Notes shall be issuable in denominations of \$25 and integral multiples of \$25 in excess thereof.

(k) Holders of the Notes will not have the option to have the Notes repaid prior to the Stated Maturity.

(l) The Notes are hereby designated as "Senior Securities" under the Indenture.

## **ARTICLE II COVENANTS**

**Section 2.01** Except as may be provided in a Future Supplemental Indenture, for the benefit of the Holders of the Notes but no other series of Securities under the Indenture, whether now or hereafter issued and Outstanding, Article X of the Base Indenture shall be amended by adding the following new Sections 1008 and 1009 thereto, each as set forth below:



“Section 1008. Section 18(a)(1)(A) of the Investment Company Act.

The Company hereby agrees that for the period of time during which Notes are Outstanding, the Company will not violate (whether or not it is subject to) Section 18(a)(1)(A) as modified by Section 61(a)(1) of the Investment Company Act or any successor provisions thereto of the Investment Company Act, giving effect to any exemptive relief granted to the Company by the Commission.”

“Section 1009. Commission Reports and Reports to Holders.

If, at any time, the Company is not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act to file any periodic reports with the Securities and Exchange Commission, the Company agrees to furnish to the Holders of Notes and the Trustee for the period of time during which the Notes are Outstanding: (i) within 90 days after the end of the each fiscal year of the Company (which fiscal year ends on February 28 (or February 29 during a leap year)), audited annual consolidated financial statements of the Company and (ii) within 45 days after the end of each fiscal quarter of the Company (other than the Company’s fourth fiscal quarter), unaudited interim consolidated financial statements of the Company. All such financial statements shall be prepared, in all material respects, in accordance with GAAP.”

### **ARTICLE III MEETINGS OF HOLDERS OF SECURITIES**

**Section 3.01** Except as may be provided in a Future Supplemental Indenture, for the benefit of the Holders of the Notes but no other series of Securities under the Indenture, whether now or hereafter issued and Outstanding, Section 1505 of the Base Indenture shall be amended by replacing clause (c) thereof with the following:

“(c) At any meeting of Holders, each Holder of a Security of such series or proxy shall be entitled to one vote for each \$25.00 principal amount of the Outstanding Securities of such series held or represented by such Holder; provided, however, that no vote shall be cast or counted at any meeting in respect of any Security challenged as not Outstanding and ruled by the chairman of the meeting to be not Outstanding. The chairman of the meeting shall have no right to vote, except as a Holder of a Security of such series or proxy.”

### **ARTICLE IV MISCELLANEOUS**

**Section 4.01** This Second Supplemental Indenture and the Notes shall be governed by and construed in accordance with the law of the State of New York, without regard to principles of conflicts of laws. This Second Supplemental Indenture is subject to the provisions of the Trust Indenture Act that are required to be part of the Indenture and shall, to the extent applicable, be governed by such provisions.

**Section 4.02** In case any provision in this Second Supplemental Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

**Section 4.03** This Second Supplemental Indenture may be executed in counterparts, each of which will be an original, but such counterparts will together constitute but one and the same Second Supplemental Indenture. The exchange of copies of this Second Supplemental Indenture and of signature pages by facsimile, .pdf transmission, email or other electronic means shall constitute effective execution and delivery of this Second Supplemental Indenture for all purposes. Signatures of the parties hereto transmitted by facsimile, .pdf transmission, email or other electronic means shall be deemed to be their original signatures for all purposes.

**Section 4.04** The Base Indenture, as supplemented and amended by this Second Supplemental Indenture, is in all respects ratified and confirmed, and the Base Indenture and this Second Supplemental Indenture shall be read, taken and construed as one and the same instrument with respect to the Notes. All provisions included in this Second Supplemental Indenture supersede any conflicting provisions included in the Base Indenture with respect to the Notes, unless not permitted by law. The Trustee accepts the trusts created by the Base Indenture, as supplemented by this Second Supplemental Indenture, and agrees to perform the same upon the terms and conditions of the Base Indenture, as supplemented by this Second Supplemental Indenture.

**Section 4.05** The provisions of this Second Supplemental Indenture shall become effective as of the date hereof.

**Section 4.06** Notwithstanding anything else to the contrary herein, the terms and provisions of this Second Supplemental Indenture shall apply only to the Notes and shall not apply to any other series of Securities under the Indenture and this Second Supplemental Indenture shall not and does not otherwise affect, modify, alter, supplement or change the terms and provisions of any other series of Securities under the Indenture, whether now or hereafter issued and Outstanding.

**Section 4.07** The recitals contained herein and in the Notes shall be taken as the statements of the Company, and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Second Supplemental Indenture, the Notes or any Additional Notes, except that the Trustee represents that it is duly authorized to execute and deliver this Second Supplemental Indenture, authenticate the Notes and any Additional Notes and perform its obligations hereunder. The Trustee shall not be accountable for the use or application by the Company of the Notes or any Additional Notes or the proceeds thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed as of the date first above written.

SARATOGA INVESTMENT CORP.

By: \_\_\_\_\_  
Name: Christian L. Oberbeck  
Title: Chief Executive Officer

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: \_\_\_\_\_  
Name:  
Title:

*[Signature page to Second Supplemental Indenture]*

**Exhibit A – Form of Global Note**

This Security is a Global Note within the meaning of the Indenture hereinafter referred to and is registered in the name of The Depository Trust Company or a nominee thereof. This Security may not be exchanged in whole or in part for a Security registered, and no transfer of this Security in whole or in part may be registered, in the name of any Person other than The Depository Trust Company or a nominee thereof, except in the limited circumstances described in the Indenture.

Unless this certificate is presented by an authorized representative of The Depository Trust Company to the issuer or its agent for registration of transfer, exchange or payment and such certificate issued in exchange for this certificate is registered in the name of Cede & Co., or such other name as requested by an authorized representative of The Depository Trust Company, any transfer, pledge or other use hereof for value or otherwise by or to any person is wrongful, as the registered owner hereof, Cede & Co., has an interest herein.

**Saratoga Investment Corp.**

No.

\$  
CUSIP No. [            ]  
ISIN No. US[            ]

[            ]% Notes due 20[            ]

Saratoga Investment Corp., a corporation duly organized and existing under the laws of Maryland (herein called the “Company”, which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of (U.S. \$            ) on [            ], 20[            ] and to pay interest thereon from [            ], 2016 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, quarterly on [            ], [            ], [            ] and [            ] in each year, commencing [            ], 2017, at the rate of [            ]% per annum, until the principal hereof is paid or made available for payment. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security is registered at the close of business on the Regular Record Date for such interest, which shall be [            ], [            ], [            ], [            ] or [            ] (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture. This Security may be issued as part of a series.

Payment of the principal of (and premium, if any, on) and any such interest on this Security will be made at the office of the Trustee located at 60 Livingston Avenue, St. Paul, MN 55107, Attention: Saratoga Investment Corp. ([ ]% Notes Due 20[ ]) and at such other address as designated by the Trustee, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; *provided, however*, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register; *provided, further, however*, that so long as this Security is registered to Cede & Co., such payment will be made by wire transfer in accordance with the procedures established by The Depository Trust Company and the Trustee.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed.

Dated:

SARATOGA INVESTMENT CORP.

By: \_\_\_\_\_  
Name:  
Title:

Attest

By: \_\_\_\_\_  
Name:  
Title:

*[Global Note – Second Supplemental Indenture]*

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated:

U.S. BANK NATIONAL ASSOCIATION,  
as Trustee

By: \_\_\_\_\_  
Authorized Signatory

*[Global Note – Second Supplemental Indenture]*

**Saratoga Investment Corp.**

[ ]% Notes due 20[ ]

This Security is one of a duly authorized issue of Senior Securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of May 10, 2013 (herein called the "Base Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and U.S. Bank National Association, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Base Indenture), and reference is hereby made to the Base Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee, and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered, as supplemented by the Second Supplemental Indenture relating to the Securities, dated [ ], 20[ ], by and between the Company and the Trustee (herein called the "Second Supplemental Indenture"; the Second Supplemental Indenture and the Base Indenture collectively are herein called the "Indenture"). In the event of any conflict between the Base Indenture and the Second Supplemental Indenture, the Second Supplemental Indenture shall govern and control.

This Security is one of the series designated on the face hereof, initially limited in aggregate principal amount to \$ (or up to \$ aggregate principal amount if the underwriters' option to purchase additional Securities is exercised in full). Under a Board Resolution, Officers' Certificate pursuant to Board Resolutions or an indenture supplement, the Company may from time to time, without the consent of the Holders of Securities, issue additional Securities of this series (in any such case "Additional Securities") having the same ranking and the same interest rate, maturity and other terms as the Securities. Any Additional Securities and the existing Securities will constitute a single series under the Indenture and all references to the relevant Securities herein shall include the Additional Securities unless the context otherwise requires. The aggregate amount of outstanding Securities represented hereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions.

The Securities of this series are subject to redemption in whole or in part at any time or from time to time, at the option of the Company, on or after [ ], 20[ ], at a redemption price per security equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest payments otherwise payable for the then-current quarterly interest period accrued to the date fixed for redemption.

Notice of redemption shall be given in writing and mailed, first-class postage prepaid or by overnight courier guaranteeing next-day delivery, to each Holder of the Securities to be redeemed, not less than thirty (30) nor more than sixty (60) days prior to the Redemption Date, at the Holder's address appearing in the Security Register. All notices of redemption shall contain the information set forth in Section 1104 of the Base Indenture.

Any exercise of the Company's option to redeem the Securities will be done in compliance with the Investment Company Act, to the extent applicable.



If the Company elects to redeem only a portion of the Securities, the Trustee or the Depositary, as applicable, will determine the method for selecting the particular Securities to be redeemed, in accordance with their standard operating procedures and the Investment Company Act, to the extent applicable. In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

Unless the Company defaults in payment of the Redemption Price, on and after the Redemption Date, interest will cease to accrue on the Notes called for redemption.

Holders of Securities do not have the option to have the Securities repaid prior to [                    ], 20[        ].

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of not less than a majority in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee security or indemnity reasonably satisfactory to the Trustee against the costs, expenses and liabilities to be incurred in compliance with such request, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for sixty (60) days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$25 and any integral multiples of \$25 in excess thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company, the Trustee, or the Security Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee, or the Security Registrar and any agent of the Company, the Trustee, or the Security Registrar may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and none of the Company, the Trustee, the Security Registrar or any agent thereof shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

The Indenture and this Security shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of laws.

\$[ • ]

**SARATOGA INVESTMENT CORP.**

[ • ]% Notes due 202[ • ]

**UNDERWRITING AGREEMENT**

[ • ], 2016

Ladenburg Thalmann & Co. Inc.  
As Representative of the several  
Underwriters named in Schedule I attached hereto,  
c/o Ladenburg Thalmann & Co. Inc.  
570 Lexington Avenue, 12<sup>th</sup> Floor  
New York, New York 10022

Ladies and Gentlemen:

Saratoga Investment Corp., a corporation incorporated under the laws of the State of Maryland (the “**Fund**”), is a non-diversified closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”). The Fund proposes to issue and sell to the several Underwriters named in Schedule I hereto (the “**Underwriters**”) \$[ • ] million total aggregate principal amount of its [ • ]% Senior Notes due 202[•] (the “**Notes**”). The Securities will be issued under the indenture dated as of May 10, 2013 between the Fund and U.S. Bank National Association, as trustee (the “**Trustee**”), as amended and supplemented by that certain Supplemental Indenture to be dated as of [ • ], 2016 (such indenture, as so amended and supplemented, the “**Indenture**”). The Fund also proposes to sell to the several Underwriters up to an additional \$[ • ] million total aggregate principal amount of Notes (the “**Additional Notes**”) if and to the extent that Ladenburg Thalmann & Co. Inc., as the representative of the Underwriters in the offering (the “**Representative**”), shall have determined to exercise, on behalf of the Underwriters, the right to purchase such Additional Notes granted to the Underwriters in Section 3 hereof. The Notes and the Additional Notes are hereinafter collectively referred to as the “**Securities.**”

Saratoga Investment Advisors, LLC, a Delaware limited liability company (“**Saratoga Investment Advisors**”), acts as the Fund’s investment adviser pursuant to an Investment Advisory and Management Agreement between Saratoga Investment Advisors and the Fund, dated July 30, 2010 (the “**Investment Advisory Agreement**”). Saratoga Investment Advisors also acts as the Fund’s administrator pursuant to an Administration Agreement between Saratoga Investment Advisors and the Fund dated July 30, 2010 (the “**Administration Agreement**”, which together with the Investment Advisory Agreement are hereinafter referred to as the “**Fund Agreements**”).

The Investment Company Act and the Securities Act of 1933, as amended (the “**Securities Act**”), are hereinafter referred to collectively as the “**Acts,**” and the rules and regulations of the Securities and Exchange Commission (the “**Commission**”) under the Acts and under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”) are hereinafter referred to collectively as the “**Rules and Regulations.**”

The Fund filed with the Commission a notification of election to be regulated as a business development company under the Investment Company Act on Form N-54A (File No. 814-00740) (the “**Notification of Election**”) on March 21, 2007. The Fund has also prepared and filed with the Commission pursuant to the Securities Act, a registration statement on Form N-2

(File No. 333-214182) for the offer and sale of the Notes, which registration statement was declared effective by the Commission on [ • ], 201[ • ]. Such registration statement, as amended as of the Applicable Time (as defined below), including exhibits and financial statements and any prospectus relating to the Securities that is filed with the Commission pursuant to Rule 497 promulgated under the Securities Act (“**Rule 497**”) and deemed part of such registration statement as of its effective date (the “**Registration Statement**”) pursuant to Rule 430A promulgated under the Securities Act (“**Rule 430A**”), and, in the event any post-effective amendment thereto or any registration statement filed pursuant to Rule 462(b) under the Securities Act (a “**Rule 462(b) Registration Statement**”) becomes effective prior to the Closing Date (as defined below) (and, if any Additional Notes are purchased, at the Option Closing Date (as defined below)), such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be, is hereinafter referred to as the “**Registration Statement**.” The preliminary prospectus, dated as of [ • ], 2016, which was included in the Registration Statement as of the date and time it became effective under the Securities Act, is hereinafter referred to as the “**Preliminary Prospectus**.” The final prospectus, dated as of [ • ], 2016, to be filed with the Commission pursuant to Rule 497 and which shall contain the pricing and related information permitted to be omitted from the Registration Statement as of its effective date in accordance with Rule 430A (the “**Rule 430A Information**”), is hereinafter referred to as the “**Prospectus**,” except that if any revised prospectus or prospectus supplement shall be provided to the Underwriters by the Fund for use in connection with the sale of the Securities which differs from the Prospectus, the term “Prospectus” shall also refer to such revised prospectus or prospectus supplement, as the case may be, from and after the time it is first provided to the Underwriters for such use. All references in this Agreement to the Registration Statement, the Preliminary Prospectus and the Prospectus, or any amendments or supplements to any of the foregoing shall be deemed to include any copy thereof filed with the Commission pursuant to its Electronic Data Gathering, Analysis and Retrieval System (“**EDGAR**”) system.

For purposes of this Agreement, “**Omitting Prospectus**” means any written advertisement used with the written consent of the Fund in the public offering of the Securities and filed with the Commission pursuant to Rule 482 of the Rules and Regulations (“**Rule 482**”). “**Time of Sale Prospectus**” means, as of the Applicable Time (as defined below), the Preliminary Prospectus, together with the information set forth on Schedule II hereto (which information the Underwriters have informed the Fund is being conveyed orally by the Underwriters to prospective purchasers at or prior to the Underwriters’ confirmation of sales of the Securities in the offering). As used herein, the terms “Registration Statement,” “Preliminary Prospectus,” “Time of Sale Prospectus” and “Prospectus” shall include the documents, if any, incorporated by reference therein.

“Applicable Time” means [ • ] p.m. (Eastern Time) on [ • ], 2017 or such other time as agreed by the Fund and the Representative.

1. Representations and Warranties.

*Representations and Warranties of the Fund.* The Fund represents and warrants to each of the Underwriters as of the date hereof, the Applicable Time and the Closing Date as follows:

(a) The Registration Statement has been filed with, and declared effective by, the Commission; no notice of objection of the Commission to the use of such Registration Statement or any post-effective amendment thereto has been received by the Fund; no stop order suspending the effectiveness of the Registration Statement is in effect, and no proceedings for such purpose are pending before or, to the knowledge of the Fund, threatened by the Commission. The Preliminary Prospectus and the Prospectus delivered to the Underwriters for use in connection with this offering was identical in all material respects to the electronically transmitted copies thereof filed with the Commission pursuant to EDGAR, except to the extent permitted by Regulation S-T. At the time of filing the Registration Statement and any post-effective amendments thereto, and at the date hereof, the Fund was not and is not an “ineligible issuer,” as defined in Rule 405 of the Rules and Regulations.

(b) At the respective times the Registration Statement and any post-effective amendment thereto (filed before the Closing Date) became effective and at the Closing Date (and, if any Additional Notes are purchased, at the Option Closing Date), the Registration Statement, and any post-effective amendment thereto complied and will comply in all material respects with the requirements of the Securities Act and the Rules and Regulations and did not and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. Neither the Prospectus nor any amendment or supplement thereto, as of the respective dates thereof and at the Closing Date (and, if any Additional Notes are purchased, at the Option Closing Date), contained or will contain an untrue statement of a material fact or omitted or will omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The Time of Sale Prospectus, at the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The representations and warranties in this paragraph do not apply to statements in or omissions from the Registration Statement, the Time of Sale Prospectus or the Prospectus made solely in reliance upon and in conformity with written information furnished to the Fund by the Representative on behalf of any Underwriter for use in the Registration Statement, the Time of Sale Prospectus or Prospectus.

(c) The Fund has been duly incorporated and is validly existing in good standing as a corporation under the laws of the State of Maryland. The Fund has full power and authority to own its property and to conduct its business as described in the Time of Sale Prospectus and enter into this Agreement and is in good standing and is duly qualified to transact business in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the condition, financial or otherwise, or on the earnings, business, operations, prospects or property of the Fund (a “**Fund Material Adverse Effect**”). The Fund has no consolidated subsidiaries, other than those entities set forth on Schedule IV hereto.

(d) The Fund has duly elected to be treated by the Commission under the Investment Company Act as a “business development company” (the “**BDC Election**”) and the Fund has not filed with the Commission any notice of withdrawal of the BDC Election pursuant to Section 54(c) of the Investment Company Act, and no order of suspension or revocation of such BDC Election has been issued or proceedings therefor initiated or, to the knowledge of the Fund, threatened by the Commission.

(e) The Fund is, and at all times through the completion of the transactions contemplated hereby will be, in compliance in all material respects with the applicable terms and conditions of the Acts and the Rules and Regulations. No person is serving or acting as an officer or director of, or investment adviser to, the Fund except in accordance with the provisions of the Investment Company Act and the Investment Advisers Act of 1940, as amended (the “**Advisers Act**”). Except as otherwise disclosed in the Registration Statement, the Time of Sale Prospectus and the Prospectus, to the knowledge of the Fund, based on information provided to the Fund by directors of the Fund, no director of the Fund is an “interested person” of the Fund or an “affiliated person” of any Underwriter (each as defined in the Investment Company Act).

(f) Each of this Agreement and the Fund Agreements has been duly authorized by the Fund. Each Fund Agreement complies with all applicable provisions of the Investment Company Act, the Advisers Act and the applicable Rules and Regulations. Each Fund Agreement has been duly executed and delivered by the Fund and (assuming the due and valid authorization, execution and delivery by the other parties thereto) represents a valid and binding agreement of the Fund, enforceable against the Fund in accordance with its terms, except (i) as rights to indemnity and contribution may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of the Fund’s obligations thereunder may be limited by bankruptcy, fraudulent conveyance, insolvency, reorganization, receivership, moratorium, and other laws relating to or affecting creditors’ rights generally and by general equitable principles whether enforcement is considered in a proceeding in equity or at law (the “**Enforceability Exceptions**”), and (ii) in the case of the Investment Advisory Agreement, with respect to termination under the Investment Company Act or the reasonableness or fairness of compensation payable thereunder.

(g) None of (i) the execution and delivery by the Fund of, and the performance by the Fund of its obligations under, this Agreement and each Fund Agreement, or (ii) the issuance and sale by the Fund of the Securities as contemplated by this Agreement conflicts with or will conflict with, result in, or constitute a violation, breach of, default under, (x) the Articles of Incorporation of the Fund, as amended to date (the “**Charter**”) or the Amended and Restated Bylaws of the Fund, as amended to date (the “**Bylaws**”) (y) any agreement, indenture, note, bond, license, lease or other instrument or obligation binding upon the Fund or any Subsidiary that is material to the Fund and the Subsidiaries taken as a whole, or (z) any law, rule or regulation applicable to the Fund or any Subsidiary or any judgment, order or decree of any governmental body, agency or court having jurisdiction over the Fund or any Subsidiary, whether foreign or domestic; except, with respect to clauses (y) or (z), any contravention which would have neither (1) a Fund Material Adverse Effect or (2) a material adverse effect on the consummation of the transactions contemplated by this Agreement; *provided* that no representation or warranty is made with respect to compliance with the laws of any jurisdiction outside of the United States in connection with the offer or sale of the Securities in such jurisdiction by any Underwriter.

(h) No consent, approval, authorization, order or permit of, license from, or qualification with, any governmental body, agency or authority, self-regulatory organization or court or other tribunal, whether foreign or domestic, is required to be obtained by the Fund prior to the Closing Date for the performance by the Fund of its obligations under this Agreement or the Fund Agreements, except such as have been obtained and as may be required by (i) the Acts, the Advisers Act, the Exchange Act, or the applicable Rules and Regulations, (ii) the rules and regulations of the Financial Industry Regulatory Authority (“**FINRA**”) or the New York Stock Exchange (“**NYSE**”), (iii) by the securities or “blue sky laws” of the various states and foreign jurisdictions in connection with the offer and sale of the Securities or (iv) such as which the failure to obtain would have neither (i) a Fund Material Adverse Effect or (ii) a material adverse effect on the consummation of the transactions contemplated by this Agreement.

(i) The authorized, issued and outstanding capital stock of the Fund conforms in all material respects to the description thereof under the heading “Description of Our Capital Stock” in each of the Time of Sale Prospectus and the Prospectus, and this Agreement, the Charter, the Bylaws and the Fund Agreements conform in all material respects to the descriptions thereof contained in each of the Time of Sale Prospectus and the Prospectus.

(j) This Agreement, the 20[ • ] Notes, the Charter and the Bylaws and the Fund Agreements comply with all applicable provisions of the Acts and the applicable Rules and Regulations, and all approvals of such documents required under the Investment Company Act by the Fund’s shareholders and Board of Directors have been obtained and are in full force and effect. The Indenture has been qualified under the Trust Indenture Act of 1939, as amended, (the “Trust Indenture Act”), and all approvals, if any, of such documents required under the Trust Indenture Act have been obtained and are in full force and effect.

(k) The Fund Agreements are in full force and effect and neither the Fund nor, to the knowledge of the Fund, any other party to any such agreement is in default thereunder, and no event has occurred which with the passage of time or the giving of notice or both would constitute a default by the Fund thereunder, and the Fund is not currently in breach of, or in default under, any other written agreement or instrument to which it or its property is bound or affected, the default under or breach of which could reasonably be expected to result in a Fund Material Adverse Effect.

(l) The outstanding shares of common stock, par value \$0.001 per share (the “**Common Stock**”), of the Fund have been duly authorized and are validly issued, fully paid and non-assessable. None of the outstanding shares of Common Stock of the Fund was issued in violation of the preemptive or other similar rights of any securityholder of the Fund. Other than as contemplated in the Time of Sale Prospectus and the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock of or ownership interests in the Fund are outstanding.



(m) The Indenture has been duly authorized by the Fund and upon effectiveness of the Registration Statement was or will have been duly qualified under the Trust Indenture Act and, when duly executed and delivered in accordance with its terms by the Fund and the Trustee, will constitute a valid and legally binding agreement of the Fund enforceable against the Fund in accordance with its terms, except as enforceability may be limited by the Enforceability Exceptions.

(n) The Securities have been duly authorized by the Fund and, when duly executed, authenticated, issued and delivered as provided in the Indenture and paid for as provided herein, will be duly and validly issued and outstanding and will constitute valid and legally binding obligations of the Fund enforceable against the Fund in accordance with their terms, subject to the Enforceability Exceptions, and will be entitled to the benefits of the Indenture. All statements relating to the Notes contained in the Registration Statement, the Prospectus and the Time of Sale Prospectus conform, in all material respects, to the Notes, and the issuance of the Notes is not subject to any preemptive rights, rights of first refusal or offer or similar rights.

(o) The Fund has filed a registration statement on Form 8-A relating to the Securities pursuant to Section 12(b) of the Exchange Act. An application for listing of the Securities for trading on the NYSE has been filed by the Fund.

(p) Each Omitting Prospectus, as of the date thereof and as of the Closing Date, (i) complies in all material respects with the requirements of Rule 482, (ii) does not contain an untrue statement of a material fact and (iii) complied and will comply in all material respects with the Securities Act and the applicable Rules and Regulations. Except for the Omitting Prospectuses identified on Schedule III hereto, the Fund has not prepared, used or referred to and will not, without your prior consent, prepare, use or refer to any Omitting Prospectus.

(q) Since November 30, 2016, except as disclosed in the Registration Statement, the Time of Sale Prospectus or the Prospectus, there has not occurred any material adverse change, or any development reasonably likely to involve a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of the Fund and the Subsidiaries taken as a whole, except as would not result in a Fund Material Adverse Effect, and there have been no transactions entered into by the Fund which are material to the Fund other than those in the ordinary course of its business or as described in the Time of Sale Prospectus.

(r) There are no legal or governmental proceedings pending or, to the knowledge of the Fund or any Subsidiary, threatened to which the Fund is a party or to which any of the properties of the Fund or any Subsidiary is subject (i) other than proceedings described in all material respects in the Time of Sale Prospectus and proceedings that would not result in a Fund Material Adverse Effect, or on the power or ability of the Fund to perform its obligations under this Agreement or to consummate the transactions contemplated by the Time of Sale Prospectus or (ii) that are required to be described in the Registration Statement, the Time of Sale Prospectuses or the Prospectus and are not so described.

(s) The statements in the Registration Statement, the Time of Sale Prospectus under the headings “Specific Terms of the 20 [ ] Notes and the Offering,” “Management Agreements,” “Regulation,” “Material U.S. Federal Income Tax Considerations,” “Description of the 20 [ ] Notes”, insofar as such statements summarize legal matters, agreements, documents or proceedings discussed therein, are accurate and fair summaries of such legal matters, agreements, documents or proceedings.

(t) Each of the Fund and each Subsidiary has all necessary consents, authorizations, approvals, orders (including exemptive orders), licenses, certificates, permits, qualifications and registrations of and from, and has made all declarations and filings with, all governmental authorities, self-regulatory organizations and courts and other tribunals, whether foreign or domestic, to own and use its assets and to conduct its business in the manner described in the Time of Sale Prospectus and the Prospectus, except to the extent that the failure to obtain or file the foregoing would not result in a Fund Material Adverse Effect.

(u) Each of the Preliminary Prospectus and the Prospectus, as of the respective dates thereof, and the Time of Sale Prospectus, as of the Applicable Time, complied in all material respects with the Securities Act and the applicable Rules and Regulations.

(v) When the Notification of Election was filed with the Commission, it (i) contained all statements required to be stated therein in accordance with, and complied in all material respects with the requirements of, the Investment Company Act, as applicable to business development companies, and (ii) did not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading.

(w) Except as otherwise contemplated in the Time of Sale Prospectus and the Prospectus, the financial statements included in the Registration Statement, the Time of Sale Prospectus and the Prospectus, together with the related notes thereto (collectively, the “**Fund Financial Statements**”), present fairly the financial condition of the Fund as of the date indicated and said Fund Financial Statements comply as to form with the requirements of Regulation S-X under the Securities Act and have been prepared in conformity with generally accepted accounting principles (“**GAAP**”). The supporting schedules to such Fund Financial Statements, if any, present fairly in accordance with GAAP the information required to be stated therein. Ernst & Young LLP, whose report appears in the Time of Sale Prospectus and the Prospectus and who have certified the Fund Financial Statements and supporting schedules, if any, included in the Registration Statement, is an independent registered public accounting firm as required by the Acts and the applicable Rules and Regulations.

(x) There are no material restrictions, limitations or regulations with respect to the ability of the Fund or any Subsidiary to invest its assets as described in the Time of Sale Prospectus and the Prospectus, other than as described therein.

(y) Neither the Fund nor any of its agents or representatives (other than the Underwriters in their capacity as such) has prepared, made, used, authorized, approved or referred to any written communication that constitutes an offer to sell or solicitation of an offer to buy the Securities other than (i) the Registration Statement, the Preliminary Prospectus and the Prospectus, and any amendment or supplement to any of the foregoing, and (ii) the Omitting Prospectuses, if any, identified on Schedule III hereto. All other

promotional material (including “road show slides” or “road show scripts”) prepared by the Fund or Saratoga Investment Advisors for use in connection with the offering and sale of the Securities (“**Road Show Material**”) is not inconsistent with the Registration Statement, the Preliminary Prospectus or the Prospectus, and when taken together with the Time of Sale Prospectus, at the Applicable Time, did not contain any untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(z) There are no contracts, agreements or understandings between the Fund and any person granting such person the right to require the Fund to file a registration statement under the Securities Act with respect to any securities of the Fund or to require the Fund to include such securities with the Securities registered pursuant to the Registration Statement.

(aa) Subsequent to the respective dates as of which information is given in each of the Registration Statement, the Time of Sale Prospectus and the Prospectus, (i) neither the Fund nor any Subsidiary has incurred any material liability or obligation, direct or contingent, nor entered into any material transaction; (ii) neither the Fund nor any Subsidiary has purchased any of its outstanding capital stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock, other than ordinary and customary dividends; and (iii) there has not been any material change in the capital stock, short-term debt or long-term debt of the Fund, except in each case as contemplated in the Registration Statement, the Time of Sale Prospectus and the Prospectus, respectively.

(bb) Each of the Fund and each Subsidiary owns or possesses, or can acquire on reasonable terms, all material patents, patent rights, licenses, inventions, copyrights, know-how (including trade secrets and other unpatented and/or unpatentable proprietary or confidential information, systems or procedures), trademarks, service marks and trade names currently employed by them in connection with the business now operated by it, and neither the Fund nor any Subsidiary has received any notice of infringement of or conflict with asserted rights of others with respect to any of the foregoing which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a Fund Material Adverse Effect.

(cc) The Common Stock of the Fund is listed on the NYSE under the ticker symbol “SAR.” The Fund has not received any notice that it is not in compliance with the listing or maintenance requirements of the NYSE with respect to its Common Stock. The Fund believes that it is, and has no reason to believe that it will not in the foreseeable future continue to be, in material compliance with all such listing and maintenance requirements.

(dd) To the extent that the Sarbanes-Oxley Act of 2002, as amended, and the rules and regulations promulgated by the Commission and NYSE thereunder (the “**Sarbanes-Oxley Act**”), have been applicable to the Fund, there is and has been no failure on the part of the Fund to comply with any applicable provision of the Sarbanes-Oxley Act that would reasonably be expected to result in a Fund Material Adverse Effect.

(ee) The Fund maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations and with the applicable requirements of the Acts; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability and compliance with the books and records requirements under the Acts; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since the date of the Fund's most recent audited financial statements included in the Prospectus, there has been (i) no material weakness in the Fund's internal control over financial reporting (whether or not remediated); (ii) no fraud, whether or not material, that involves management or employees who have a role in the Fund's internal controls; and (iii) no change in the Fund's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

(ff) The Fund maintains "disclosure controls and procedures" (as such term is defined in Rules 13a-15 of the Rules and Regulations; such disclosure controls and procedures are effective; and the Fund is not aware of any material weakness in such controls and procedures.

(gg) None of the Fund, any Subsidiary nor, to the knowledge of the Fund, any employee nor agent of the Fund or any Subsidiary has made any payment of funds of the Fund or received or retained any funds, which payment, receipt or retention is of a character to be disclosed in the Registration Statement, the Time of Sale Prospectus or the Prospectus.

(hh) Any statistical and market-related data included in the Registration Statement, the Time of Sale Prospectus and the Prospectus are based on or derived from sources that the Fund believes to be reliable and accurate.

(ii) There are no contracts or documents which are required to be described in the Registration Statement, the Time of Sale Prospectus or the Prospectus (or the documents incorporated by reference therein) or to be filed as exhibits thereto by the Securities Act or the Rules and Regulations which have not been so described and filed as required.

(jj) The operations of the Fund and each Subsidiary are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements and the money laundering statutes and the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**") and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Fund or any Subsidiary with respect to the Money Laundering Laws is pending or, to the knowledge of the Fund, threatened.

(kk) None of the Fund, any Subsidiary nor Saratoga Investment Advisors nor, to the knowledge of the Fund, any director, officer, agent, employee or affiliate of the Fund, any Subsidiary or Saratoga Investment Advisors is aware of or has taken any action, directly or indirectly, that would result in a violation by such persons of the Foreign Corruption Practices Act of 1977, as amended, and the rules and regulations thereunder ("**FCPA**"),

including, without limitation, making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give, or authorization of the giving of anything of value to any "foreign official" (as such term is defined in FCPA) or any foreign political party or official thereof or any candidate for foreign political office, in contravention of the FCPA and the Fund, any Subsidiary or Saratoga Investment Advisors, and to the knowledge of the Fund, any Subsidiary or Saratoga Investment Advisors, its affiliates have conducted their businesses in compliance with the FCPA and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, continued compliance therewith.

(ll) None of the Fund, any Subsidiary nor Saratoga Investment Advisors nor, to the knowledge of the Fund, any director, officer, agent, employee or affiliate of the Fund, any Subsidiary or Saratoga Investment Advisors is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("OFAC") and neither the Fund, any Subsidiary or Saratoga Investment Advisors will directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC.

(mm) Each of the Fund and each Subsidiary is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; all policies of insurance insuring the Fund, any Subsidiary or their respective business, assets, employees, officers and directors, including the Fund's directors and officers errors and omissions insurance policy and its fidelity bond required by Rule 17g-1 of the Rules and Regulations, are in full force and effect and each of each of the Fund and each Subsidiary is in compliance with the terms of such policies and fidelity bond in all material respects; and there are no claims by the Fund or any Subsidiary under any such policies or fidelity bond as to which any insurance company is denying liability or defending under a reservation of rights clause; neither the Fund nor any Subsidiary has been refused any insurance coverage sought or applied for; and the Fund has no reason to believe that it or the Subsidiaries will not be able to renew its or their existing insurance coverage and fidelity bond as and when such coverage and fidelity bond expires or to obtain similar coverage and fidelity bond from similar insurers as may be necessary to continue its business at a cost that would not result in a Fund Material Adverse Effect, except as set forth in or contemplated in the Registration Statement, the Time of Sale Prospectus or the Prospectus.

(nn) Except as set forth in or contemplated in the Preliminary Prospectus, the Time of Sale Prospectus or the Prospectus, neither the Fund nor any Subsidiary (i) has any material lending or other relationship with any bank or lending affiliate of the Representative (the description of such arrangements and outstanding indebtedness thereunder is true, accurate and complete in all respects) and (ii) does not intend to use any of the proceeds from the sale of the Securities hereunder to repay any outstanding debt owed to any affiliate of the Representative.

(oo) There are no business relationships or related-party transactions involving the Fund, any Subsidiary or any other person required to be described in the Registration Statement, the Preliminary Prospectus or the Prospectus which have not been described as required, it being understood and agreed that the Fund and Saratoga Investment Advisors make no representation or warranty with respect to such relationships involving any Underwriter or any affiliate of such Underwriter and any other person that have not been disclosed to the Fund by the relevant Underwriter in connection with this offering.

(pp) None of the Fund, any Subsidiary, Saratoga Investment Advisors nor any of their affiliates has taken, directly or indirectly, any action which constitutes or is designed to cause or result in, or which could reasonably be expected to constitute, cause or result in, the stabilization or manipulation of the price of any security to facilitate the sale or resale of the Securities.

(qq) Each of the Fund and each Subsidiary owns, leases or has rights to use all such properties as are necessary to the conduct of its operations as presently conducted.

(rr) No director or officer of the Fund, any Subsidiary or Saratoga Investment Advisors is subject to any non-competition agreement or non-solicitation agreement with any employer or prior employer which could materially affect his ability to be and act in his respective capacity of the Fund, any Subsidiary or Saratoga Investment Advisors or result in a Fund Material Adverse Effect.

(ss) Each of the Fund and each Subsidiary is currently organized and operates in compliance in all material respects with the requirements to be taxed as, and has duly elected to be taxed as (which election has not been revoked), a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the "**Code**"). The Fund intends to direct the investment of the net proceeds received by it from the sale of the Securities in the manner specified in the Registration Statement, the Time of Sale Prospectus and the Prospectus under the caption "Use of Proceeds" and in such a manner as to continue to comply with the requirements of Subchapter M of the Code.

(tt) The Fund has (i) appointed a Chief Compliance Officer and (ii) adopted and implemented written policies and procedures which the Board of Directors of the Fund has determined are reasonably designed to prevent violation of the Federal Securities laws in a manner required by and consistent with Rule 38a-1 under the Investment Company Act and is in compliance in all material respects with such Rule.

Any certificate signed by or on behalf of the Fund and delivered to the Representative or counsel for the Underwriters in connection with the offering of the Securities shall be deemed to a representation and warranty by the Fund as to the matters covered therein to each Underwriter.

2. *Representations and Warranties of Saratoga Investment Advisors.* Saratoga Investment Advisors represents and warrants to and agrees with each of the Underwriters as of the date hereof as follows:

(a) Saratoga Investment Advisors has been duly formed and is validly existing as a limited liability company in good standing under the laws of the State of Delaware, with the corporate power and authority to own its property and to conduct its business as described in the Time of Sale Prospectus and enter into this Agreement and the other Fund Agreements to which Saratoga Investment Advisors is a party, as the case may be, and is duly qualified to transact business and is in good standing in each jurisdiction in which the conduct of its business or its ownership or leasing of property requires such qualification, except to the extent that the failure to be so qualified or be in good standing would not have a material adverse effect on the condition, financial or otherwise, or on the earnings, business or operations of Saratoga Investment Advisors, as the case may be (an “**Adviser/Administrator Material Adverse Effect**”). Saratoga Investment Advisors has no subsidiaries.

(b) Saratoga Investment Advisors is duly registered as an investment adviser under the Advisers Act, and is not prohibited by the Advisers Act or the Investment Company Act from acting under the Investment Advisory Agreement as an investment adviser to the Fund as contemplated by the Registration Statement, the Time of Sale Prospectus and the Prospectus, and no order of suspension or revocation of such registration has been issued or proceedings therefor initiated or, to the knowledge of Saratoga Investment Advisors, threatened by the Commission.

(c) Each of this Agreement and the Fund Agreements to which Saratoga Investment Advisors is a party, as the case may be, has been duly authorized by Saratoga Investment Advisors, as applicable. Each Fund Agreement to which Saratoga Investment Advisors is a party, complies with the applicable provisions of the Investment Company Act, the Advisers Act and the applicable Rules and Regulations. Each Fund Agreement to which Saratoga Investment Advisors is a party has been duly executed and delivered by Saratoga Investment Advisors, as applicable and (assuming the due and valid authorization, execution and delivery by the other parties thereto) represents a valid and binding agreement of Saratoga Investment Advisors, as applicable, enforceable against Saratoga Investment Advisors, as applicable, in accordance with its terms, except (i) as rights to indemnity and contribution may be limited by federal or state securities laws or principles of public policy and subject to the qualification that the enforceability of Saratoga Investment Advisors’ obligations thereunder, as applicable, may be limited by Enforceability Exceptions, and (ii) in the case of the Investment Advisory Agreement, with respect to termination under the Investment Company Act or the reasonableness or fairness of compensation payable thereunder.

(d) The execution and delivery by Saratoga Investment Advisors of, and the performance by Saratoga Investment Advisors, of its obligations under, this Agreement does not conflict with or will conflict with, result in, or constitute a violation, breach of, default under, (x) the limited liability company operating agreement of Saratoga Investment Advisors (y) any agreement, indenture, note, bond, license, lease or other instrument or obligation binding upon Saratoga Investment Advisors that is material to Saratoga Investment Advisors, or (z) any law, rule or regulation applicable to Saratoga Investment Advisors, or any judgment, order or decree of any governmental body, agency or court having jurisdiction over Saratoga Investment Advisors, whether foreign or domestic; except, with respect to clauses (y) or (z), any contravention which would have neither (i) an Adviser/Administrator Material Adverse Effect or (ii) a material adverse effect on the

consummation of the transactions contemplated by this Agreement; *provided* that no representation or warranty is made with respect to compliance with the laws of any jurisdiction outside of the United States in connection with the offer or sale of the Securities in such jurisdiction by any Underwriter.

(e) No consent, approval, authorization, order or permit of, license from, or qualification or registration with any governmental body, agency or authority, self-regulatory organization or court or other tribunal, whether foreign or domestic, is required to be obtained by Saratoga Investment Advisors, prior to the Closing Date for the performance by Saratoga Investment Advisors of its obligations under this Agreement or any Fund Agreement to which it is a party, except such as have been obtained and as may be required by the Acts, the Advisers Act or the applicable Rules and Regulations.

(f) There are no legal or governmental proceedings pending or, to the knowledge of Saratoga Investment Advisors, threatened to which Saratoga Investment Advisors is a party or to which any of the properties of Saratoga Investment Advisors is subject (i) other than proceedings accurately described in all material respects in the Time of Sale Prospectus and proceedings that would not have a material adverse effect on Saratoga Investment Advisors or on the power or ability of Saratoga Investment Advisors to perform its obligations under this Agreement or to consummate the transactions contemplated by the Time of Sale Prospectus or (ii) that are required to be described in the Registration Statement, the Time of Sale Prospectuses or the Prospectus and are not so described.

(g) Saratoga Investment Advisors has all necessary consents, authorizations, approvals, orders (including exemptive orders), licenses, certificates, permits, qualifications and registrations of and from, and has made all declarations and filings with, all governmental authorities, self-regulatory organizations and courts and other tribunals, whether foreign or domestic, to own and use its assets and to conduct its business in the manner described in the Time of Sale Prospectus and the Prospectus, except to the extent that the failure to obtain or file the foregoing would not result in an Adviser/Administrator Material Adverse Effect.

(h) Saratoga Investment Advisors has the financial resources available to it necessary for the performance of its services and obligations as contemplated in the Time of Sale Prospectus and by this Agreement and each Fund Agreement to which it is a party.

(i) The Investment Advisory Agreement is in full force and effect and neither Saratoga Investment Advisors nor, to the knowledge of Saratoga Investment Advisors, any other party to the Investment Advisory Agreement is in default thereunder, and, no event has occurred which with the passage of time or the giving of notice or both would constitute a default by Saratoga Investment Advisors under such document.

(j) All information furnished by Saratoga Investment Advisors for use in the Registration Statement, the Time of Sale Prospectus and Prospectus, including, without limitation, the description of Saratoga Investment Advisors (the "**Investment Adviser Information**") does not, and on the Closing Date will not, contain any untrue statement of a material fact or omit to state any material fact necessary to make such information not misleading (in the case of the Time of Sale Prospectus and the Prospectus, in light of the circumstances under which such information is provided).



(k) There has not occurred any material adverse change, or any development reasonably likely to involve a prospective material adverse change, in the condition, financial or otherwise, or in the earnings, business or operations of Saratoga Investment Advisors as it relates to the Fund from that set forth in the Time of Sale Prospectus, and there have been no transactions entered into by Saratoga Investment Advisors which are material to Saratoga Investment Advisors as it relates to the Fund other than those in the ordinary course of its business or as described in the Time of Sale Prospectus.

(l) Neither Saratoga Investment Advisors, nor any of its affiliates, has taken, directly or indirectly, any action which constitutes or is designed to cause or result in, or which could reasonably be expected to constitute, cause or result in, the stabilization or manipulation of the price of any security to facilitate the sale or resale of the Securities.

(m) The operations of Saratoga Investment Advisors are and have been conducted at all times in compliance with applicable Money Laundering Laws and no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving Saratoga Investment Advisors with respect to the Money Laundering Laws is pending or, to the knowledge of Saratoga Investment Advisors, threatened.

(n) Saratoga Investment Advisors maintains a system of internal controls sufficient to provide reasonable assurance that (i) transactions effectuated by it under the Investment Advisory Agreement are executed in accordance with its management's general or specific authorization and (ii) access to the Fund's assets is permitted only in accordance with its management's general or specific authorization.

(o) Saratoga Investment Advisors maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions for which it has bookkeeping and record keeping responsibility for under the Administration Agreement are recorded as necessary to permit preparation of the Fund's financial statements in conformity with GAAP and to maintain accountability for the Fund's assets and (ii) the recorded accountability for such assets if compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

Any certificate signed by or on behalf of Saratoga Investment Advisors and delivered to the Representative or counsel for the Underwriters in connection with the offering of the Securities shall be deemed to a representation and warranty by Saratoga Investment Advisors as to the matters covered therein to each Underwriter.

### *3. Agreements to Sell and Purchase.*

(a) On the basis of the representations and warranties herein contained, but subject to the conditions hereinafter stated, the Fund hereby agrees to sell to the several Underwriters, and each Underwriter, agrees, severally and not jointly, to purchase from the Fund the respective principal amount of Notes set forth in Schedule I hereto opposite its name at the purchase price per Note set forth in Schedule II hereto (the "**Purchase Price**").

(b) On the basis of the representations and warranties contained in this Agreement, and subject to its terms and conditions, the Fund agrees to sell to the Underwriters the Additional Notes and the Underwriters shall have the right to purchase, severally and not jointly, up to an additional \$[ ] million total aggregate principal amount of Additional Notes (without giving effect to any accrued interest from the Closing Date to the Option Closing Date, as defined below) at the Purchase Price set forth in paragraph (a) above. The Representative may exercise this right on behalf of the Underwriters in whole or from time to time in part by giving written notice to the Fund not later than thirty (30) days after the date of this Agreement. Any exercise notice shall specify the total aggregate principal amount of Additional Notes to be purchased by the Underwriters and the date on which such Additional Notes are to be purchased. Each purchase date must be at least one business day after the written notice is given and may not be earlier than the Closing Date for the Notes not later than ten business days after the date of such notice. Additional Notes may be purchased as provided in Section 5 hereof solely for the purpose of covering over-allotments made in connection with the offering of the Notes. On each Option Closing Date, if any, that Additional Notes are to be purchased, each Underwriter agrees, severally and not jointly, to purchase the aggregate principal amount of Additional Notes that bears the same proportion to the total aggregate principal amount of Additional Notes to be purchased on such Option Closing Date as the aggregate principal amount of Notes set forth in Schedule I hereto opposite the name of such Underwriter bears to the total aggregate principal amount of Notes.

4. *Terms of Public Offering.* The Fund and Saratoga Investment Advisors each understands that the Underwriters propose to make a public offering of their respective portions of the Securities on the terms set forth in the Prospectus as soon as the Representative deems advisable after this Agreement has been executed and delivered.

5. *Payment and Delivery.* Payment for the Notes shall be made to the Fund in Federal or other funds immediately available to a bank account designated by the Fund against delivery of the Notes, with any transfer taxes payable in connection with the sale of the Notes duly paid by the Fund, for the respective accounts of the several Underwriters at 10:00 A.M. (New York City time), on the fifth full business day following the date of this Agreement, or at such other time on the same or such other date determined by agreement between the Fund and the Representative. The time and date of such payment are herein referred to as the “**Closing Date.**”

Payment for any Additional Notes shall be made to the Fund in Federal or other funds immediately available to a bank account designated by the Fund against delivery of such Additional Notes, with any transfer taxes payable in connection with the sale of the Additional Notes duly paid by the Fund, for the respective accounts of the several Underwriters at 10:00 A.M. (New York City time), on the date specified in the corresponding notice described in Section 3 or at such other time on the same or on such other date, in any event not later than [ ], 2016, as shall be designated in writing by the Representative. The time and date of any such payment for Additional Notes are herein referred to as the “**Option Closing Date.**”

The Notes and Additional Notes shall be registered in such names and in such denominations as the Representative shall request in writing not later than one full business day prior to the Closing Date or the applicable Option Closing Date, as the case may be. The Notes and Additional Notes shall be delivered through the facilities of The Depository Trust Company on the Closing Date or an Option Closing Date, as the case may be, for the respective accounts of the several Underwriters.

6. *Conditions to the Fund's, Saratoga Investment Advisor's and the Underwriters' Obligations.*

(a) The respective obligations of the Fund and Saratoga Investment Advisors, and the several obligations of the Underwriters, hereunder are subject to the condition that the Registration Statement has become effective and at the Closing Date no stop order suspending the effectiveness of the Registration Statement shall have been issued under the Securities Act and no proceedings with respect thereto shall have been initiated or, to the Fund's knowledge, threatened by the Commission, and any request on the part of the Commission for additional information shall have been complied with to the reasonable satisfaction of counsel to the Underwriters. A prospectus containing the Rule 430A Information shall have been filed with the Commission in accordance with Rule 497 of the Rules and Regulations.

(b) The several obligations of the Underwriters are subject to the following further conditions:

(i) Subsequent to the execution and delivery of this Agreement and prior to the Closing Date, there shall not have occurred any Fund Material Adverse Effect, from that set forth in the Time of Sale Prospectus that, in the Representative's reasonable judgment, is material and adverse and that makes it, in the Representative's reasonable judgment, impracticable to market the Securities on the terms and in the manner contemplated in the Time of Sale Prospectus.

(ii) The Underwriters shall have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of the Fund, to the effect that the representations and warranties of the Fund and contained in this Agreement are true and correct as of the Closing Date and that the Fund has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date. The Underwriters shall also have received on the Closing Date a certificate, dated the Closing Date and signed by an executive officer of Saratoga Investment Advisors, to the effect that the representations and warranties of Saratoga Investment Advisors and contained in this Agreement are true and correct as of the Closing Date and that Saratoga Investment Advisors has complied with all of the agreements and satisfied all of the conditions on its part to be performed or satisfied hereunder on or before the Closing Date.

Each officer signing and delivering such a certificate may rely upon his or her knowledge as to proceedings threatened.

(iii) Each of Saratoga Investment Advisors and the Fund shall have performed all of their respective obligations to be performed hereunder on or prior to the Closing Date.

(iv) The Underwriters shall have received on the Closing Date an opinion and negative assurance letter of Sutherland Asbill & Brennan LLP, counsel for the Fund and Saratoga Investment Advisors, dated the Closing Date, satisfactory to the Representative and counsel for the Underwriters in form and substance, to the effect set forth in Exhibit A hereto.

(v) The Underwriters shall have received on the Closing Date the favorable opinion of Blank Rome LLP, counsel for the Underwriters, dated the Closing Date, and covering such matters as the Underwriters shall reasonably request.

The opinion of Sutherland Asbill & Brennan LLP described in Section 6(b)(iv) above shall be rendered to the Underwriters at the request of the Fund and Saratoga Investment Advisors, as applicable, and shall so state therein. Each of the foregoing shall include a statement to the effect that it may be relied upon by counsel to the Underwriters as to the laws of the State of Maryland and Delaware, respectively, in any opinion delivered to the Underwriters.

(vi) The Underwriters shall have received, on each of the date hereof and the Closing Date, a letter dated the date hereof or the Closing Date, as the case may be, in form and substance satisfactory to the Underwriters, from Ernst & Young LLP, independent registered public accountants, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the Time of Sale Prospectus and the Prospectus, *provided* that the letter delivered on the Closing Date shall use a "cut-off date" not earlier than the date hereof.

(vii) All filings, applications and proceedings taken by the Fund and Saratoga Investment Advisors in connection with the registration of the Securities under the Securities Act and the applicable Rules and Regulations shall be satisfactory in form and substance to the Representative and counsel for the Underwriters.

(viii) No action, suit, proceeding, inquiry or investigation shall have been instituted or threatened by the Commission which would adversely affect the Fund's standing as a business development company under the Investment Company Act or the standing of Saratoga Investment Advisors as a registered investment adviser under the Advisers Act.

(ix) The Securities shall have been duly authorized for listing on the NYSE, subject only to official notice of issuance thereof.

(x) The Underwriters shall have obtained a Conditional No Objections Letter from FINRA regarding the fairness and reasonableness of the Underwriting terms and arrangements.

The several obligations of the Underwriters to purchase Additional Notes hereunder are subject to the delivery to the Representative on the applicable Option Closing Date of such documents as the Representative may reasonably request with respect to the good standing of the Fund and Saratoga Investment Advisors, the due authorization and issuance of the Additional Notes to be sold on such Option Closing Date and other matters related to the issuance of such Additional Notes, and officers' certificates, opinions of Sutherland Asbill & Brennan LLP to the effect set forth above, and comfort letters of Ernst & Young LLP to the effect set forth above, except that such certificates, opinions and comfort letters shall be dated as of the applicable Option Closing Date and statements and opinions above contemplated to be given as of the Closing Date shall instead be made and given as of such Option Closing Date.

7. *Covenants of the Fund and Saratoga Investment Advisors.* In further consideration of the agreements of the Underwriters herein contained, the Fund covenants and agrees, and Saratoga Investment Advisors covenant and agree with the Underwriters as follows:

(a) To notify the Underwriters as soon as practicable, and confirm such notice in writing, of the happening of any event during the period mentioned in Section 7(h) below which in the judgment of the Fund makes any statement in the Registration Statement, the Time of Sale Prospectus, any Omitting Prospectus or the Prospectus untrue in any material respect or which requires the making of any change in or addition to the Registration Statement, the Time of Sale Prospectus, any Omitting Prospectus or the Prospectus in order to make the statements therein not misleading in any material respect. If at any time the Commission shall issue any order suspending the effectiveness of the Registration Statement, the Fund will use its best efforts to obtain the withdrawal of such order at the earliest possible moment.

(b) To furnish to the Representative in New York City, without charge, prior to 10:00 A.M. (New York City time) on the business day next succeeding the date of this Agreement and during the period mentioned in Section 7(h) below, as many copies of the Preliminary Prospectus, Prospectus and any supplements and amendments thereto or to the Registration Statement as the Representative may reasonably request.

(c) Before amending or supplementing the Registration Statement, the Preliminary Prospectus or the Prospectus, to furnish to the Representative a copy of each such proposed amendment or supplement and not to file any such proposed amendment or supplement to which the Representative reasonably objects, and to file with the Commission within the applicable period specified in Rule 497 under the Securities Act any prospectus required to be filed pursuant thereto.

(d) To furnish to the Representative a copy of each proposed Omitting Prospectus to be prepared by or on behalf of, used by, or referred to by the Fund and not to use or refer to any proposed Omitting Prospectus to which the Representative reasonably objects.

(e) If the Time of Sale Prospectus is being used to solicit offers to buy the Securities at a time when the Prospectus is not yet available to prospective purchasers and any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Time of Sale Prospectus in order to make the statements therein, in the light of the circumstances, not misleading, or if any event shall occur or condition exist as a result of which the Time of Sale Prospectus materially conflicts with the information contained in the Registration Statement then on file, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Time of Sale Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to any dealer upon request, either amendments or supplements to the Time of Sale Prospectus so that the statements in the Time of Sale Prospectus as so amended or supplemented will not, in the light of the circumstances when delivered to a prospective purchaser, be misleading or so that the Time of Sale Prospectus, as amended or supplemented, will no longer materially conflict with the Registration Statement, or so that the Time of Sale Prospectus, as amended or supplemented, will comply with applicable law, as applicable.

(f) The Fund will use the net proceeds received by it from the sale of the Securities in the manner specified in the Time of Sale Prospectus.

(g) The Fund hereby agrees that, without the prior written consent of the Representative on behalf of the Underwriters, it will not, during the period ending 90 days after the date of the Prospectus, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, or otherwise transfer or dispose of, directly or indirectly, any debt securities or any securities convertible into or exercisable or exchangeable for debt securities or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of debt securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of debt securities or such other securities, in cash or otherwise or (iii) file any registration statement with the Commission relating to the offering of any debt securities or any securities convertible into or exercisable or exchangeable for debt securities. Notwithstanding the foregoing, if (1) during the last 17 days of the 90-day restricted period, the Fund issues an earnings release or material news or a material event relating to the Fund occurs; or (2) prior to the expiration of the 90-day restricted period, the Fund announces that it will release earnings results during the 16-day period following the last day of the 90-day restricted period, then in each case the restrictions imposed by this Agreement shall continue to apply until the expiration of the 18-day period beginning on the date of the release of the earnings results or the occurrence of material news or a material event relating to the Fund, as the case may be, unless the Representative waives, in writing, such extension. The agreements contained in this paragraph shall not apply to the Securities to be sold hereunder.

(h) The Fund and Saratoga Investment Advisors will not take any action designed to cause or result in the manipulation of the price of any security of the Fund to facilitate the sale of Securities in violation of the Acts or the Exchange Act and the applicable Rules and Regulations, or the securities or "blue sky" laws of the various states and foreign jurisdictions in connection with the offer and sale of Securities.

(i) If, during such period after the first date of the public offering of the Securities as in the opinion of counsel for the Underwriters the Prospectus is required by law to be delivered in connection with sales by an Underwriter or dealer, any event shall occur or condition exist as a result of which it is necessary to amend or supplement the Prospectus in order to make the statements therein, in the light of the circumstances when the Prospectus is delivered to a purchaser, not misleading, or if, in the opinion of counsel for the Underwriters, it is necessary to amend or supplement the Prospectus to comply with applicable law, forthwith to prepare, file with the Commission and furnish, at its own expense, to the Underwriters and to the dealers (whose names and addresses the Representative will furnish to the Fund) to which Securities may have been sold by the Representative on behalf of the Underwriters and to any other dealers upon request, either amendments or supplements to the Prospectus so that the statements in the Prospectus as so amended or supplemented will not, in the light of the circumstances when the Prospectus is delivered to a purchaser, be misleading or so that the Prospectus, as amended or supplemented, will comply with law, as applicable.

(j) To endeavor to qualify the Securities for offer and sale under the securities or “blue sky” laws of such jurisdictions as the Underwriters shall reasonably request.

(k) Whether or not the transactions contemplated in this Agreement are consummated or this Agreement is terminated, to pay or cause to be paid all expenses incident to the performance of the obligations of the Fund and Saratoga Investment Advisors under this Agreement, including: (i) the fees, disbursements and expenses of the Fund’s counsel and the Fund’s accountants in connection with the registration and delivery of the Securities under the Securities Act and all other fees or expenses in connection with the preparation and filing of the Registration Statement, any preliminary prospectus, the Time of Sale Prospectus, the Prospectus, and any Omitting Prospectus prepared by or on behalf of, used by, or referred to by the Fund and amendments and supplements to any of the foregoing, including all printing costs associated therewith, and the mailing and delivering of copies thereof to the Underwriters and dealers, in the quantities hereinabove specified, (ii) all costs and expenses related to the transfer and delivery of the Securities to the Underwriters, including any transfer or other taxes payable thereon, (iii) the cost of printing or producing any “blue sky” memorandum in connection with the offer and sale of the Securities under state securities laws and all expenses in connection with the qualification of the Securities for offer and sale under state securities laws as provided in Section 7(j) hereof, including filing fees and the reasonable fees and disbursements of counsel for the Underwriters in connection with such qualification and in connection with the Blue Sky memorandum, (iv) all filing fees and the reasonable disbursements of counsel to the Underwriters incurred in connection with the review and qualification of the offering of the Securities by FINRA, (v) all costs and expenses incident to listing the Securities on the NYSE, (vi) the cost of printing certificates representing the Securities, (vii) the costs and charges of any transfer agent, registrar or depository, (viii) the costs and expenses of the Fund relating to investor presentations on any “road show” undertaken in connection with the marketing of the offering of the Securities, including, without limitation, expenses associated with the preparation or dissemination of any electronic road show, expenses associated with production of road show slides and graphics, the reasonable fees and expenses of any consultants engaged in connection with the road show presentations with the prior approval of the Fund, and the travel and lodging expenses of the representatives and officers of the Fund and any such consultants, (ix) the document production charges and expenses associated with printing this Agreement and (x) all other costs and expenses incident to the performance of the obligations of the Fund hereunder for which provision is not otherwise made in this Section 7(k). It is understood, however, that except as provided in this Section, Section 8 entitled “Indemnity and Contribution” and the last paragraph of Section 10 below, the Underwriters will pay all of their costs and expenses, including fees and disbursements of their counsel, stock transfer taxes payable on resale of any of the Securities by them, the travel and lodging expenses of the representatives of the Underwriters in connection with any “road show” presentations, and any advertising expenses connected with any offers they may make.

(l) The Fund will comply with all applicable securities and other applicable laws, rules and regulation, including, without limitation, the Sarbanes-Oxley Act, and will use reasonable efforts to cause the Fund's directors and officers, in their capabilities, as such, to comply with such laws, rules and regulations, including, without limitation, the provisions of Sarbanes-Oxley Act.

(m) The Fund will use reasonable best efforts to maintain its status as a "business development company" under the 1940 Act, provided, however, that the Fund may change the nature of its business so as to cease to be, or withdraw its election to be treated as, a business development company with the approval of its Board of Directors and a vote of shareholders to the extent required by Section 58 of the 1940 Act.

(n) The Fund will use reasonable best efforts to comply with the requirements of Subchapter M of the Code to qualify as a regulated investment company under the Code, with respect to any fiscal year in which the Fund is a business development company.

(o) The Fund and Saratoga Investment Advisors will use their reasonable efforts to perform all of the agreements required of them by this Agreement and discharge all conditions of theirs to closing as set forth in this Agreement.

(p) Before using, approving or referring to any Road Show Material, the Fund will furnish to the Representative and counsel to the Underwriters a copy of such material for review and will not make, prepare, use authorize, approve or refer to any such material to which the Representative reasonably objects.

(q) As soon as practicable, the Fund will make generally available to its security holders and to the Representatives an earnings statement or statements of the Fund which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

8. *Indemnity and Contribution.* (a) The Fund and Saratoga Investment Advisors, jointly and severally, agree to indemnify and hold harmless each Underwriter, each person, if any, who controls any Underwriter within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act and each partner, director, officer, trustee, manager, member and shareholder of any Underwriter (each, an "**Underwriter Indemnified Party**") from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim), caused by, arising out of, related to or based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment thereof, the Preliminary Prospectus, any Omitting Prospectus, any Road Show Material, the Time of Sale Prospectus, or the Prospectus or any amendment or supplement thereto, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, except insofar as such losses, claims, damages or liabilities are caused by any such untrue statement or omission or alleged untrue statement or omission based upon written information furnished to the Fund or Saratoga Investment Advisors by the Representative on behalf of any Underwriter expressly for use therein.



(b) Each Underwriter agrees, severally and not jointly, to indemnify and hold harmless each of the Fund and Saratoga Investment Advisors, and each of their respective partners, directors, trustees, managers, members and shareholders (as the case may be), and each officer of the Fund who signs the Registration Statement and each person, if any, who controls the Fund and/or Saratoga Investment Advisors within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act (each, a “**Fund Indemnified Party**”) to the same extent as the foregoing indemnity from the Fund and Saratoga Investment Advisors to such Underwriter, but only with reference to written information relating to the Underwriters furnished to the Fund by the Representative on behalf of any Underwriter expressly for use in the Registration Statement, as originally filed with the Commission, or any amendment thereof, any preliminary prospectus, any Omitting Prospectus, any Road Show Material or the Time of Sale Prospectus.

(c) In case any proceeding (including any governmental investigation) shall be instituted involving any person in respect of which indemnity may be sought pursuant to Section 8(a) or 8(b), such person (the “**indemnified party**”) shall promptly notify the person against whom such indemnity may be sought (the “**indemnifying party**”) in writing and the indemnifying party, upon request of the indemnified party, shall retain counsel reasonably satisfactory to the indemnified party to represent the indemnified party and any others the indemnifying party may designate in such proceeding and shall pay the fees and disbursements reasonably incurred of such counsel related to such proceeding. In any such proceeding, any indemnified party shall have the right to retain its own counsel, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the indemnifying party and the indemnified party shall have mutually agreed to the retention of such counsel, (ii) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with an actual conflict of interest, or (iii) the named parties to any such proceeding (including any impleaded parties) include both the indemnifying party and the indemnified party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party. It is understood that the indemnifying party shall not, in respect of the legal expenses of any indemnified party in connection with any proceeding or related proceedings in the same jurisdiction, be liable for (i) the fees and expenses reasonably incurred of more than one separate firm (in addition to any local counsel) for all Underwriter Indemnified Parties, collectively, and (ii) the fees and expenses reasonably incurred of more than one separate firm (in addition to any local counsel) for all Fund Indemnified Parties, collectively. In the case of any such separate firm for the Underwriter Indemnified Parties, such firm shall be designated in writing by the Representative. In the case of any such separate firm for the Fund Indemnified Parties, such firm shall be designated in writing by the Fund. The indemnifying party shall not be liable for any settlement of any proceeding effected without its written consent, but if settled with such consent or if there is a final judgment for the plaintiff, the indemnifying party agrees to indemnify the indemnified party from and against any loss or liability by reason of such settlement or judgment. Notwithstanding the foregoing sentence, if at any time an indemnified party shall have requested an indemnifying party to reimburse the indemnified party for the reasonable fees and expenses of counsel as contemplated by the second and third sentences of this Section 8(c), the indemnifying party agrees that it shall be liable for any settlement of any proceeding

effected without its written consent if (i) such settlement is entered into more than 30 days after receipt by such indemnifying party of the aforesaid request, (ii) such indemnifying party shall have received notice of the material terms of such settlement at least 30 days prior to such settlement being entered into, and (iii) such indemnifying party shall not have reimbursed the indemnified party in accordance with such request prior to the date of such settlement. No indemnifying party shall, without the prior written consent of the indemnified party, effect any settlement of any pending or threatened proceeding in respect of which any indemnified party is or could have been a party and indemnity could have been sought hereunder by such indemnified party, unless such settlement includes an unconditional release of such indemnified party from all liability on claims that are the subject matter of such proceeding.

(d) To the extent the indemnification provided for in Section 8(a) or 8(b) is unavailable to an indemnified party or insufficient in respect of any losses, claims, damages or liabilities referred to therein, then each indemnifying party under such paragraph, in lieu of indemnifying such indemnified party thereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (i) in such proportion as is appropriate to reflect the relative benefits received by the Fund and/or Saratoga Investment Advisors on the one hand and the Underwriters on the other hand from the offering of the Securities or (ii) if the allocation provided by clause 8(d)(i) above is not permitted by applicable law, in such proportion as is appropriate to reflect not only the relative benefits referred to in clause 8(d)(i) above but also the relative fault of the Fund and/or Saratoga Investment Advisors on the one hand and of the Underwriters on the other hand in connection with the statements or omissions that resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative benefits received by the Fund and/or Saratoga Investment Advisors on the one hand and the Underwriters on the other hand in connection with the offering of the Securities shall be deemed to be in the same respective proportions as the net proceeds from the offering of the Securities (before deducting expenses) received by the Fund and the total underwriting discounts and commissions received by the Underwriters, in each case as set forth in the table on the cover of the Prospectus, bear to the aggregate net proceeds of the Securities. The relative fault of the Fund and/or Saratoga Investment Advisors on the one hand and the Underwriters on the other hand shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Fund or Saratoga Investment Advisors or by the Underwriters and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Underwriters' respective obligations to contribute pursuant to this Section 8 are several in proportion to the respective aggregate principal amount of Securities they have purchased hereunder, and not joint.

(e) The Fund, Saratoga Investment Advisors and the Underwriters agree that it would not be just or equitable if contribution pursuant to this Section 8 were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to in Section 8(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages and liabilities referred to in Section 8(d) shall be deemed to

include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 8, no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The remedies provided for in this Section 8 are not exclusive and shall not limit any rights or remedies which may otherwise be available to any indemnified party at law or in equity.

(f) The indemnity and contribution provisions contained in this Section 8 and the representations, warranties and other statements of the Fund and Saratoga Investment Advisors contained in this Agreement shall remain operative and in full force and effect regardless of (i) any termination of this Agreement, (ii) any investigation made by or on behalf of any Underwriter Indemnified Party or by or on behalf of any Fund Indemnified Party and (iii) acceptance of and payment for any of the Securities.

(g) No party shall be entitled to indemnification under this Section 8 if such indemnification of such party would violate Section 17(i) of the Investment Company Act.

9. *Termination.* The Underwriters may terminate this Agreement by notice given by the Representative to the Fund, if after the execution and delivery of this Agreement and prior to the Closing Date (i) trading generally shall have been suspended or materially limited on, or by, as the case may be, any of the NYSE, the NYSE Amex LLC, the NASDAQ Stock Market, (ii) trading of any securities of the Fund shall have been suspended on any exchange or in any over-the-counter market, (iii) a material disruption in securities settlement, payment or clearance services in the United States shall have occurred, (iv) any moratorium on commercial banking activities shall have been declared by Federal or New York State authorities or (v) there shall have occurred any outbreak or escalation of hostilities, or any change in financial markets or any calamity or crisis that, in the Representative's judgment, is material and adverse and which, singly or together with any other event specified in this clause (v), makes it, in your judgment, impracticable or inadvisable to proceed with the offer, sale or delivery of the Securities on the terms and in the manner contemplated in the Time of Sale Prospectus or the Prospectus.

10. *Effectiveness; Defaulting Underwriters.*

(a) This Agreement shall become effective upon the execution and delivery hereof by the parties hereto.

(b) If, on the Closing Date or an Option Closing Date, as the case may be, any one or more of the Underwriters shall fail or refuse to purchase Securities that it has or they have agreed to purchase hereunder on such date, and the aggregate principal amount of Securities which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase is not more than one-tenth of the aggregate number of the Securities to be purchased on such date, the other Underwriters shall be obligated severally in the proportions that the aggregate principal

amount of Notes set forth opposite their respective names in Schedule I bears to the aggregate principal amount of Notes set forth opposite the names of all such non-defaulting Underwriters, or in such other proportions as the Representative may specify, to purchase the Securities which such defaulting Underwriter or Underwriters agreed but failed or refused to purchase on such date; provided that in no event shall the aggregate principal amount of Securities that any Underwriter has agreed to purchase pursuant to this Agreement be increased pursuant to this Section 10 by an amount in excess of one-tenth of such aggregate principal amount of Securities without the written consent of such Underwriter. If, on the Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Notes and the aggregate principal amount of Securities with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Securities to be purchased on such date, and arrangements satisfactory to the Representative and the Fund for the purchase of such Securities are not made within 36 hours after such default, this Agreement shall terminate without liability on the part of any non-defaulting Underwriter. In any such case either the Representative or the Fund shall have the right to postpone the Closing Date, but in no event for longer than seven days, in order that the required changes, if any, in the Registration Statement, in the Time of Sale Prospectus, in the Prospectus or in any other documents or arrangements may be affected. If, on an Option Closing Date, any Underwriter or Underwriters shall fail or refuse to purchase Additional Notes and the aggregate principal amount of Additional Notes with respect to which such default occurs is more than one-tenth of the aggregate principal amount of Additional Notes to be purchased on such Option Closing Date, the non-defaulting Underwriters shall have the option to (i) terminate their obligation hereunder to purchase the Additional Notes to be sold on such Option Closing Date or (ii) purchase not less than the principal amount of Additional Notes that such non-defaulting Underwriters would have been obligated to purchase in the absence of such default. Any action taken under this paragraph shall not relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

(c) If this Agreement shall be terminated by the Underwriters (other than pursuant to Section 9(i), (iii), (iv) or (v)) because of any failure or refusal on the part of the Fund or Saratoga Investment Advisors to comply with the terms or to fulfill any of the conditions of this Agreement other than the condition specified in Section 7(k) of this Agreement, or if for any reason the Fund and Saratoga Investment Advisors shall be unable to perform its obligations under this Agreement, the Fund and Saratoga Investment Advisors, jointly and severally, will reimburse the Underwriters, severally, for all out-of-pocket accountable expenses (including the reasonable fees and disbursements of their counsel) actually incurred by the Underwriters in connection with this Agreement or the offering contemplated hereunder up to a maximum of \$75,000.

11. *Entire Agreement.* (a) This Agreement supersedes all prior agreements and understandings (whether written or oral) between and among the Fund, Saratoga Investment Advisors and the Underwriters, or any of them, with respect to the subject matter hereof.

(b) The Fund and Saratoga Investment Advisors acknowledge that in connection with the offering of the Securities: (i) the Underwriters have acted at arms length, are not agents of, and owe no fiduciary duties to, the Fund, Saratoga Investment Advisors or any other person, (ii) the Underwriters owe the Fund and Saratoga Investment Advisors only those duties and obligations set forth in this Agreement and prior written agreements (to the

extent not superseded by this Agreement), if any, and (iii) the Underwriters may have interests that differ from those of the Fund and Saratoga Investment Advisors. Each of the Fund and Saratoga Investment Advisors agree that it will not claim that the Underwriters owe an agency, fiduciary or similar duty to the Fund or Saratoga Investment Advisors in connection with offer or sale of the Securities or the process leading thereto.

12. *Counterparts.* This Agreement may be signed in two or more counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

13. *Applicable Law.* This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to contracts made and to be performed within the State of New York.

14. *Headings.* The headings of the sections of this Agreement have been inserted for convenience of reference only and shall not be deemed a part of this Agreement.

15. *Notices.* All communications hereunder shall be in writing and effective only upon receipt and (A) if to the Underwriters, shall be sufficient in all respects if delivered, mailed or sent to the Representative in care of Ladenburg Thalmann & Co. Inc., 570 Lexington Avenue, 12th Floor, New York, New York 10022, Attention: Equity Syndicate Desk (facsimile no. (631)-794-2330), with a copy to the Legal Department, with a copy to Blank Rome LLP, 405 Lexington Avenue, New York, New York 10174, Attention: Thomas Westle, Esq. (facsimile no. (212) 885-5001); and (B) if to the Fund or Saratoga Investment Advisors, shall be sufficient in all respects if delivered, mailed or sent to the Fund or Saratoga Investment Advisors, as applicable, at the offices of the Fund at 535 Madison Avenue, New York, NY 10022, Attention: Christian Oberbeck (facsimile no. (212) 750-3343), with a copy to Sutherland Asbill & Brennan, LLP, 700 Sixth St. NW, Suite 700, Washington, DC 20001, Attention: Steven B. Boehm (facsimile no. (202) 637-3593).

[Signature page follows.]

Very truly yours,

SARATOGA INVESTMENT CORP.

By: \_\_\_\_\_

Name: Henri J. Steenkamp

Title: Chief Financial Officer, Chief  
Compliance Officer and Secretary

SARATOGA INVESTMENT ADVISORS, LLC

By: \_\_\_\_\_

Name: Christian L. Oberbeck

Title: Managing Director

Accepted as of the date hereof

Ladenburg Thalmann & Co. Inc.

Acting on behalf of itself and  
the several Underwriters named in  
Schedule I hereto

By: Ladenburg Thalmann & Co. Inc.

By: \_\_\_\_\_

Name: Peter H. Blum

Title: Co-CEO and Co-President

Signature Page to Underwriting Agreement

[Letterhead of Sutherland Asbill & Brennan LLP]

December 9, 2016

Saratoga Investment Corp.  
535 Madison Avenue  
New York, New York 10022

Ladies and Gentlemen:

We have acted as counsel to Saratoga Investment Corp., a Maryland corporation (the "**Company**"), in connection with the registration statement on Form N-2 (File No. 333-214182) (as amended as of the date hereof, the "**Registration Statement**") filed by the Company with the Securities and Exchange Commission (the "**Commission**") under the Securities Act of 1933, as amended (the "**Securities Act**"), in connection with the registration, issuance and sale under the Securities Act of \$63,250,000.00 in aggregate principal amount of the Company's Notes due 20XX (the "**Notes**"), together with any additional Notes that may be issued by the Company pursuant to Rule 462(b) under the Securities Act (as prescribed by the Commission pursuant to the Securities Act) in connection with the offering described in the Registration Statement.

The Notes will be issued pursuant to the Indenture, dated as of May 10, 2013, entered into between the Company and U.S. Bank National Association, as trustee (the "**Trustee**"), as supplemented by a second supplemental indenture, substantially in the form filed as an exhibit to the Registration Statement, to be entered into between the Company and the Trustee (collectively, the "**Indenture**").

As counsel to the Company, we have participated in the preparation of the Registration Statement and have examined originals or copies of the following:

- (i) the Articles of Incorporation of the Company, as amended, certified as of the date of this opinion letter by an officer of the Company;

(ii) the Amended and Restated Bylaws of the Company, certified as of the date hereof by an officer of the Company;

(iii) a Certificate of Good Standing, dated December 9, 2016, with respect to the Company issued by the State of Maryland Department of Assessments and Taxation;

(iv) resolutions of the Board of Directors of the Company relating to, among other things, (a) the authorization and approval of the preparation and filing of the Registration Statement and (b) the authorization, execution and delivery of the Indenture;

(v) the Indenture; and

(vi) a specimen copy of the form of the Notes to be issued pursuant to the Indenture in the form attached to the Indenture.

With respect to such examination and our opinion expressed herein, we have assumed, without any independent investigation or verification, (i) the genuineness of all signatures on all documents submitted to us for examination, (ii) the legal capacity of all natural persons, (iii) the authenticity of all documents submitted to us as originals, (iv) the conformity to original documents of all documents submitted to us as conformed or reproduced copies and the authenticity of the originals of such copied documents, and (v) that all certificates issued by public officials have been properly issued. We also have assumed without independent investigation or verification (i) the accuracy and completeness of all corporate records made available to us by the Company and (ii) that the Indenture will be a valid and legally binding obligation of the parties thereto (other than the Company).

Where factual matters material to this opinion letter were not independently established, we have relied upon certificates and/or representations of officers of the Company. We have also relied on certificates of public officials. Except as otherwise stated herein, we have not independently established the facts, or in the case of certificates of public officials, the other statements, so relied upon.

This opinion is limited to the contract laws of the State of New York, as in effect on the date hereof, and we express no opinion with respect to any other laws of the State of New York or the laws of any other jurisdiction. Without limiting the preceding sentence, we express no opinion as to any state securities or broker-dealer laws or regulations thereunder relating to the offer, issuance or sale of the Notes. This opinion letter has been prepared, and should be interpreted, in accordance with customary practice followed in the preparation of opinion letters by lawyers who regularly give, and such customary practice followed by lawyers who on behalf of their clients regularly advise opinion recipients regarding, opinion letters of this kind.



Based upon and subject to the limitations, exceptions, qualifications and assumptions set forth in this opinion letter, we are of the opinion that, when the Notes are duly executed and delivered by duly authorized officers of the Company and duly authenticated by the Trustee, all in accordance with the provisions of the Indenture, and delivered to the purchasers thereof against payment of the agreed consideration therefor, the Notes will constitute valid and legally binding obligations of the Company, enforceable against the Company in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, receivership, moratorium, fraudulent conveyance, and other similar laws affecting the rights and remedies of creditors generally and to general principles of equity (including without limitation the availability of specific performance or injunctive relief and the application of concepts of materiality, reasonableness, good faith and fair dealing), regardless of whether considered in a proceeding at law or in equity.

The opinions expressed in this opinion letter (a) are strictly limited to the matters stated in this opinion letter, and without limiting the foregoing, no other opinions are to be implied and (b) are only as of the date of this opinion letter, and we are under no obligation, and do not undertake, to advise the addressee of this opinion letter or any other person or entity either of any change of law or fact that occurs, or of any fact that comes to our attention, after the date of this opinion letter, even though such change or such fact may affect the legal analysis or a legal conclusion in this opinion letter.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the reference to our firm in the "Legal Matters" section in the Registration Statement. We do not admit by giving this consent that we are in the category of persons whose consent is required under Section 7 of the Securities Act.

Very truly yours,

/s/ Sutherland Asbill & Brennan LLP

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the reference to our firm under the captions “Selected Financial and Other Data”, “Senior Securities” and “Independent Registered Public Accounting Firm” and to the use of our reports (a) dated May 17, 2016 with respect to the consolidated financial statements of Saratoga Investment Corp. and the financial statements of Saratoga Investment Corp. CLO 2013-1, Ltd. as of February 29, 2016 and February 28, 2015, and for the three years in the period ended February 29, 2016, and (b) dated December 9, 2016, with respect to the senior securities table of Saratoga Investment Corp. as of February 29, 2016, in the Pre-Effective Amendment No. 2 to the Registration Statement (Form N-2 No. 333-214182).

/s/ Ernst & Young LLP

New York, New York  
December 9, 2016

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders of Saratoga Investment Corp.

We have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of Saratoga Investment Corp. (the "Company"), including the consolidated schedules of investments, as of February 29, 2016 and February 28, 2015, and the related consolidated statements of operations, changes in net assets and cash flows for the years ended February 29, 2016, February 28, 2015 and 2014, included in this Pre-Effective Amendment No. 2 to the Registration Statement (Form N-2 No. 333-214182) and have expressed an unqualified opinion thereon dated May 17, 2016. We have also audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities of the Company, including the consolidated schedules of investments, as of February 28, 2014, 2013 and February 29, 2012, and the related consolidated statements of operations, changes in net assets and cash flows for the years ended February 28, 2013 and February 29, 2012 and have issued unqualified opinions thereon (which are not included in this Pre-Effective Amendment No. 2 to the Registration Statement), and have expressed unqualified opinions on those financial statements. The senior securities table as of February 29, 2016 and February 28, 2015, 2014, 2013, February 29, 2012 and February 28, 2011 has been subjected to audit procedures performed in conjunction with the audits of the Company's consolidated financial statement. Such information is the responsibility of the Company's management.

Our audit procedures included determining whether the information reconciles to the consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of this information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Section 18 of the Investment Company Act of 1940, as amended. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

/s/ Ernst & Young LLP

New York, NY  
December 9, 2016