

May 16, 2017

Saratoga Investment Corp. Announces Fiscal Year End and Fourth Quarter 2017 Financial Results

NEW YORK, May 16, 2017 /PRNewswire/ -- Saratoga Investment Corp. (NYSE:SAR) ("Saratoga Investment" or "the Company"), a business development company, today announced financial results for its 2017 fiscal year end and fourth quarter.

Summary Financial Information

The Company's summarized financial information is as follows:

	<u>For the year</u> <u>ended and as of</u> <u>February 28, 2017</u>	<u>For the year</u> <u>ended and as of</u> <u>February 29, 2016</u>
	(\$ in thousands except per share)	
AUM	292,661	283,996
NAV	127,295	125,150
Investment Income	33,157	30,051
Net Investment Income per share	1.68	1.91
Adjusted Net Investment Income per share	2.01	1.90
Earnings per share	1.98	2.09
Return on Equity - last twelve months	9.0%	9.4%

	<u>For the quarter</u> <u>ended February</u> <u>28, 2017</u>	<u>For the quarter</u> <u>ended November</u> <u>30, 2016</u>	<u>For the quarter</u> <u>ended February</u> <u>29, 2016</u>
	(\$ in thousands except per share)		
AUM	292,661	277,570	283,996
NAV	127,295	127,680	125,150
Investment Income	8,358	8,442	7,795
Net Investment Income per share	0.19	0.60	0.54
Adjusted Net Investment Income per share	0.49	0.53	0.45
Earnings per share	0.22	0.27	(0.07)
Return on Equity - last twelve months	9.0%	7.7%	9.4%

"In fiscal year 2017 we maintained our focus on expanding assets under management, maintaining our strong investment quality, broadening our investor base, diversifying sources of low-cost liquidity and increasing our pipeline of available deal sources," said Christian L. Oberbeck, Chairman and Chief Executive Officer of Saratoga Investment. "We achieved market-leading results. In fiscal year 2017, we continued to increase our quarterly dividend by 12% while increasing it every quarter, paying a total of \$1.93 per share through a special dividend and our regular quarterly dividends. Our investments in our business development and origination team enabled us to keep pace of heavy redemptions, putting a record \$127 million in new capital to work. AUM and NAV continue to grow. Total shareholder return for the most recent twelve months is almost 50%, and we remain at the top of the BDC space in terms of total return performance, both short- and long-term. In addition, we are well structured for a potential higher interest rate environment, with over 80% of our investments having floating rate interest rates and all of our currently outstanding debt fixed-rate and long-term. This has been another strong year for Saratoga Investment, and we are extremely pleased with the strong and leading risk-adjusted investment performance we have delivered for our shareholders."

Michael J. Grisius, President and Chief Investment Officer, added, "During fiscal year 2017, the steady expansion of our asset base continued, with a year-on-year increase in our investments at fair value of 3%, and a 208% increase since 2012. Despite a market environment defined by reduced transaction volumes and high levels of repayments, we were able to

review an increased amount of deal opportunities and deploy capital at a pace sufficient to grow AUM. Furthermore, we were able to do so generally at multiples below the market average. We continue to see demand for financing in the markets we serve and believe that our investments in new business development and origination capabilities will result in a continued robust and productive pipeline."

As of February 28, 2017, Saratoga Investment increased its assets under management ("AUM") to \$292.7 million, an increase of 3.1% from \$284.0 million as of February 29, 2016, and an increase of 5.4% from \$277.5 million as of November 30, 2016. This increase reflects the record originations of \$126.9 million new investments during the year ended February 28, 2017, offset by significant repayments of \$121.2 million during fiscal year 2017, generating a gross unlevered IRR of 17.0% for the fiscal year. These investments and repayments for the year are inclusive of the \$41.1 million in originations and \$26.5 million in repayments during the quarter ended February 28, 2017. Saratoga Investment's portfolio has continued to grow this quarter and remains strong, with a continued high level of investment quality in loan investments with 94.1% of our loans at our highest internal rating for this quarter.

As a result, both the year and quarter ended February 28, 2017 benefitted from higher investment income as compared to the prior period - investment income increased to \$33.2 million for the year ended February 28, 2017, up 10.3% from \$30.1 million for the year ended February 29, 2016, and up to \$8.4 million from \$7.8 million for the same quarterly periods, a 7.2% increase. This increased investment income was generated from an investment base that has grown by 3.1% since last year, resulting in both higher interest income and other income. The investment income increase was offset by (i) increased debt and financing expenses from higher outstanding Notes payable and SBA debentures this year reflective of the growing investment and asset base, (ii) increased base and incentive management fees generated from the management of this larger pool of investments, and (iii) increased total expenses, excluding interest and debt financing expenses, base management fees and incentive fees, reflecting higher administrator and deal research fees.

Net investment income on a weighted average per share basis was \$1.68 and \$0.19 for the year and quarter ended February 28, 2017, respectively. Adjusted for (i) the incentive fee accrual related to net unrealized capital gains, (ii) the loss on extinguishment of our 2020 notes, and (iii) the interest on the 2020 notes during the call notice period while the 2023 notes were already issued and outstanding, the net investment income on a weighted average per share basis was \$2.01 and \$0.49, respectively. This compares to adjusted net investment income per share of \$1.90 and \$0.45 for the year and quarter ended February 29, 2016, reflecting an increase of 5.8% and 8.9%, respectively.

Net investment income yield as percentage of average net asset value ("Net Investment Income Yield") was 7.6% and 3.5% for the year and quarter ended February 28, 2017, respectively. Adjusted for (i) the incentive fee accrual related to net unrealized capital gains, (ii) the loss on extinguishment of our 2020 notes, and (iii) the interest on the 2020 notes during the call notice period while the 2023 notes were already issued and outstanding, the Net Investment Income Yield was 9.1% and 8.8%, respectively. In comparison, Net Investment Income Yield was 8.6% and 9.8% for the year and quarter ended February 29, 2016, respectively. Adjusted Net Investment Income Yield was 8.6% and 8.0% for the year and quarter ended February 29, 2016, respectively.

Net Asset Value ("NAV") increased \$2.1 million from \$125.1 million as of February 29, 2016 to \$127.3 million as of February 28, 2017.

- For the twelve months ended February 28, 2017, \$11.1 million of dividends were declared, while \$11.4 million was earned (\$9.7 million of net investment income and \$1.7 million of net realized and unrealized gains). There were also \$5.1 million of stock dividend distributions made through the Company's dividend reinvestment plan ("DRIP"), representing four quarters' dividend payments and one special dividend; these issuances were partially offset by \$3.3 million in share repurchases.

NAV per share was \$21.97 as of February 28, 2017, compared to \$22.06 as of February 29, 2016 and \$22.21 as of November 30, 2017.

- The decrease in NAV per share includes the \$1.5 million, or \$0.25 per share loss associated with the extinguishment of our 2020 notes.
- During these twelve months, NAV per share decreased by \$0.09 per share, primarily reflecting the \$0.3 million, or \$0.06 per share increase in net assets (net of the \$1.93 dividend paid during fiscal year 2017), offset by the dilutive impact of the 122,373 shares issued during the year. These shares consisted of 315,447 shares issued pursuant to the DRIP, representing four quarters' dividend payments and a special dividend, offset by 193,074 shares that were shares repurchased during the year.

Return on equity for the year and quarter ended February 28, 2017 was 9.0% and 3.9%, respectively, compared to 9.4% and -1.3% for the comparable periods last year.

- Excluding the \$1.6 million realized and unrealized losses on our legacy investments in Targus Group International

("Targus") and Elyria Foundry Company, LLC ("Elyria") over the past twelve months, as well as the loss associated with the extinguishment of our 2020 notes and the interest on the 2020 notes during the call notice period, the return on equity for the last twelve months ended February 28, 2017 was 11.3%. Both Targus and Elyria are legacy investments that pre-date Saratoga's management of the Company.

Earnings per share for the year and quarter ended February 28, 2017 was \$1.98 (including \$1.7 million net gain on investments) and \$0.22 (including \$0.2 million net gain on investments), respectively, compared to earnings per share of \$2.09 and loss per share of \$(0.07) for the year and quarter ended February 29, 2016, respectively.

Investment portfolio activity for the year ended February 28, 2017

- | Cost of investments made during the period: \$126.9 million
- | Principal repayments during the period: \$121.2 million

Investment portfolio activity for the quarter ended February 28, 2017

- | Cost of investments made during the period: \$41.1 million
- | Principal repayments during the period: \$26.5 million

Additional Financial Information

For the fiscal year ended February 28, 2017, Saratoga Investment reported net investment income of \$9.7 million, or \$1.68 on a weighted average per share basis, and a net gain on investments of \$1.7 million, or \$0.30 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$11.4 million, or \$1.98 on a weighted average per share basis. Net investment income reflected a one-time \$1.5 million loss associated with the extinguishment of Saratoga Investment's 2020 notes. The \$1.7 million net gain on investments was comprised largely of \$12.4 million in net realized gain on investments offset by \$10.6 million in net unrealized depreciation on investments. The net realized gains primarily relate to realized gains on our investments in Take 5 Oil Change, LLC and Legacy Cabinets, Inc during the year. The net unrealized loss was due primarily to (i) \$9.8 million change in unrealized depreciation related to these two realizations, with unrealized appreciation being adjusted to zero resulting in a change in unrealized depreciation for the year, and (ii) \$1.6 million unrealized depreciation in our legacy Elyria investment. This compared to the fiscal year ended February 29, 2016 with net investment income of \$10.7 million, or \$1.91 on a weighted average per share basis, and a net gain on investments of \$1.0 million, or \$0.17 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$11.6 million, or \$2.09 on a weighted average per share basis. The \$1.0 million net gain on investments consisted of \$0.2 million in net realized gains on investments and \$0.7 million unrealized depreciation.

Adjusted for (i) the incentive fee accrual related to net unrealized capital gains, (ii) the loss on extinguishment of our 2020 notes, and (iii) the interest on the 2020 notes during the call notice period while the 2023 notes were already issued and outstanding, the net investment income was \$11.5 million and \$10.6 million for the years ended February 28, 2017 and February 29, 2016, respectively - this is an increase of \$0.9 million year-over-year, or 8.3%.

For the quarter ended February 28, 2017, Saratoga Investment reported net investment income of \$1.1 million, or \$0.19 on a weighted average per share basis, and a net gain on investments of \$0.2 million, or \$0.03 on a weighted average per share basis, resulting in a net increase in net assets from operations of \$1.3 million, or \$0.22 on a weighted average per share basis. The \$0.2 million net gain on investments was largely comprised of \$0.09 million in net unrealized appreciation on investments offset by \$0.07 million in net realized losses. This compared to the quarter ended February 29, 2016 with net investment income of \$3.1 million, or \$0.54 on a weighted average per share basis, and a net loss on investments of \$3.5 million, or \$0.62 on a weighted average per share basis, resulting in a net decrease in net assets from operations of \$0.4 million, or \$0.07 on a weighted average per share basis. The \$3.5 million net loss on investments consisted of \$4.0 million in net realized losses, offset by \$0.5 million in net unrealized appreciation on investments.

Adjusted for (i) the incentive fee accrual related to net unrealized capital gains, (ii) the loss on extinguishment of our 2020 notes, and (iii) the interest on the 2020 notes during the call notice period while the 2023 notes were already issued and outstanding, the net investment income was \$2.8 million and \$2.5 million for the quarters ended February 28, 2017 and February 29, 2016, respectively - this is an increase of \$0.3 million year-over-year, or 10.6%.

Total expenses, excluding interest and debt financing expenses, base management fees and incentive management fees, increased from \$4.2 million for the year ended February 29, 2016 to \$4.3 million for the year ended February 28, 2017, remaining consistent at 1.4% of average total assets for both years. For the quarters ended February 28, 2017 and February 29, 2016, these total expenses decreased from \$1.25 million to \$1.16 million.

Portfolio and Investment Activity

As of February 28, 2017, the fair value of Saratoga Investment's portfolio was \$292.7 million (excluding \$22.1 million in cash and cash equivalents), principally invested in 28 portfolio companies and one collateralized loan obligation fund ("CLO"). The overall portfolio composition consisted of 54.3% of first lien term loans, 30.0% of second lien term loans, 5.3% of subordinated notes in a CLO, 3.4% of syndicated loans, and 7.0% of common equity.

For the fiscal year ended February 28, 2017, Saratoga Investment invested \$126.9 million in new or existing portfolio companies and had \$121.2 million in aggregate amount of exits and repayments, resulting in net investments of \$5.7 million for the year. For the quarter ended February 28, 2017, Saratoga Investment invested \$41.1 million in new or existing portfolio companies, and had \$26.5 million in aggregate amount of exits and repayments, resulting in net investments of \$14.6 million for the quarter.

As of February 28, 2017, the weighted average current yield on Saratoga Investment's portfolio for the twelve months ended was 10.8%, which was comprised of a weighted average current yield of 10.5% on first lien term loans, 11.7% on second lien term loans, 12.7% on CLO subordinated notes, and 5.3% on syndicated loans.

As of February 28, 2017, 83.1% of Saratoga Investment's portfolio is in floating rate debt, with many of these investments having floors. For most of these investments, the relevant 1-month or 3-month LIBOR rate is currently above the floors. Saratoga Investment has analyzed the potential impact of changes in interest rates on interest income from investments, and assuming that the investments as of February 28, 2017 were to remain constant for a full fiscal year and no actions were taken to alter the existing interest rate terms, a hypothetical change of 1.0% in interest rates would cause a corresponding increase of approximately \$2.2 million to interest income.

Portfolio Update:

During the quarter ended February 28, 2017, Saratoga Investment increased its first lien investment in Easy Ice, LLC to \$26.7 million to facilitate a change of control transaction at the company. Concurrent with this transaction, it also invested \$8.0 million in a significant preferred equity position. As part of a further recapitalization that is currently in advanced stages, there is expected to be a repayment of a significant portion of the first lien investment in the near term.

Liquidity and Capital Resources

As of February 28, 2017, Saratoga Investment had \$0.0 million in outstanding borrowings under its \$45 million senior secured revolving credit facility with Madison Capital Funding LLC. At the same time, Saratoga Investment had \$112.7 million outstanding of SBA debentures, \$74.5 million of Baby Bonds (fair value of \$77.1 million) and an aggregate of \$22.1 million in cash and cash equivalents.

With the \$45.0 million credit facility and the \$37.3 million additional borrowing capacity at the SBIC subsidiary, as well as the \$22.1 million of cash and cash equivalents, Saratoga Investment has a total of \$104.4 million of undrawn borrowing capacity and cash and cash equivalents available as of February 28, 2017. The proceeds from the DRIP totaled \$5.1 million of equity investments in fiscal year 2017. Saratoga Investment also has the ability to issue additional baby bonds through the existing shelf registration statement.

On December 21, 2016, the Company issued \$74.5 million in aggregate principal amount of our 6.75% fixed-rate notes due 2023 (the "2023 Notes") for net proceeds of \$71.7 million after deducting underwriting commissions of approximately \$2.3 million and offering costs of approximately \$0.5 million. The issuance included the exercise of substantially all of the underwriters' option to purchase an additional \$9.8 million aggregate principal amount of 2023 Notes within 30 days. Interest on the 2023 Notes is paid quarterly in arrears on March 15, June 15, September 15 and December 15, at a rate of 6.75% per year, beginning March 30, 2017. The 2023 Notes mature on December 30, 2023, and commencing December 21, 2019, may be redeemed in whole or in part at any time or from time to time at our option. The net proceeds from the offering were used to repay all of the outstanding indebtedness under the 2020 Notes, which amounts to \$61.8 million, and for general corporate purposes in accordance with Saratoga Investment's investment objective and strategies. The 2023 Notes are listed on the NYSE under the trading symbol "SAB" with a par value of \$25.00 per share.

On March 16, 2017, we entered into an equity distribution agreement with Ladenburg Thalmann & Co. Inc., through which Saratoga may offer for sale, from time to time, up to \$30.0 million of its common stock through an ATM offering. As of May 15, 2017, the Company sold 60,679 shares for gross proceeds of \$1.4 million at an average price of \$22.49 for aggregate net proceeds of \$1.3 million (net of transaction costs).

Share Repurchase Plan

In fiscal year 2015, the Company announced the approval of an open market share repurchase plan that allows it to repurchase up to 200,000 shares of its common stock at prices below its NAV as reported in its then most recently

published financial statements. During fiscal year 2017, this share repurchase plan was extended for another year, through October 2017, and increased to 600,000 of common stock.

As of February 28, 2017, we purchased 218,491 shares of common stock, at the average price of \$16.87 for approximately \$3.7 million pursuant to this repurchase plan.

Dividend

During fiscal year 2017, Saratoga Investment declared and paid dividends of \$1.93 per share, composed of \$0.41 for the quarter ended February 29, 2016, \$0.43 per share for the quarter ended May 31, 2016, \$0.44 per share for the quarter ended August 31, 2016, \$0.45 per share for the quarter ended November 30, 2016, and a special dividend of \$0.20 per share in the second quarter of fiscal year 2017. In addition, on February 28, 2017, Saratoga Investment announced a dividend of \$0.46 per share for the fiscal quarter ended February 28, 2017, paid on March 28, 2017 to all stockholders of record at the close of business on March 15, 2017.

2017 Fiscal Year End and Fourth Quarter Conference Call/Webcast Information

When: Wednesday, May 17, 2017, 10:00 a.m. Eastern Time (ET)

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

A replay of the call will be available from 1:00 p.m. ET on Wednesday, May 17, 2017 through 1:00 p.m. ET on Wednesday, May 24, 2017 by dialing (855) 859-2056 (U.S. and Canada) or (404) 537-3406 (outside U.S. and Canada), passcode for both replay numbers: 11205097.

Webcast: Interested parties may access a simultaneous webcast of the call and find the FY2017 presentation by going to the "Events & Presentations" section of Saratoga Investment's investor relations website, <http://www.saratogainvestmentcorp.com/investor.html>

About Saratoga Investment Corp.

Saratoga Investment Corp. is a specialty finance company that provides customized financing solutions to U.S. middle-market businesses. The Company invests primarily in senior and unitranche leveraged loans, mezzanine debt, and, to a lesser extent, equity to provide financing for change of ownership transactions, strategic acquisitions, recapitalizations and growth initiatives in partnership with business owners, management teams and financial sponsors. Saratoga Investment Corp.'s objective is to create attractive risk-adjusted returns by generating current income and long-term capital appreciation from its debt and equity investments. Saratoga Investment Corp. has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 and is externally-managed by Saratoga Investment Advisors, LLC, an SEC-registered investment advisor focusing on credit-driven strategies. Saratoga Investment Corp. owns an SBIC-licensed subsidiary and manages a \$300 million Collateralized Loan Obligation (CLO) fund. It also owns 100% of the subordinated notes of the CLO. These diverse funding sources, combined with a permanent capital base, enable Saratoga Investment Corp. to provide a broad range of financing solutions.

Forward Looking Statements

This press release contains certain forward-looking statements. These forward-looking statements are subject to risks and uncertainties and other factors enumerated in this press release and the filings Saratoga Investment Corp. makes with the SEC. Saratoga Investment Corp. undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Financials

Saratoga Investment Corp.

Consolidated Statements of Assets and Liabilities

As of

	<u>February 28, 2017</u>	<u>February 29, 2016</u>
ASSETS		
Investments at fair value		
Non-control/Non-affiliate investments (amortized cost of \$251,198,896 and \$268,145,090, respectively)	\$ 242,531,514	\$ 271,168,186
Control investments (cost of \$49,283,536 and \$13,030,751, respectively)	<u>50,129,799</u>	<u>12,827,980</u>
Total investments at fair value (amortized cost of \$300,482,432 and \$281,175,841, respectively)	292,661,313	283,996,166
Cash and cash equivalents	9,306,543	2,440,277
Cash and cash equivalents, reserve accounts	12,781,425	4,594,506
Interest receivable (net of reserve of \$157,560 and \$728,519, respectively)	3,294,450	3,195,919
Management fee receivable	171,106	170,016
Other assets	183,346	350,368
Receivable from unsettled trades	<u>253,041</u>	<u>300,000</u>
Total assets	<u>\$ 318,651,224</u>	<u>\$ 295,047,252</u>
LIABILITIES		
Revolving credit facility	\$ -	\$ -
Deferred debt financing costs, revolving credit facility	(437,183)	(515,906)
SBA debentures payable	112,660,000	103,660,000
Deferred debt financing costs, SBA debentures payable	(2,508,280)	(2,493,303)
Notes payable	74,450,500	61,793,125
Deferred debt financing costs, notes payable	(2,689,511)	(1,694,586)
Dividend payable	-	875,599
Base management and incentive fees payable	5,814,692	5,593,956
Accounts payable and accrued expenses	852,987	855,873
Interest and debt fees payable	2,764,237	1,552,069
Payable for repurchases of common stock	-	20,957
Directors fees payable	51,500	31,500
Due to manager	397,505	218,093
Total liabilities	<u>\$ 191,356,447</u>	<u>\$ 169,897,377</u>
NET ASSETS		
Common stock, par value \$.001, 100,000,000 common shares authorized, 5,794,600 and 5,672,227 common shares issued and outstanding, respectively	\$ 5,795	\$ 5,672
Capital in excess of par value	190,483,931	188,714,329
Distribution in excess of net investment income	(27,737,348)	(26,217,902)
Accumulated net realized loss from investments and derivatives	(27,636,482)	(40,172,549)
Accumulated net unrealized appreciation (depreciation) on investments and derivatives	<u>(7,821,119)</u>	<u>2,820,325</u>
Total net assets	<u>127,294,777</u>	<u>125,149,875</u>
Total liabilities and net assets	<u>\$ 318,651,224</u>	<u>\$ 295,047,252</u>
NET ASSET VALUE PER SHARE	<u>\$ 21.97</u>	<u>\$ 22.06</u>
Asset Coverage Ratio	271.0%	302.5%

Saratoga Investment Corp.

Consolidated Statements of Operations

	<u>For the year ended February 28, 2017</u>	<u>For the year ended February 29, 2016</u>	<u>For the year ended February 28, 2015</u>
INVESTMENT INCOME			
Interest from investments			
Non-control/Non-affiliate investments	\$ 26,413,986	\$ 23,165,823	\$ 20,790,324
Payment-in-kind interest income from Non-control/Non-affiliate investments	652,847	1,039,398	1,186,657
Control investments	<u>2,281,397</u>	<u>2,665,648</u>	<u>2,707,230</u>
Total interest income	29,348,230	26,870,869	24,684,211

Interest from cash and cash equivalents	31,151	5,420	3,801
Management fee income	1,499,001	1,494,779	1,520,205
Other income	2,278,770	1,679,602	1,167,144
Total investment income	<u>33,157,152</u>	<u>30,050,670</u>	<u>27,375,361</u>
OPERATING EXPENSES			
Interest and debt financing expenses	9,888,127	8,456,467	7,375,022
Base management fees	4,898,657	4,528,589	4,156,955
Professional fees	1,243,400	1,336,214	1,301,713
Administrator expenses	1,366,667	1,175,000	1,000,000
Incentive management fees	2,947,543	2,232,188	2,547,773
Insurance	275,787	330,867	337,335
Directors fees and expenses	235,422	204,000	210,761
General & administrative	1,121,594	995,205	478,299
Excise tax expense	44,770	113,808	293,653
Other expense	19,780	-	-
Total operating expenses	<u>22,041,747</u>	<u>19,372,338</u>	<u>17,701,511</u>
Loss on extinguishment of debt	1,454,595	-	-
NET INVESTMENT INCOME	<u>9,660,810</u>	<u>10,678,332</u>	<u>9,673,850</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:			
Net realized gain from investments	12,368,115	226,252	3,276,450
Net unrealized appreciation (depreciation) on investments	(10,641,444)	740,974	(1,942,936)
Net gain on investments	<u>1,726,671</u>	<u>967,226</u>	<u>1,333,514</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 11,387,481</u>	<u>\$ 11,645,558</u>	<u>\$ 11,007,364</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 1.98	\$ 2.09	\$ 2.04
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,740,450	5,582,453	5,385,049

Saratoga Investment Corp.

Consolidated Statements of Operations

	For the three months ended February 28, 2017	For the three months ended February 29, 2016
INVESTMENT INCOME		
Interest from investments		
Non-control/Non-affiliate investments	\$ 6,444,137	\$ 6,204,079
Payment-in-kind interest income from Non-control/Non-affiliate investments	170,160	43,933
Control investments	<u>693,472</u>	<u>645,347</u>
Total interest income	7,307,769	6,893,359
Interest from cash and cash equivalents	14,725	2,646
Management fee income	375,442	373,493
Other income	<u>660,532</u>	<u>525,764</u>
Total investment income	<u>8,358,468</u>	<u>7,795,262</u>
OPERATING EXPENSES		
Interest and debt financing expenses	2,781,258	2,215,521
Base management fees	1,248,790	1,161,850
Professional fees	251,677	305,598
Administrator expenses	375,000	325,000
Incentive management fees	616,302	71,416
Insurance	65,486	70,972
Directors fees and expenses	43,000	51,000

General & administrative	379,851	256,961
Excise tax expense	44,770	237,146
Other expense	(1,867)	-
Total operating expenses	<u>5,804,267</u>	<u>4,695,464</u>
Loss on extinguishment of debt	1,454,595	
NET INVESTMENT INCOME	<u>1,099,606</u>	<u>3,099,798</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:		
Net realized gain from investments	68,216	(4,004,754)
Net realized loss from derivatives	-	-
Net unrealized appreciation (depreciation) on investments	86,678	501,620
Net unrealized appreciation on derivatives	-	-
Net gain on investments	<u>154,894</u>	<u>(3,503,134)</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 1,254,500</u>	<u>\$ (403,336)</u>
WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE	\$ 0.22	\$ (0.07)
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING - BASIC AND DILUTED	5,755,750	5,688,697

Supplemental Information Regarding Adjusted Net Investment Income, Adjusted Net Investment Income Yield and Adjusted Net Investment Income per share

On a supplemental basis, we provide information relating to adjusted net investment income, adjusted net investment income yield and adjusted net investment income per share, which are non-GAAP measures. These measures are provided in addition to, but not as a substitute for, net investment income, net investment income yield and net investment income per share. Adjusted net investment income represents net investment income excluding any capital gains incentive fee expense or reversal attributable to unrealized gains. The management agreement with our advisor provides that a capital gains incentive fee is determined and paid annually with respect to cumulative realized capital gains (but not unrealized capital gains) to the extent such realized capital gains exceed realized and unrealized losses for such year. In addition, we accrue, but do not pay, a capital gains incentive fee in connection with any unrealized capital appreciation, as appropriate. As such, we believe that adjusted net investment income, adjusted net investment income yield and adjusted net income per share is a useful indicator of operations exclusive of any capital gains incentive fee expense or reversal attributable to unrealized gains. In addition, adjusted net investment income also excludes the loss on extinguishment of our 2020 notes, and the interest expense related to the 2020 notes during the call notice period while the 2023 notes were already issued and outstanding. Both these expenses are directly attributable to the issuance of the 2023 notes and the subsequent repayment of the 2020 notes, and are deemed to be non-recurring in nature and not representative of the operations of Saratoga Investment. The presentation of this additional information is not meant to be considered in isolation or as a substitute for financial results prepared in accordance with GAAP. The following table provides a reconciliation of net investment income to adjusted net investment income, net investment income yield to adjusted net investment income yield and net investment income per share to adjusted net investment income per share for the year and quarter ended February 28, 2017 and February 29, 2016.

	For the three months ended February 28 and 29		For the years ended February 28 and 29	
	2017	2016	2017	2016
Net Investment Income	\$ 1,099,606	\$ 3,099,798	\$ 9,660,810	\$ 10,678,332
Changes in accrued capital gains incentive fee expense/reversal	(18,053)	(563,081)	133,937	(45,777)
Loss on extinguishment of debt	1,454,595	-	1,454,595	-
Interest on 2020 notes during call period ⁽³⁾	268,895	-	268,895	-
Adjusted net investment income	<u>2,805,043</u>	<u>2,536,717</u>	<u>11,518,237</u>	<u>10,632,555</u>
Net investment income yield	3.5%	9.8%	7.6%	8.6%
Changes in accrued capital gains incentive fee expense/reversal	(0.1%)	(1.8%)	0.1%	0.0%

Loss on extinguishment of debt	4.6%	-	1.2%	-
Interest on 2020 notes during call period ⁽³⁾	0.8%	-	0.2%	-
Adjusted net investment income yield ⁽¹⁾	8.8%	8.0%	9.1%	8.6%

	For the three months ended February 28 and 29		For the year ended February 28 and 29	
	2017	2016	2017	2016
Net investment income per share	\$ 0.19	\$ 0.54	\$ 1.68	\$ 1.91
Changes in accrued capital gains incentive fee expense/reversal	(0.0)	(0.09)	0.03	(0.01)
Loss on extinguishment of debt	0.25	-	0.25	-
Interest on 2020 notes during call period ⁽³⁾	0.05	-	0.05	-
Adjusted net investment income per share ⁽²⁾	\$ 0.49	\$ 0.45	\$ 2.01	\$ 1.90

(1) Adjusted net investment income is calculated as adjusted net investment income divided by average net asset value.

(2) Adjusted net investment income per share is calculated as adjusted net investment income divided by weighted average common shares outstanding.

(3) Interest on 2020 notes during call period is presented net of the incentive fee accrual

To view the original version on PR Newswire, visit: <http://www.prnewswire.com/news-releases/saratoga-investment-corp-announces-fiscal-year-end-and-fourth-quarter-2017-financial-results-300458795.html>

SOURCE Saratoga Investment Corp.

News Provided by Acquire Media