

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarterly Period Ended May 31, 2011

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 1-33376

**SARATOGA INVESTMENT CORP.**

(Exact name of registrant as specified in its charter)

**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**20-8700615**

(I.R.S. Employer  
Identification No.)

**535 Madison Avenue  
New York, New York**

(Address of principal executive office)

**10022**

(Zip Code)

**(212) 906-7800**

(Registrant's telephone number, including area code)

**Not applicable**

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

The number of shares of the registrant's common stock, \$0.001 par value, outstanding as of July 13, 2011 was 3,277,077.

**SARATOGA INVESTMENT CORP.  
FORM 10-Q FOR THE QUARTER ENDED MAY 31, 2011**

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**Saratoga Investment Corp.**

**Consolidated Statements of Assets and Liabilities**

	As of	
	<u>May 31, 2011</u>	<u>February 28, 2011</u>
	(unaudited)	
<b>ASSETS</b>		
Investments at fair value		
Non-control/non-affiliate investments (amortized cost of \$83,526,597 and \$73,779,271, respectively)	\$ 68,101,302	\$ 57,292,723
Control investments (cost of \$26,205,227 and \$27,364,350, respectively)	25,554,797	22,732,038
Total investments at fair value (amortized cost of \$109,731,824 and \$101,143,621, respectively)	93,656,099	80,024,761
Cash and cash equivalents	10,064,019	10,735,755
Cash and cash equivalents, securitization accounts	3,447,781	4,369,987
Outstanding interest rate cap at fair value (cost of \$131,000 and \$131,000, respectively)	5,723	16,265
Interest receivable, (net of reserve of \$26,627 and \$14,796, respectively)	1,321,901	1,666,083
Deferred credit facility financing costs, net	1,468,024	1,638,768
Management fee receivable	229,395	231,753
Other assets	326,023	85,166
Total assets	<u>\$ 110,518,965</u>	<u>\$ 98,768,538</u>
<b>LIABILITIES</b>		
Revolving credit facility	\$ —	\$ 4,500,000
Payable for unsettled trades	14,803,626	4,900,000
Management and incentive fees payable	2,375,106	2,203,806
Accounts payable and accrued expenses	689,774	785,486
Interest and credit facility fees payable	45,823	67,792
Due to manager	823,972	240,000
Total liabilities	<u>\$ 18,738,301</u>	<u>\$ 12,697,084</u>
<b>NET ASSETS</b>		
Common stock, par value \$.001, 100,000,000 common shares authorized, 3,277,077 and 3,277,077 common shares issued and outstanding, respectively	\$ 3,277	\$ 3,277
Capital in excess of par value	153,768,680	153,768,680
Distribution in excess of net investment income	(8,340,281)	(8,918,890)
Accumulated net realized loss from investments and derivatives	(37,450,008)	(37,548,016)

Net unrealized depreciation on investments and derivatives	(16,201,004)	(21,233,597)
Total Net Assets	<u>91,780,664</u>	<u>86,071,454</u>

Total liabilities and Net Assets	<u>\$ 110,518,965</u>	<u>\$ 98,768,538</u>
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NET ASSET VALUE PER SHARE	<u>\$ 28.01</u>	<u>\$ 26.26</u>
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See accompanying notes to consolidated financial statements.

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**Saratoga Investment Corp.**

**Consolidated Statements of Operations**

	<u>For three months ended May 31, 2011 (unaudited)</u>	<u>For three months ended May 31, 2010 (unaudited)</u>
<b>INVESTMENT INCOME</b>		
Interest from investments		
Non-control/Non-affiliate investments	\$ 1,497,889	\$ 1,617,267
Control investments	889,577	652,720
Total interest income	<u>2,387,466</u>	<u>2,269,987</u>
Interest from cash and cash equivalents	4,148	319
Management fee income	506,368	506,785
Other income	—	33,559
Total investment income	<u>2,897,982</u>	<u>2,810,650</u>
<b>EXPENSES</b>		
Interest and credit facility financing expenses	369,910	831,121
Base management fees	398,464	411,389
Professional fees	293,628	1,142,537
Administrator expenses	240,000	155,137
Incentive management fees	721,725	—
Insurance	156,982	194,654
Directors fees and expenses	51,000	164,611
General & administrative	86,354	64,136
Other expense	1,310	—
Expenses before expense waiver and reimbursement	<u>2,319,373</u>	<u>2,963,585</u>
Expense reimbursement	—	(155,137)
Total expenses net of expense waiver and reimbursement	<u>2,319,373</u>	<u>2,808,448</u>
NET INVESTMENT INCOME	<u>578,609</u>	<u>2,202</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net realized gain/(loss) from investments	98,008	(2,551,410)
Net unrealized appreciation on investments	5,043,135	5,223,815
Net unrealized depreciation on derivatives	(10,542)	(19,869)
Net gain on investments	<u>5,130,601</u>	<u>2,652,536</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 5,709,210</u>	<u>\$ 2,654,738</u>
<b>WEIGHTED AVERAGE - BASIC AND DILUTED EARNINGS PER COMMON SHARE</b>		
*	\$ 1.74	\$ 1.57
<b>WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED</b>		
*	3,277,077	1,694,011

\*Weighted average earnings per share and weighted average shares outstanding for the three months ended May 31, 2010 have been adjusted to reflect a one-for-ten reverse stock split in August 2010.

See accompanying notes to consolidated financial statements.

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**Saratoga Investment Corp.**

**Consolidated Schedule of Investments**

**May 31, 2011**  
**(unaudited)**

Company (a)	Industry	Investment Interest Rate/Maturity	Principal/ Number of Shares	Cost	Fair Value ( c )	% of Net Assets
<b>Non-control/Non-affiliated investments - 74.2% (b)</b>						
Legacy Cabinets Holdings (d), (i)	Building Products	Common Stock Voting A-1	\$ 2,535	\$ 220,900	\$ 36,909	0.0%
Legacy Cabinets Holdings (d), (i)	Building Products	Common Stock Voting B-1	1,600	139,424	23,296	0.0%
Legacy Cabinets, Inc. (d), (i)	Building Products	First Lien Term Loan 7.25%, 5/3/2014	\$ 297,997	297,997	222,127	0.2%
	Total Building Products			658,321	282,332	0.2%
Hopkins Manufacturing Corporation (d)	Consumer Products	Second Lien Term Loan 9.25%, 1/26/2012	\$ 3,250,000	3,249,294	3,250,000	3.5%
Targus Group International, Inc. (d)	Consumer Products	First Lien Term Loan 11.00%, 5/24/2016	\$ 4,000,000	3,920,000	4,000,000	4.4%
Targus Holdings, Inc. (d)	Consumer Products	Unsecured Notes 10.00%, 6/14/2019	\$ 1,770,552	1,770,552	947,068	1.0%
Targus Holdings, Inc. (d), (i)	Consumer Products	Common Stock	62,413	566,765	3,061,358	3.3%
	Total Consumer Products			9,506,611	11,258,426	12.2%
CFF Acquisition LLC (d)	Consumer Services	First Lien Term Loan 7.50%, 7/31/2015	\$ 2,945,389	2,678,005	2,650,850	2.9%
M/C Acquisition Corp., LLC (d)	Education	First Lien Term Loan 1.00%, 12/31/2012	\$ 2,892,484	1,403,558	749,153	0.8%
M/C Acquisition Corp., LLC (d), (i)	Education	Class A Common Stock	166,327	30,242	—	0.0%
	Total Education			1,433,800	749,153	0.8%
Advanced Lighting Technologies, Inc. (d)	Electronics	Second Lien Term Loan 6.31%, 6/1/2014	\$ 2,000,000	1,869,404	1,955,000	2.1%
Dekko Technologies, LLC (d)	Electronics	Second Lien Term Loan 10.50%, 1/20/2012	\$ 7,271,164	7,271,164	6,831,259	7.4%
	Total Electronics			9,140,568	8,786,259	9.5%
USS Parent Holding Corp. (d), (i)	Environmental	Non Voting Common Stock	765	133,002	122,074	0.1%
USS Parent Holding Corp. (d), (i)	Environmental	Voting Common Stock	17,396	3,025,798	2,777,169	3.0%
	Total Environmental			3,158,800	2,899,243	3.1%
Bankruptcy Management Solutions, Inc. (d)	Financial Services	Second Lien Term Loan 1.30%, 8/20/2015	\$ 2,492,430	2,492,430	174,470	0.2%
Bankruptcy Management Solutions, Inc. (d)	Financial Services	First Lien Term Loan 6.00%, 8/20/2014	\$ 3,956,481	2,017,805	2,017,805	2.2%
Bankruptcy Management Solutions, Inc. (d), (i)	Financial Services	Common Stock	\$ 27,197	—	—	0.0%
Bankruptcy Management Solutions, Inc. (d), (i)	Financial Services	Warrants	\$ 2,510	—	—	0.0%
DCS Business Services, Inc.	Financial Services	First Lien Term Loan 13.75%, 9/30/2012	\$ 1,600,000	1,610,207	1,600,000	1.7%
	Total Financial Services			6,120,442	3,792,275	4.1%
Big Train, Inc. (d)	Food and Beverage	First Lien Term Loan 7.75%, 3/31/2012	\$ 1,623,719	1,395,285	1,486,353	1.6%
PRACS Institute, LTD (d)	Healthcare Services	Second Lien Term Loan 10.00%, 4/17/2013	\$ 4,093,750	4,072,674	3,114,525	3.4%
Maverick Healthcare Group (d)	Healthcare Services	First Lien Term Loan 10.75%, 12/31/2016	\$ 4,987,500	4,891,740	4,987,500	5.4%
	Total Healthcare Services			8,964,414	8,102,025	8.8%
McMillin Companies LLC (d)	Homebuilding	Senior Secured Notes 9.53%, 12/31/2013	\$ 1,100,000	1,070,502	762,850	0.8%
Worldwide Express Operations, LLC (d)	Logistics	First Lien Term Loan 10.00%, 6/30/2013	\$ 6,733,926	6,345,683	6,060,533	6.6%
Jason Incorporated (d), (i)	Manufacturing	Senior Secured Notes 10.25%, 12/21/2015	\$ 2,465,894	2,465,894	2,465,894	2.7%
Specialized Technology Resources, Inc. (d)	Manufacturing	Second Lien Term Loan 7.19%, 12/15/2014	\$ 5,000,000	4,842,531	4,922,000	5.4%
	Total Manufacturing			7,308,425	7,387,894	8.1%
Elyria Foundry Company, LLC (d)	Metals	Senior Secured Notes 17.00%, 3/1/2013	\$ 7,282,800	6,954,266	6,408,864	7.0%
Elyria Foundry Company, LLC (d), (i)	Metals	Warrants to Purchase Limited Liability Company Interests	3,000	—	—	0.0%
	Total Metals			6,954,266	6,408,864	7.0%
Grant U.S. Holdings LLP (d), (e), (i)	Natural Resources	Second Lien Term Loan 0.00%, 9/20/2013	\$ 6,349,512	6,348,939	—	0.0%
Energy Alloys, LLC (d), (i)	Oil and Gas	Second Lien Term Loan 3.00%, 6/30/2015	\$ 6,476,236	6,476,236	1,450,677	1.6%
Energy Alloys, LLC (d), (i)	Oil and Gas	Warrants to Purchase Limited Liability Company Interests	3	—	—	0.0%
	Total Oil and Gas			6,476,236	1,450,677	1.6%
Network Communications, Inc. (d), (i)	Publishing	Unsecured Notes 8.60%, 1/14/2020	\$ 2,314,286	1,794,857	1,145,572	1.2%
Network Communications, Inc. (d), (i)	Publishing	Common Stock	\$ 211,429	—	824,573	0.9%

Penton Media, Inc. (d)	Publishing	First Lien Term Loan 5.00%, 8/1/2014	\$	4,839,908	4,171,443	4,053,423	4.8%
Total Publishing					5,966,300	6,023,568	6.9%
<b>Sub Total Non-control/Non-affiliated investments</b>					83,526,597	68,101,302	74.2%
<b>Control investments - 27.8% (b)</b>							
GSC Partners CDO GP III, LP (h), (i)	Financial Services	100% General Partnership Interest	—	—	—	—	0.0%
GSC Investment Corp. CLO 2007 LTD. (d), (f), (h)	Structured Finance Securities	Other/Structured Finance Securities 14.85%, 1/21/2020	\$	30,000,000	26,205,227	25,554,797	27.8%
<b>Sub Total Control investments</b>					26,205,227	25,554,797	27.8%
<b>Affiliate investments - 0.0% (b)</b>							
GSC Partners CDO GP III, LP (g), (i)	Financial Services	6.24% Limited Partnership Interest	—	—	—	—	0.0%
<b>Sub Total Affiliate investments</b>					—	—	0.0%
<b>TOTAL INVESTMENTS - 102.0% (b)</b>					<b>\$ 109,731,824</b>	<b>\$ 93,656,099</b>	<b>102.0%</b>

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Outstanding interest rate cap	Interest rate	Maturity	Notional	Cost	Fair Value	% of Net Assets
Interest rate cap	8.0%	2/9/2014	\$ 26,938,776	\$ 87,000	\$ 4,162	0.0%
Interest rate cap	8.0%	11/30/2013	12,635,000	44,000	1,561	0.0%
<b>Total Outstanding interest rate cap</b>				<b>\$ 131,000</b>	<b>\$ 5,723</b>	<b>0.0%*</b>

\* Amounts to less than 0.05%

- (a) All of our equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Grant U.S. Holdings LLP, GSC Investment Corp. CLO 2007 Ltd. and GSC Partners CDO GP III, LP.
- (b) Percentages are based on net assets of \$91,780,664 as of May 31, 2011.
- (c) Because there is no readily available market value for these investments, the fair value of these investments is determined 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) Non-U.S. company. The principal place of business for Grant U.S. Holdings LLP is Canada.
- (f) 14.85% represents the modeled effective interest rate that is expected to be earned over the life of the investment.
- (g) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was an Affiliate are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net Unrealized gains/(losses)
GSC Partners CDO GP III, LP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

- (h) As defined in the Investment Company Act, we "Control" this portfolio company because we own more than 25% of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was both an Affiliate and a portfolio company that we Control are as follows:

Company	Purchases	Redemptions	Sales (cost)	Interest Income	Management fee income	Net Realized gains/(losses)	Net Unrealized gains/(losses)
GSC Investment Corp. CLO 2007 LTD.	\$ —	\$ —	\$ —	\$ 889,577	\$ 506,368	\$ —	\$ 3,981,882
GSC Partners CDO GP III, LP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

- (i) Non-income producing at May 31, 2011.

## Saratoga Investment Corp.

### Consolidated Schedule of Investments

February 28, 2011

Company (a)	Industry	Investment Interest Rate/Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
<b>Non-control/Non-affiliated investments - 66.6% (b)</b>						
Legacy Cabinets Holdings (d), (i)	Building Products	Common Stock Voting A-1	\$ 2,535	\$ 220,900	\$ —	0.0%
Legacy Cabinets Holdings (d), (i)	Building Products	Common Stock Voting B-1	1,600	139,424	—	0.0%
Legacy Cabinets, Inc. (d), (i)	Building Products	First Lien Term Loan 7.25%, 5/3/2014	\$ 293,474	293,474	154,455	0.2%
Total Building Products				653,798	154,455	0.2%
Hopkins Manufacturing Corporation (d)	Consumer Products	Second Lien Term Loan 7.54%, 1/26/2012	\$ 3,250,000	3,249,024	3,233,750	3.7%
Targus Holdings, Inc. (d)	Consumer Products	First Lien Term Loan 8.75%, 11/22/2012	\$ 3,169,227	3,057,616	3,147,834	3.7%
Targus Holdings, Inc. (d)	Consumer Products	Unsecured Notes 10.00%, 12/14/2015	\$ 1,538,235	1,538,235	985,547	1.1%
Targus Holdings, Inc. (d), (i)	Consumer Products	Common Stock	62,413	566,765	2,881,608	3.3%
Total Consumer Products				8,411,640	10,248,739	11.8%

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Company (a)	Industry	Investment Interest Rate/Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
CFF Acquisition LLC (d)	Consumer Services	First Lien Term Loan 7.50%, 7/31/2015	\$ 285,876	285,876	244,424	0.3%
M/C Acquisition Corp., LLC (d)	Education	First Lien Term Loan 1.00%, 12/31/2012	\$ 870,791	870,791	258,625	0.3%
M/C Acquisition Corp., LLC (d), (i)	Education	Class A Common Stock	166,327	30,241	—	0.0%
		Total Education		901,032	258,625	0.3%
Advanced Lighting Technologies, Inc. (d)	Electronics	Second Lien Term Loan 6.29%, 6/1/2014	\$ 2,000,000	1,858,442	1,867,092	2.2%
Dekko Technologies, LLC (d)	Electronics	Second Lien Term Loan 10.50%, 1/20/2012	\$ 7,198,935	7,198,935	6,766,999	7.9%
		Total Electronics		9,057,377	8,634,091	10.1%
USS Parent Holding Corp. (d), (i)	Environmental	Non Voting Common Stock	765	133,002	124,311	0.1%
USS Parent Holding Corp. (d), (i)	Environmental	Voting Common Stock	17,396	3,025,798	2,828,080	3.3%
		Total Environmental		3,158,800	2,952,391	3.4%
Bankruptcy Management Solutions, Inc. (d)	Financial Services	Second Lien Term Loan 1.25%, 8/20/2015	\$ 2,450,499	2,450,499	110,272	0.0%
Bankruptcy Management Solutions, Inc. (d), (i)	Financial Services	Common Stock	\$ 27,197	—	—	0.0%
Bankruptcy Management Solutions, Inc. (d), (i)	Financial Services	Warrants	\$ 2,510	—	—	0.0%
DCS Business Services, Inc.	Financial Services	First Lien Term Loan 13.75%, 9/30/2012	\$ 1,600,000	1,612,135	1,600,000	2.0%
		Total Financial Services		4,062,634	1,710,272	2.0%
Big Train, Inc. (d)	Food and Beverage	First Lien Term Loan 7.75%, 3/31/2012	\$ 1,687,008	1,403,224	1,545,637	1.8%
PRACS Institute, LTD (d)	Healthcare Services	Second Lien Term Loan 10.00%, 4/17/2013	\$ 4,093,750	4,069,847	3,014,420	3.5%
Maverick Healthcare Group (d)	Healthcare Services	First Lien Term Loan 10.75%, 12/31/2016	\$ 5,000,000	4,900,000	5,000,000	5.8%
		Total Healthcare Services		8,969,847	8,014,420	9.3%
McMillin Companies LLC (d)	Homebuilding	Senior Secured Notes 9.53%, 10/31/2013	\$ 1,100,000	1,067,024	816,200	0.9%
Worldwide Express Operations, LLC (d)	Logistics	First Lien Term Loan 10.00%, 6/30/2013	\$ 2,865,629	2,862,910	2,498,828	2.9%
Jason Incorporated (d), (i)	Manufacturing	Senior Secured Notes 10.25%, 12/21/2015	\$ 2,414,272	2,414,272	2,391,318	2.8%
Specialized Technology Resources, Inc. (d)	Manufacturing	Second Lien Term Loan 7.26%, 12/15/2014	\$ 5,000,000	4,833,437	4,966,500	5.8%
		Total Manufacturing		7,247,709	7,357,818	8.6%
Elyria Foundry Company, LLC (d)	Metals	Senior Secured Notes 17.00%, 3/1/2013	\$ 5,100,000	5,017,225	4,231,222	4.9%
Elyria Foundry Company, LLC (d), (i)	Metals	Warrants to Purchase Limited Liability Company Interests	3,000	—	—	0.0%
		Total Metals		5,017,225	4,231,222	4.9%

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Company (a)	Industry	Investment Interest Rate/Maturity	Principal/ Number of Shares	Cost	Fair Value (c)	% of Net Assets
Grant U.S. Holdings LLP (d), (e), (i)	Natural Resources	Second Lien Term Loan 0.00%, 9/20/2013	\$ 6,349,512	6,349,348	—	0.0%
Energy Alloys, LLC (d), (i)	Oil and Gas	Second Lien Term Loan 3.00%, 6/30/2015	\$ 6,429,092	6,429,092	316,954	0.4%
Energy Alloys, LLC (d), (i)	Oil and Gas	Warrants to Purchase Limited Liability Company Interests	3	—	—	0.0%
		Total Oil and Gas		6,429,092	316,954	0.4%
Terphane Holdings Corp. (d), (e), (i)	Packaging	Senior Secured Notes 14.00%, 6/15/2015	\$ 2,500,000	2,500,000	2,453,252	2.9%
Network Communications, Inc. (d), (i)	Publishing	Unsecured Notes 8.60%, 1/14/2020	\$ 1,285,714	1,285,714	929,314	1.1%
Network Communications, Inc. (d), (i)	Publishing	Common Stock	\$ 211,429	—	900,688	1.0%
Penton Media, Inc. (d)	Publishing	First Lien Term Loan 5.00%, 8/1/2014	\$ 4,839,376	4,116,021	4,025,393	4.7%
		Total Publishing		5,401,735	5,855,395	6.8%
<b>Sub Total Non-control/Non-affiliated investments</b>				<b>73,779,271</b>	<b>57,292,723</b>	<b>66.6%</b>
<b>Control investments - 26.4% (b)</b>						
GSC Partners CDO GP III, LP (h), (i)	Financial Services	100% General Partnership Interest	—	—	—	0.0%
GSC Investment Corp. CLO 2007 LTD. (d), (f), (h)	Structured Finance Securities	Other/Structured	\$ 30,000,000	27,364,350	22,732,038	26.4%

<b>Sub Total Control investments</b>				27,364,350	22,732,038	26.4%
<b>Affiliate investments - 0.0% (b)</b>						
GSC Partners CDO GP III, LP (g), (i)	Financial Services	6.24% Limited Partnership Interest		—	—	0.0%
<b>Sub Total Affiliate investments</b>				—	—	0.0%
<b>TOTAL INVESTMENTS - 93.0% (b)</b>				<b>\$ 101,143,621</b>	<b>\$ 80,024,761</b>	<b>93.0%</b>

<b>Outstanding interest rate cap</b>	<b>Interest rate</b>	<b>Maturity</b>	<b>Notional</b>	<b>Cost</b>	<b>Fair Value</b>	<b>% of Net Assets</b>
Interest rate cap	8.0%	2/9/2014	\$ 29,387,755	\$ 87,000	\$ 11,893	0.0%
Interest rate cap	8.0%	11/30/2013	23,966,000	44,000	4,372	0.0%
<b>Total Outstanding interest rate cap</b>				<b>\$ 131,000</b>	<b>\$ 16,265</b>	<b>0.0%*</b>

\* Amounts to less than 0.05%

- (a) All of our equity and debt investments are issued by eligible portfolio companies, as defined in the Investment Company Act of 1940, except Grant U.S. Holdings LLP, GSC Investment Corp. CLO 2007 Ltd., Terphane Holdings Corp., and GSC Partners CDO GP III, LP.  
(b) Percentages are based on net assets of \$86,071,454 as of February 28, 2011.  
(c) Because there is no readily available market value for these investments, the fair value of these investments is determined 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) Non-U.S. company. The principal place of business for Terphane Holdings Corp is Brazil, and for Grant U.S. Holdings LLP is Canada.  
(f) 11.99% represents the modeled effective interest rate that is expected to be earned over the life of the investment.  
(g) As defined in the Investment Company Act, we are an "Affiliate" of this portfolio company because we own 5% or more of the portfolio company's outstanding voting securities. Transactions during the period in which the issuer was an Affiliate are as follows:

<b>Company</b>	<b>Purchases</b>	<b>Redemptions</b>	<b>Sales (cost)</b>	<b>Interest Income</b>	<b>Management fee income</b>	<b>Net Realized gains/(losses)</b>	<b>Net Unrealized gains/(losses)</b>
GSC Partners CDO GP III, LP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(h) 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:

<b>Company</b>	<b>Purchases</b>	<b>Redemptions</b>	<b>Sales (cost)</b>	<b>Interest Income</b>	<b>Management fee income</b>	<b>Net Realized gains/(losses)</b>	<b>Net Unrealized gains/(losses)</b>
GSC Investment Corp. CLO 2007 LTD.	\$ —	\$ —	\$ —	\$ 3,295,359	\$ 2,032,357	\$ —	\$ 7,902,482
GSC Partners CDO GP III, LP	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

(i) Non-income producing at February 28, 2011.

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**Saratoga Investment Corp.**

**Consolidated Statements of Changes in Net Assets**

	<b>For three months ended May 31, 2011 (unaudited)</b>	<b>For three months ended May 31, 2010 (unaudited)</b>
<b>INCREASE FROM OPERATIONS:</b>		
Net investment income	\$ 578,609	\$ 2,202
Net realized gain/(loss) from investments	98,008	(2,551,410)
Net unrealized appreciation on investments	5,043,135	5,223,815
Net unrealized depreciation on derivatives	(10,542)	(19,869)
Net increase in net assets from operations	5,709,210	2,654,738
Total increase in net assets	5,709,210	2,654,738
Net assets at beginning of period	86,071,454	55,478,152
Net assets at end of period	<u>\$ 91,780,664</u>	<u>\$ 58,132,890</u>
Net asset value per common share*	\$ 28.01	\$ 34.32
Common shares outstanding at end of period*	3,277,077	1,694,011
Distribution in excess of net investment income	\$ (8,340,281)	\$ (2,803,387)

\*Net Asset Value per share and end of period shares outstanding for the three months ended May 31, 2010 have been adjusted to reflect a one-for-ten reverse stock split in August 2010.

See accompanying notes to consolidated financial statements.

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**Saratoga Investment Corp.**

**Consolidated Statements of Cash Flows**

	For three months ended May 31, 2011 (unaudited)	For three months ended May 31, 2010 (unaudited)
<b>Operating activities</b>		
NET INCREASE IN NET ASSETS FROM OPERATIONS	\$ 5,709,210	\$ 2,654,738
ADJUSTMENTS TO RECONCILE NET INCREASE (DECREASE) IN NET ASSETS FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Paid-in-kind interest income	(619,583)	(377,030)
Net accretion of discount on investments	(158,918)	(182,648)
Amortization of deferred credit facility financing costs	170,744	—
Net realized (gain) loss from investments	(98,008)	2,551,410
Net unrealized (appreciation) depreciation on investments	(5,043,135)	(5,223,815)
Net unrealized (appreciation) depreciation on derivatives	10,542	19,869
Proceeds from sale and redemption of investments	6,965,659	2,676,834
Purchase of investments	(14,677,353)	—
(Increase) decrease in operating assets:		
Cash and cash equivalents, securitization accounts	922,206	(153,304)
Interest receivable	344,182	884,749
Management fee receivable	2,358	96,628
Other assets	(240,857)	(261,364)
Increase (decrease) in operating liabilities:		
Payable for unsettled trades	9,903,626	—
Management and incentive fees payable	171,300	411,389
Accounts payable and accrued expenses	(95,712)	(331,109)
Interest and credit facility fees payable	(21,969)	3,080
Due to manager	583,972	(9,053)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>3,828,264</u>	<u>2,760,374</u>
<b>Financing activities</b>		
Paydowns on debt	(4,500,000)	(3,184,791)
NET CASH USED BY FINANCING ACTIVITIES	<u>(4,500,000)</u>	<u>(3,184,791)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(671,736)	(424,417)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,735,755	3,352,434
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 10,064,019</u>	<u>\$ 2,928,017</u>
<b>Supplemental Information:</b>		
Interest paid during the period	\$ 221,135	\$ 828,040
<b>Supplemental non-cash information</b>		
Paid-in-kind interest income	\$ 619,583	\$ 377,030
Net accretion of discount on investments	\$ 158,918	\$ 182,648
Amortization of deferred credit facility financing costs	\$ 170,744	\$ —

See accompanying notes to consolidated financial statements.

**SARATOGA INVESTMENT CORP.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**May 31, 2011**

**(unaudited)**

**Note 1. Organization and Basis of Presentation**

Saratoga Investment Corp. (the “Company”, “we”, “our” and “us”) is a non-diversified closed end management investment company incorporated in Maryland that has elected to be treated and is regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). We commenced operations on March 23, 2007 as GSC Investment Corp. and completed our initial public offering (“IPO”) on March 28, 2007. We have elected to be treated as a regulated investment company (“RIC”) under subchapter M of the Internal Revenue Code (the “Code”). We expect to continue to qualify and to elect to be treated for tax purposes as a RIC. Our investment objective is to generate current income and, to a lesser extent, capital appreciation from our investments.

GSC Investment, LLC (the “LLC”) was organized in May 2006 as a Maryland limited liability company. As of February 28, 2007, the LLC had not yet commenced its operations and investment activities.

On March 21, 2007, the Company was incorporated and concurrently therewith the LLC was merged with and into the Company, with the Company as the surviving entity, in accordance with the procedure for such merger in the LLC’s limited liability company agreement and Maryland law. In connection with such merger, each outstanding limited liability company interest of the LLC was converted into a share of common stock of the Company.



On July 30, 2010, the Company changed its name from “GSC Investment Corp.” to “Saratoga Investment Corp.” in conjunction with the transaction described in “Note 13. Recapitalization Transaction” below.

We are externally managed and advised by our investment adviser, Saratoga Investment Advisors, LLC (the “Manager”), pursuant to an investment advisory and management agreement. Prior to July 30, 2010, we were managed and advised by GSCP (NJ), L.P.

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“GAAP”) and include the accounts of the Company and its special purpose financing subsidiary, Saratoga Investment Funding, LLC (previously known as GSC Investment Funding LLC). All intercompany accounts and transactions have been eliminated in consolidation. All references made to the “Company,” “we,” and “us” herein include Saratoga Investment Corp. and its consolidated subsidiary, except as stated otherwise.

## **Note 2. Summary of Significant Accounting Policies**

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of the accompanying consolidated financial statements in conformity with 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.

### **Cash and Cash Equivalents, Securitization Accounts**

Cash and cash equivalents, securitization 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 securitized investments or other reserved

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amounts associated with our \$40 million senior secured revolving credit facility with Madison Capital Funding LLC. The Company is required to use a portion of these amounts to pay interest expense, reduce borrowings, or pay other amounts in accordance with the terms of the senior secured revolving credit facility. Cash held in such accounts may not be available for the general use of the Company.

### **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% of the voting securities or maintain greater than 50% 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% and 25% 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 make 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 determined, 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 our senior management; and
- An independent valuation firm engaged by our board of directors reviews approximately one quarter of these preliminary valuations each quarter so that the valuation of each investment for which market quotes are not readily available is reviewed by the independent valuation firm at least annually.

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

- The audit committee of our board of directors reviews each preliminary valuation and 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 determines 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 GSC Investment Corp. CLO 2007, 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

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investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. We use the output from the Intex models (i.e., the estimated cash flows) to perform a discounted cash flows analysis on expected future cash flows to determine a valuation for our investment in Saratoga CLO.

Because such valuations, and particularly valuations of private investments and private companies, are inherently uncertain, they may fluctuate over short periods of time and may be based on estimates. The determination of fair value by our board of directors 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*, based on the anticipated yield and the estimated cash flows over the projected life of the investment. Yields are revised when there are changes in actual or estimated cash flows due to changes in prepayments and/or re-investments, credit losses or asset pricing. Changes in estimated yield are recognized as an adjustment to the estimated yield over the remaining life of the investment from the date the estimated yield was changed.

**Paid-in-Kind Interest**

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

**Deferred Credit Facility Financing Costs**

Financing costs incurred in connection with our credit facilities are deferred and amortized using the straight line method over the life of the respective facility.

**Indemnifications**

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.

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## 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% 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% 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.

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% 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.

ASC 740, *Income Taxes* 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 statement of operations. As of May 31, 2011, there were no uncertain tax positions.

## Dividends

Dividends to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by the board of directors. Net realized capital gains, if any, are generally distributed at least annually, although we may decide to retain such capital gains for reinvestment.

We have adopted a dividend reinvestment plan that provides for reinvestment of our dividend distributions on behalf of our stockholders unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not "opted out" of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividends. If our common stock is trading below net asset value at the time of valuation, the plan administrator may receive the dividend or distribution in cash and purchase common stock in the open market, on the New York Stock Exchange or elsewhere, for the account of each participant in our dividend reinvestment plan.

## New Accounting Pronouncements

In January 2010, the FASB issued Accounting Standards Update ("ASU") No. 2010-06, *Improving Disclosures about Fair Value Measurements* ("ASU 2010-06"), which amends ASC 820 and requires additional disclosure related to recurring and non-recurring fair value measurement in respect of transfers in and out of Level 1 and 2 and activity in Level 3 fair value measurements. The update also requires disclosure about inputs and valuation techniques for level 2 and level 3 measurements. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures related to activity in Level 3 fair value measurements which are effective for fiscal years beginning after December 15, 2010 and for interim periods within that fiscal year. The adoption of ASU 2010-06 by the Company did not have a material effect on its consolidated financial statements except for enhanced disclosure in the notes to its consolidated financial statements.

In May 2011, the FASB issued ("ASU") No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which amends U.S. GAAP to conform it with fair value measurement and disclosure requirements in International Financial Reporting Standards ("IFRS"). The amendments in ASU 2011-04 change the wording used to describe the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. We are currently evaluating the impact this accounting standards update will have on our consolidated financial statements. The amendments in ASU 2011-04 are to be applied prospectively and are effective during interim and annual periods beginning after December 15, 2011.

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## 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 securitization 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 hierarchical disclosure framework which prioritizes and ranks the level of market price observability of inputs used in measuring investments at fair value. Market price observability is affected by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Based on the observability of the inputs used in the valuation techniques, the 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 into 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 information, 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 (see Note 2). Consistent with our Company's valuation policy, we evaluate the source of inputs, including any markets in which our investments are trading, in determining fair value.

The following table presents fair value measurements of investments, by major class, as of May 31, 2011 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
First lien term loans	\$ —	\$ —	\$ 27,828	\$ 27,828
Second lien term loans	—	—	21,698	21,698
Senior secured notes	—	—	9,638	9,638
Unsecured notes	—	—	2,092	2,092
Structured finance securities	—	—	25,555	25,555
Common stock/equities	—	—	6,845	6,845
Limited partnership interest	—	—	—	—
Total	\$ —	\$ —	\$ 93,656	\$ 93,656

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The following table presents fair value measurements of investments, by major class, as of February 28, 2011 (dollars in thousands), according to the fair value hierarchy:

	Fair Value Measurements			Total
	Level 1	Level 2	Level 3	
First lien term loans	\$ —	\$ —	\$ 18,475	\$ 18,475
Second lien term loans	—	—	20,276	20,276
Senior secured notes	—	—	9,892	9,892
Unsecured notes	—	—	1,915	1,915
Structured finance securities	—	—	22,732	22,732
Common stock/equities	—	—	6,735	6,735
Limited partnership interest	—	—	—	—
Total	\$ —	\$ —	\$ 80,025	\$ 80,025

The following table provides a reconciliation of the beginning and ending balances for investments that use Level 3 inputs for the quarter ended May 31, 2011 (dollars in thousands):

	First lien term loans	Second lien term loans	Senior secured notes	Unsecured notes	Structured finance securities	Common stock/equities	Total
Balance as of February 28, 2011	\$ 18,475	\$ 20,276	\$ 9,892	\$ 1,915	\$ 22,732	\$ 6,735	\$ 80,025
Net unrealized gains (losses)	23	1,238	254	(564)	3,982	110	5,043
Purchases and other adjustments to cost	12,538	184	1,992	741	—	—	15,455
Sales and redemptions	(3,306)	—	(2,500)	—	(1,159)	—	(6,965)
Net realized gain from investments	98	—	—	—	—	—	98
Balance as of May 31, 2011	\$ 27,828	\$ 21,698	\$ 9,638	\$ 2,092	\$ 25,555	\$ 6,845	\$ 93,656

Purchases and other adjustments to cost include purchases of new investments at cost, effects of refinancing/restructuring, accretion/amortization of income from discount/premium on debt securities, and PIK.

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

The net change in unrealized gain/(loss) on investments held as of May 31, 2011 is \$5,086,604 and is included in net unrealized appreciation (depreciation) on investments in the Consolidated Statements of Operations.

The composition of our investments as of May 31, 2011, at amortized cost and fair value were as follows (dollars in thousands):

	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First lien term loans	\$ 28,732	26.2%	\$ 27,828	29.7%
Second lien term loans	36,623	33.4	21,698	23.2
Senior secured notes	10,491	9.6	9,638	10.3
Unsecured notes	3,565	3.2	2,092	2.2
Structured finance securities	26,205	23.9	25,555	27.3
Common stock/equities	4,116	3.7	6,845	7.3
Limited partnership interest	—	—	—	—
Total	<u>\$ 109,732</u>	<u>100%</u>	<u>\$ 93,656</u>	<u>100%</u>

The composition of our investments as of February 28, 2011, at amortized cost and fair value were as follows (dollars in thousands):

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	Investments at Amortized Cost	Amortized Cost Percentage of Total Portfolio	Investments at Fair Value	Fair Value Percentage of Total Portfolio
First lien term loans	\$ 19,402	19.2%	\$ 18,475	23.1%
Second lien term loans	36,439	36.0	20,276	25.3
Senior secured notes	10,999	10.9	9,892	12.4
Unsecured notes	2,824	2.8	1,915	2.4
Structured finance securities	27,364	27.0	22,732	28.4
Common stock/equities	4,116	4.1	6,735	8.4
Limited partnership interest	—	—	—	—
Total	<u>\$ 101,144</u>	<u>100.0%</u>	<u>\$ 80,025</u>	<u>100.0%</u>

For loans and debt securities for which market quotations are not available, we determine their fair value based on third party indicative broker quotes, where available, or the assumptions that a hypothetical market participant would use to value the security in a current hypothetical sale using a market yield valuation methodology. In applying the market yield valuation methodology, we determine the fair value based on such factors as market participant assumptions including synthetic credit ratings, estimated remaining life, current market yield and interest rate spreads of similar securities as of the measurement date. If, in our judgment, the market yield methodology is not sufficient or appropriate, we may use additional methodologies such as an asset liquidation or expected recovery model.

For equity securities of portfolio companies and partnership interests, we determine the fair value based on the market approach with value then attributed to equity or equity like securities using the enterprise value waterfall valuation methodology. Under the enterprise value waterfall valuation methodology, we determine the enterprise fair value of the portfolio company and then waterfall the enterprise value over the portfolio company's securities in order of their preference relative to one another. To estimate the enterprise value of the portfolio company, we weigh some or all of the traditional market valuation methods and factors based on the individual circumstances of the portfolio company in order to estimate the enterprise value. The methodologies for performing investments may be based on, among other things: valuations of comparable public companies, recent sales of private and public comparable companies, discounting the forecasted cash flows of the portfolio company, third party valuations of the portfolio company, considering offers from third parties to buy the company, estimating the value to potential strategic buyers and considering the value of recent investments in the equity securities of the portfolio company. For non-performing investments, we may estimate the liquidation or collateral value of the portfolio company's assets and liabilities. We also take into account historical and anticipated financial results.

Our investment in Saratoga CLO is carried at fair value, which is based on a discounted cash flow model that utilizes prepayment, re-investment and loss assumptions based on historical experience and projected performance, economic factors, the characteristics of the underlying cash flow, and comparable yields for equity interests in collateralized loan obligation funds similar to Saratoga CLO, when available, as determined by our Manager and recommended to our board of directors. Specifically, we use Intex cash flow models, or an appropriate substitute, to form the basis for the valuation of our investment in Saratoga CLO. The models use a set of assumptions including projected default rates, recovery rates, reinvestment rate and prepayment rates in order to arrive at estimated valuations. The assumptions are based on available market data and projections provided by third parties as well as management estimates. We use the output from the Intex models (i.e., the 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 May 31, 2011. The significant inputs for the valuation model include:

- Default rates: 2.0%
- Recovery rates: 70%
- Reinvestment rates: LIBOR plus 350 basis points
- Prepayment rate: 25% for first 24 months, followed by 20%

**Note 4. Investment in GSC Investment Corp. CLO 2007, Ltd.**

On January 22, 2008, we invested \$30 million in all of the outstanding subordinated notes of Saratoga CLO (which are referred in the unaudited balance sheet of Saratoga CLO below as "Preference shares"), a collateralized loan obligation fund managed by us that invests primarily in senior secured loans. Additionally, we entered into a collateral management agreement with Saratoga CLO pursuant to which we act as collateral manager to it. In return for

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Saratoga CLO's assets, to be paid quarterly to the extent of available proceeds. We are also entitled to an incentive management fee equal to 20% of excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return equal to or greater than 12%. For the three months ended May 31, 2011 and May 31, 2010, we accrued \$0.5 and \$0.5 million in management fee income, respectively and \$0.9 and \$0.7 million in interest income, respectively, from Saratoga CLO. We did not accrue any amounts related to the incentive management fee as the 12% hurdle rate has not yet been achieved.

At May 31, 2011, the Company determined that the fair value of its investment in the subordinated notes of Saratoga CLO was \$25.6 million, whereas the net asset value of Saratoga CLO on such date was \$27.1 million. The Company does not believe that the net asset value of Saratoga CLO, which is the difference between Saratoga CLO's assets and liabilities at a given point in time, necessarily equates to the fair value of its investment in the subordinated notes of Saratoga CLO. Specifically, the Company determines the fair value of its investment in the subordinated notes of Saratoga CLO based on the present value of the projected future cash flows of the subordinated notes over the life of Saratoga CLO. At May 31, 2011, Saratoga CLO had investments with a principal balance of \$386.9 million and a weighted average spread over LIBOR of 3.4%, and had debt of \$366.0 million with a weighted average spread over LIBOR of 1.4%. As a result, Saratoga CLO earns a "spread" between the interest income it receives on its investments and the interest expense it pays on its debt and other operating expenses, which is distributed quarterly to the Company as the holder of its subordinated notes. At May 31, 2011, the total "spread", or projected future cash flows of the subordinated notes, over the life of Saratoga CLO was \$50.5 million, which had a present value of approximately \$26.0 million, using a 17% discount rate. At May 31, 2011, the fair value of the subordinated notes, which we based upon the present value of the projected cash flows, was \$25.6 million, which was less than the net asset value of Saratoga CLO on such date by approximately \$1.5 million.

Below is certain summary financial information from the separate unaudited financial statements of Saratoga CLO as of May 31, 2011 and February 28, 2011 and for the three months ended May 31, 2011 and May 31, 2010.

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**Note 4. Investment in GSC Investment Corp. CLO 2007, Ltd.**

**GSC Investment Corp. CLO 2007**

**Balance Sheet**

**(unaudited)**

	<u>As of May 31, 2011 (unaudited)</u>	<u>As of February 28, 2011 (unaudited)</u>
<b>ASSETS</b>		
Investments		
Fair Value Loans	\$ 356,605,065	\$ 373,564,517
Fair Value Bonds	—	2,243,464
Fair Value Other/Structured finance securities	15,301,244	15,362,136
Total investments at fair value	371,906,309	391,170,117
Cash and cash equivalents	23,166,081	19,887,581
Receivable from open trades	20,867,105	—
Interest receivable	2,012,068	1,737,017
Deferred bond issuance	3,363,866	3,545,449
Total assets	<u>\$ 421,315,429</u>	<u>\$ 416,340,164</u>
<b>LIABILITIES</b>		
Interest payable	724,285	701,640
Payable from open trades	29,827,989	25,151,104
Accrued senior collateral monitoring fee	45,879	46,351
Accrued subordinate collateral monitoring fee	183,516	185,402
Class A notes	296,000,000	296,000,000
Class B notes	22,000,000	22,000,000
Discount on class B notes	(522,879)	(538,121)
Class C notes	14,000,000	14,000,000
Class D notes	16,000,000	16,000,000
Discount on class D notes	(553,128)	(569,252)
Class E notes	17,960,044	17,960,044
Discount on class E notes	(1,422,868)	(1,464,346)
Total liabilities	<u>\$ 394,242,838</u>	<u>\$ 389,472,822</u>
<b>PARTNERS' CAPITAL</b>		
Preference shares principal	30,000,000	30,000,000
Preferred shares	9,478,573	(14,270,311)
Partners distributions	(14,590,346)	(12,611,230)
Net income	2,184,364	23,748,883
Total capital	<u>27,072,591</u>	<u>26,867,342</u>
Total liabilities and partners' capital	<u>\$ 421,315,429</u>	<u>\$ 416,340,164</u>

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## GSC Investment Corp. CLO 2007

## Statement of Operations

(unaudited)

	For the three months ended May 31, 2011 (unaudited)	For the three months ended May 31, 2010 (unaudited)
<b>INVESTMENT INCOME</b>		
Interest from investments	\$ 5,364,764	\$ 5,299,765
Interest from cash and cash equivalents	3,567	4,460
Other income	244,292	44,295
<b>Total investment income</b>	<b>5,612,623</b>	<b>5,348,520</b>
<b>EXPENSES</b>		
Interest expense	1,601,334	1,586,045
Professional fees	184,830	155,546
Misc. Fee Expense	12,109	—
Senior collateral monitoring fee	101,274	101,357
Subordinate collateral monitoring fee	405,094	405,428
Trustee expenses	24,960	24,996
Amortization expense	254,427	254,427
<b>Total expenses</b>	<b>2,584,028</b>	<b>2,527,799</b>
<b>NET INVESTMENT INCOME</b>	<b>3,028,595</b>	<b>2,820,721</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net realized gain/(loss) on investments	(5,922,236)	350,122
Net unrealized appreciation/(depreciation) on investments	5,078,005	(939,566)
<b>Net loss on investments</b>	<b>(844,231)</b>	<b>(589,444)</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 2,184,364</b>	<b>\$ 2,231,277</b>

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## GSC Investment Corp. CLO 2007

## Schedule of Investments

May 31, 2011

(Unaudited)

Issuer Name	Asset Name	Asset Type	Current Rate	Maturity Date	Principal / Number of Shares	Cost	Fair Value
Elyria Foundry Company, LLC	Warrants	Equity	0.00%		2,000.00	—	—
M/C Acquisition Corp.	Common	Equity	0.00%		378,433.53	68,806.10	—
Network Communications, Inc.	Common	Equity	0.00%		169,143.00	169,143.00	659,657.70
OLD All, Inc (fka Aleris International Inc.)	Common	Equity	0.00%		2,624.00	224,656.05	128,576.00
SuperMedia Inc. (fka Idearc Inc.)	Common Stock	Equity	0.00%		10,821.00	2,881,565.93	5,410.50
ABP Corporation (Au Bon Pain)	Term Loan	Loan	8.50%	2/28/2013	3,668,023.13	3,655,171.96	3,631,342.90
Acosta, Inc.	Term B Loan	Loan	4.75%	3/1/2018	500,000.00	500,000.00	500,625.00
Advanced Lighting Technologies, Inc.	Deferred Draw Term Loan (First Lien)	Loan	3.07%	6/1/2013	253,267.36	237,539.58	241,870.33
Advanced Lighting Technologies, Inc.	Term Loan (First Lien)	Loan	3.06%	6/1/2013	4,640,423.80	4,471,611.19	4,536,014.27
Aeroflex Incorporated	Tranche B Term Loan	Loan	4.25%	5/9/2018	4,000,000.00	3,980,117.69	3,997,520.00
Aerostructures Acquisition LLC	Term Loan	Loan	7.25%	3/1/2013	581,136.83	561,367.46	537,551.57
Asurion, LLC (fka Asurion Corporation)	Term Loan (First Lien)	Loan	0.00%	5/24/2018	6,000,000.00	5,940,000.00	5,942,280.00
Aurora Diagnostics, LLC	Tranche B Term Loan	Loan	6.25%	5/26/2016	508,611.11	508,611.11	507,761.73
Autotrader.com, Inc.	Tranche B Term Loan	Loan	4.75%	12/15/2016	1,995,000.00	1,985,760.00	1,995,837.90
Axcan Intermediate Holdings Inc.	Term Loan	Loan	5.50%	2/10/2017	1,995,000.00	1,985,504.13	1,985,025.00
AZ Chem US Inc.	New Term Loan	Loan	4.75%	11/21/2016	2,661,702.13	2,680,878.66	2,673,493.47
AZ Chem US Inc.	New Term Loan	Loan	4.75%	11/21/2016	887,234.04	874,449.69	891,164.49
BakerCorp International, Inc. (f/k/a B-Corp Holdings, Inc.)	Term Loan	Loan	0.00%	6/1/2018	500,000.00	497,500.00	501,250.00
C.H.I. Overhead Doors, Inc. (CHI)	Term Loan	Loan	7.50%	4/21/2015	5,064,953.70	5,031,642.66	5,064,953.70
Celanese US Holdings LLC	Dollar Term C Loan (Extended)	Loan	0.00%	10/31/2016	3,491,206.03	3,539,210.11	3,507,859.08
Centex Corporation	Term B Facility	Loan	6.25%	12/21/2016	2,992,500.00	2,964,773.96	3,013,088.40
CHS/ Community Health Systems, Inc.	Extended Term Loan	Loan	3.75%	1/25/2017	1,357,037.92	1,339,235.47	1,323,722.64
CHS/ Community Health Systems, Inc.	Non-Extended Delayed Draw Term Loan	Loan	2.50%	7/25/2014	138,995.77	135,794.20	134,289.37
CHS/ Community Health Systems, Inc.	Non-Extended Term Loan	Loan	2.50%	7/25/2014	2,700,810.53	2,640,528.94	2,609,361.08
Cinedigm Digital Funding I, LLC	Term Loan	Loan	5.25%	4/29/2016	1,763,382.90	1,748,864.74	1,754,565.99
Cinemark USA, Inc.	Extended Term Loan	Loan	3.50%	4/30/2016	5,630,653.65	5,346,124.18	5,649,403.73
Citico III Limited	B Term Loan	Loan	4.46%	6/30/2014	3,625,897.91	3,551,083.61	3,613,207.26
Consolidated Container Company LLC	Loan (First Lien)	Loan	2.44%	3/28/2014	5,239,211.77	4,841,163.97	5,086,698.31
Consolidated Precision Products Corp.	Term Loan	Loan	7.75%	4/17/2014	1,403,975.41	1,390,331.59	1,389,935.65
Contec, LLC	Tranche B Term Loan	Loan	7.75%	7/28/2014	2,651,193.24	2,616,153.97	2,432,469.80
Continental Alloys & Services, Inc.	Term Facility	Loan	8.50%	6/15/2012	3,001,273.46	2,906,945.39	3,001,273.46
Covanta Energy Corporation	Funded Letter of Credit	Loan	1.70%	2/10/2014	877,006.64	854,736.55	867,140.32
Covanta Energy Corporation	Term Loan	Loan	1.81%	2/10/2014	1,711,541.75	1,667,946.53	1,692,286.91
CPI International Acquisition, Inc. (f/k/a Catalyst Holdings, Inc.)	Term B Loan	Loan	5.00%	2/13/2015	4,987,500.00	4,963,747.83	4,999,968.75
CRC Health Corporation	Term B-2 Loan	Loan	4.81%	11/16/2015	1,991,877.15	1,876,716.45	1,957,019.30
CSC Holdings, LLC (fka CSC Holdings Inc (Cablevision))	Term A-3 Loan	Loan	0.00%	3/31/2015	1,484,210.52	1,476,789.47	1,468,448.20
Culligan International Company	Dollar Loan	Loan	2.45%	11/24/2012	2,412,060.30	2,344,774.09	1,821,105.53
DeCrane Aerospace, Inc. (fka DeCrane Aircraft Holdings, Inc.)	Second Lien Term Loan	Loan	0.00%	2/21/2014	969,492.86	924,593.85	605,933.04
Del Monte Foods Company	Initial Term Loan	Loan	4.50%	3/8/2018	1,500,000.00	1,496,373.24	1,499,190.00
Dollar General Corporation	Tranche B-1 Term Loan	Loan	2.97%	7/7/2014	5,378,601.89	5,137,831.91	5,365,747.03
DS Waters of America, Inc.	Term Loan	Loan	2.44%	10/29/2012	494,517.21	483,442.09	478,855.85
DynCorp International Inc.	Term Loan	Loan	6.25%	7/7/2016	909,780.70	894,273.64	913,947.50
Education Management LLC	Tranche C-2 Term Loan	Loan	4.31%	6/1/2016	7,093,227.47	6,543,955.59	6,970,230.90
eInstruction Corporation	Initial Term Loan	Loan	4.32%	7/2/2013	3,029,129.38	2,900,179.85	2,801,944.68









## Note 5. Agreements

On July 30, 2010, the Company entered into an investment advisory and management agreement (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. Pursuant to the Management Agreement, our Manager implements our business strategy on a day-to-day basis and performs certain services for us, subject to oversight by our board of directors. Our Manager is responsible for, among other duties, determining investment criteria, sourcing, analyzing and executing investments transactions, asset sales, financings and performing asset management duties. Under the Management Agreement, we have agreed to pay our Manager a management fee for investment advisory and management services consisting of a base management fee and an incentive fee.

The base management fee of 1.75% is calculated based on the average value of our gross assets (other than cash or cash equivalents, but including assets purchased with borrowed funds) at the end of the two most recently completed fiscal quarters, and appropriately adjusted for any share issuances or repurchases during the applicable fiscal quarter.

The incentive fee consists of the following two parts:

The first, payable quarterly in arrears, equals 20% 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% 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% 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% 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% 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.

The terms of the Management Agreement with our Manager is substantially similar to the terms (i.e., 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) of the investment advisory and management agreement we had entered into with GSCP (NJ), L.P., our former investment adviser, except for the following material distinctions in the fee terms:

- The capital gains portion of the incentive fee was reset with respect to gains and losses from May 31, 2010, and therefore losses and gains incurred prior to such time will not be taken into account when calculating the capital gains fee payable to our Manager and, as a result, our Manager will be entitled to 20% of realized gains net of unrealized losses and realized losses that arise after May 31, 2010. In addition, the cost basis for computing realized gains and losses on investments held by us as of May 31, 2010 equal the fair value of such investment as of such date. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P., the capital gains fee was calculated from March 21, 2007, and the gains were substantially outweighed by losses.
- Under the “catch up” provision, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income that exceeds 1.875% (7.5% annualized) but is less than or equal to 2.344% in

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any fiscal quarter is payable to our Manager. This will enable our Manager to receive 20% of all net investment income as such amount approaches 2.344% in any quarter, and our Manager will receive 20% of any additional net investment income. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P. only received 20% 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.

For the three months ended May 31, 2011 and May 31, 2010, we incurred \$0.4 and \$0.4 million in base management fees, respectively. For the three months ended May 31, 2011, we incurred no incentive fees related to pre-incentive fee net investment income. For the three months ended May 31, 2010, we incurred no incentive fees related to pre-incentive fee net investment income. For the three months ended May 31, 2011, we accrued \$0.7 million in incentive management fees related to capital gains. For the three months ended May 31, 2010, we incurred no incentive management 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 May 31, 2011, \$0.4 million of base management fees and \$2.1 million of incentive fees were accrued and included in management and incentive fees payable in the accompanying consolidated statement 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 amount payable to our Manager as administrator is capped at \$1 million for the first year of the term of the administration agreement and the existence of a cap, and the determination of a proper cap amount, in the second year of the term of the administration agreement with our Manager will be determined by the mutual agreement of our independent directors and our Manager.

The amount payable to GSCP (NJ), L.P., our former investment adviser and administrator, as administrator was capped to the effect that such amount, together with our other operating expenses, could not exceed an amount equal to 1.5% per annum of our net assets attributable to common stock. In addition, for the one-year term of the administration agreement expiring on March 21, 2011, GSCP (NJ), L.P. had agreed to waive our reimbursement obligation under the administration agreement until our total assets exceeded \$500 million

For the three months ended May 31, 2011 and May 31, 2010, we recognized \$0.2 and \$0.2 million in administrator expenses for the periods, pertaining to bookkeeping, record keeping and other administrative services provided to us in addition to our allocable portion of rent and other overhead related expenses. As of May 31, 2011, \$0.4 million of administrator expenses were accrued and included in due to manager in the accompanying consolidated statement of assets and liabilities.

## **Note 6. Borrowings**

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% 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 \$40 million senior secured revolving credit facility (the "Replacement Facility") with Madison Capital Funding LLC, in each case, described in "Note 13. Recapitalization Transaction" below, to pay the full amount of principal and accrued interest, including default interest, outstanding under the Revolving Facility. As a result, the Revolving Facility was terminated in connection therewith. Substantially all of our total assets have been pledged under the Replacement Facility to secure our obligations thereunder. As of May 31, 2011, there was no outstanding balance under the Replacement Facility and the Company is in compliance with all of the limitations and requirements of the Replacement Facility. \$2.0 million of financing costs related to the Replacement Facility have been capitalized and are being amortized over the three year term of the facility. For the three months ended May 31, 2011 and May 31, 2010, we recorded \$0.2 and \$0.8 million of interest expense, respectively. For the three months ended May 31, 2011, we recorded \$0.2 million of amortization of deferred financing costs related to the Replacement Facility. For the three months ended May 31, 2010, no amortization of deferred financing costs were recorded on the Revolving Facility. The interest rates during the three months ended May 31, 2011 and May 31, 2010 on the outstanding borrowings were 7.50% and 9.25% respectively.

The Replacement 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 Replacement 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 Replacement 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 Replacement Facility will be subject to a borrowing base calculation, based on, among other things, applicable advance rates (which vary from 50% to 75% 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 Replacement Facility for the duration of the Revolving Period.

Our borrowing base under the Replacement Facility was \$21.0 million at May 31, 2011. 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 May 31, 2011 borrowing base relies upon the valuations set forth in the annual report on Form 10-K for the year ended February 28, 2011. 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.

At any time prior to the second anniversary of the closing of the Replacement Facility and subject to certain conditions, we may request an increase in the Replacement Facility amount of up to \$60 million for a combined aggregate Replacement Facility amount of \$100 million.

## **Note 7. Interest Rate Cap Agreements**

In April and May 2007, pursuant to the requirements of the Facilities, we, through wholly owned subsidiary, entered into interest rate cap agreements with Deutsche Bank AG with notional amounts of \$34.0 million and \$60.9 million at costs of \$75,000, and \$44,000, respectively. In May 2007, we increased the notional amount under the \$34.0 million agreement from \$34.0 million to \$40.0 million for an additional cost of \$12,000. The agreements expire in February 2014 and November 2013, respectively. These interest rate caps are treated as free-standing derivatives under ASC 815 and are presented at their fair value on the consolidated statements of assets and liabilities and the changes in their fair value are included on the consolidated statements of operations.

The agreements provide for a payment to us in the event LIBOR exceeds 8%, mitigating our exposure to increases in LIBOR. With respect to calculating the payments under these agreements, the notional amount is determined based on a pre-determined schedule set forth in the respective agreements which provides for a reduction in the notional amount at specified dates until the maturity of the agreements. As of May 31, 2011, we did not receive any such payments as the LIBOR has not exceeded 8%. As of May 31, 2011, the total notional amount outstanding for the interest rate caps was \$39.6 million with an aggregate fair value of \$5,723, which is recorded in outstanding interest cap at fair value on our consolidated statements of assets and liabilities. For the three months ended May 31, 2011 and May 31, 2010, we recorded \$10,542 and \$19,869 of unrealized depreciation, respectively, on derivatives in our consolidated statements of operations related to the change in the fair value of the interest rate cap agreements.

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The table below summarizes our interest rate cap agreements as of May 31, 2011 (dollars in thousands):

Instrument	Type	Notional	Interest Rate	Maturity	Fair Value
Interest Rate Cap	Free Standing Derivative	\$ 26,939	8.0%	Feb 2014	\$ 4
Interest Rate Cap	Free Standing Derivative	12,635	8.0	Nov 2013	2
	Net fair value				\$ 6

The table below summarizes our interest rate cap agreements as of February 28, 2011 (dollars in thousands):

Instrument	Type	Notional	Interest Rate	Maturity	Fair Value
Interest Rate Cap	Free Standing Derivative	\$ 29,388	8.0%	Feb 2014	\$ 12
Interest Rate Cap	Free Standing Derivative	23,966	8.0	Nov 2013	4
	Net fair value				\$ 16

**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 May 31, 2011 and May 31, 2010, we accrued \$0.05 and \$0.2 million for directors' fees expense, respectively. As of May 31, 2011, \$0.06 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 May 31, 2011, we had not issued any common stock to our directors as compensation for their services.

**Note 9. Stockholders' Equity**

On May 16, 2006, GSC Group, Inc. capitalized the LLC, by contributing \$1,000 in exchange for 67 shares, constituting all of the issued and outstanding shares of the LLC.

On March 20, 2007, the Company issued 95,995.5 and 8,136.2 shares of common stock, priced at \$150.00 per share, to GSC Group and certain individual employees of GSC Group, respectively, in exchange for the general partnership interest and a limited partnership interest in GSC Partners CDO III GP, LP, collectively valued at \$15.6 million. At this time, the 6.7 shares owned by GSC Group in the LLC were exchanged for 6.7 shares of the Company.

On March 28, 2007, the Company completed its IPO of 725,000 shares of common stock, priced at \$150.00 per share, before underwriting discounts and commissions. Total proceeds received from the IPO, net of \$7.1 million in underwriter's discount and commissions, and \$1.0 million in offering costs, were \$100.7 million.

On November 13, 2009, we declared a dividend of \$18.25 per share payable on December 31, 2009. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to \$2.1 million or \$2.50 per share. Based on shareholder elections, the dividend consisted of \$2.1 million in cash and 864,872.5 of newly issued shares of common stock.

On July 30, 2010, our Manager and its affiliates purchased 986,842 shares of common stock at \$15.20 per share. Total proceeds received from this sale were \$15.0 million. See "Note 13. Recapitalization Transaction."

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.

**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

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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 quarters ended May 31, 2011 and May 31, 2010 (dollars in thousands except share and per share amounts):

<u>Basic and diluted</u>	<u>May 31, 2011</u>	<u>May 31, 2010</u>
Net increase in net assets from operations	\$ 5,709	\$ 2,655
Weighted average common shares outstanding	3,277,077	1,694,010
Earnings per common share-basic and diluted	\$ 1.74	\$ 1.57

**Note 11. Dividend**

The Company did not declare any dividend payments during the quarters ended May 31, 2011 and May 31, 2010.

**Note 12. Financial Highlights**

The following is a schedule of financial highlights for the three months ended May 31, 2011 and May 31, 2010:

For May 31, 2010, the amount per share has been adjusted to reflect a one-for-ten reverse stock split effectuated in August 2010.

<u>Per share data:(4)</u>	<u>May 31, 2011</u>	<u>May 31, 2010</u>
Net asset value at beginning of period	\$ 26.26	\$ 32.70
Net investment income(1)	0.18	—
Net realized and unrealized gains and losses on investments and derivatives	1.57	1.60
Net increase in net assets from operations	1.75	1.60
Distributions declared from net investment income	—	—
Distributions declared from net realized capital gains	—	—
Total distributions to stockholders	—	—
Net asset value at end of period	\$ 28.01	\$ 34.30
Net assets at end of period	\$ 91,780,664	\$ 58,132,890
Shares outstanding at end of period	3,277,077	1,694,010
Per share market value at end of period(4)	\$ 20.75	\$ 16.81
Total return based on market value(2)	(2.35)%	(10.94)%
Total return based on net asset value(3)	6.63%	4.79%
<b>Ratio/Supplemental data:</b>		
Ratio of net investment income to average net assets(5)(6)	2.71%	(1.03)%
Ratio of operating expenses to average net assets(5)(6)	9.12%	14.39%
Ratio of incentive management fees to average net assets(6)	3.38%	0.00%
Ratio of credit facility related expenses to average net assets(6)	1.73%	5.61%
Ratio of total expenses to average net assets(5)(6)	10.85%	19.99%

(1) Net investment income per share is calculated using the weighted average shares outstanding during the period.

(2) Total investment return is calculated assuming a purchase of common shares at the current market value on the first day and a sale at the current market value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions. Total investment returns covering less than a full period are not annualized.

(3) Total investment return is calculated assuming a purchase of common shares at the current net asset value on the first day and a sale at the current net asset value on the last day of the periods reported. Dividends and distributions, if any, are assumed for purposes of this calculation to be reinvested at prices obtained under the Company's dividend reinvestment plan. Total investment return does not reflect brokerage commissions.

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(4) May 31, 2010 data has been adjusted to reflect a one-for-ten reverse stock split effectuated in August 2010.

(5) For the quarter ended May 31, 2010, net of the expense waiver and reimbursement arrangement, the ratio of net investment income, operating expenses, total expenses to average net assets is 0.01%, 13.34% and 18.95%, respectively.

(6) Ratios are annualized.

**Note 13. Recapitalization Transaction**

In July 2010, we consummated a recapitalization transaction that was necessitated by the fact that we had exceeded permissible borrowing limits under the Revolving Facility in July 2009, which resulted in an event of default under the Revolving Facility. As a result of the event of default under the Revolving Facility, the lender had the right to accelerate repayment of the outstanding indebtedness under the Revolving Facility and to foreclose and

liquidate the collateral pledged thereunder. We engaged the investment banking firm of Stifel, Nicolaus & Company to evaluate strategic transaction opportunities and consider alternatives for us in December 2008. On April 14, 2010, we entered into a stock purchase agreement with our Manager and certain of its affiliates and an assignment, assumption and novation agreement with our Manager, pursuant to which we assumed certain rights and obligations of our Manager under a debt commitment letter our Manager received from Madison Capital Funding LLC, indicating Madison Capital Funding's willingness to provide us with the Replacement Facility, subject to the satisfaction of certain terms and conditions. In addition, we and GSCP (NJ), L.P., our then external investment adviser, entered into a termination and release agreement, to be effective as of the closing of the transaction contemplated by the stock purchase agreement, pursuant to which GSCP (NJ), L.P., among other things, agreed to waive any and all accrued and unpaid deferred incentive management fees up to and as of the closing of the transaction contemplated by the stock purchase agreement but continued to be entitled to receive the base management fees earned through the date of the closing of the transaction contemplated by the stock purchase agreement.

On July 30, 2010, the transactions contemplated by the stock purchase agreement with our Manager and certain of its affiliates was completed, and included the following actions:

- the private sale of shares of our common stock for \$15 million in aggregate purchase price to our Manager and certain of its affiliates;
- the closing of the \$40 million Replacement Facility with Madison Capital Funding;
- the execution of a registration rights agreement with the investors in the private sale transaction, pursuant to which we agreed to file a registration statement with the SEC to register for resale the shares of our common stock sold in the private sale transaction;
- the execution of a trademark license agreement with our Manager pursuant to which our Manager granted us a non-exclusive, royalty-free license to use the "Saratoga" name, for so long as our Manager or one of its affiliates remains our investment adviser;
- replacing GSCP (NJ), L.P. as our investment adviser and administrator with our Manager by executing an investment advisory and management agreement, which was approved by our stockholders, and an administration agreement with our Manager;
- the resignations of Robert F. Cummings, Jr. and Richard M. Hayden, both of whom are affiliates of GSCP (NJ) L.P., as members of the board of directors and the election of Christian L. Oberbeck and Richard A. Petrocelli, both of whom are affiliates of our Manager, as members of the board of directors;
- the resignation of all of our then existing executive officers and the appointment by our board of directors of Mr. Oberbeck as our chief executive officer and president and Mr. Petrocelli as our chief financial officer, secretary and chief compliance officer; and
- our name change from "GSC Investment Corp." to "Saratoga Investment Corp."

We used the net proceeds from the private sale transaction and a portion of the funds available to us under the Replacement Facility to pay the full amount of principal and accrued interest, including default interest, outstanding under Revolving Facility. The Revolving Facility with Deutsche Bank was terminated in connection with our payment of all amounts outstanding thereunder on July 30, 2010.

The Company has reimbursed \$630,000 of legal fees to affiliates of our Manager in accordance with the terms of the stock purchase agreement as approved by the board of directors, of which \$409,500 has been included in professional fees in the statement of operations, \$94,500 have been included in deferred credit facility expenses and are being amortized over the commitment period of the Replacement Facility and \$126,000 have been netted against capital in excess of par value.

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**Note 14. Related Party Transaction**

On May 31, 2011, we purchased six debt investments with an aggregate face value of \$15.6 million and fair value of \$10.8 million from Saratoga CLO for \$10.8 million. The fair value of the investments was determined by a third party valuation firm. At fair value at May 31, 2011, these investments had an all-in yield of 14.5%, consisting of a current cash yield of 9.2%, a PIK yield of 2.4% and discount yield of 2.9%. We considered the following factors, among others, in connection with our determination to effectuate this purchase transaction:

- These investments are more consistent with our investment objective and strategy, which tends to focus on higher risk, but higher yielding investments, as compared to that of Saratoga CLO;
- We held investments in each of the portfolio companies that issued the six debt investments and, as a result, the transaction represented an opportunity for us to re-deploy idle capital in portfolio companies with which we are very familiar; and
- The transaction permitted Saratoga CLO, of which we hold a 100% equity interest in, to improve its compliance ratios in its investment portfolio.

**Note 15. Subsequent Events**

Management has evaluated subsequent events through the date of issuance of the consolidated financial statements included herein. There have been no subsequent events that occurred during such period that would require disclosure in this Form 10-Q or would be required to be recognized in the consolidated financial statements as of and for the quarter ended May 31, 2011.

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our financial statements and related notes and other financial information appearing elsewhere in this quarterly report on Form 10-Q. In addition to historical information, the following discussion and other parts of this quarterly report on Form 10-Q 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 Item 1A in our Annual Report on Form 10-K for the fiscal year ended February 28, 2011.

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 quarterly report on Form 10-Q involve risks and uncertainties, including statements as to:

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- our regulatory structure and tax treatment, including our ability to operate as a business development company and a regulated 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 quarterly report on Form 10-Q 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 quarterly report on Form 10-Q.

### 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 have elected and qualified to be treated as a regulated investment company ("RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code").

We commenced operations, at the time known as GSC Investment Corp., on March 23, 2007, and completed our initial public offering 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 the recapitalization transaction described below on July 30, 2010, we engaged Saratoga Investment Advisors, LLC ("SIA") to replace GSCP (NJ), L.P. as our investment adviser and changed our name to Saratoga Investment Corp.

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. 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. For purposes of this quarterly report on Form 10-Q, we generally use the term "middle market" to refer to companies with annual EBITDA of between \$5 million and \$50 million. EBITDA represents earnings before net interest expense, income taxes, depreciation and amortization. Investments in middle market companies are generally less liquid than equivalent investments in companies with larger capitalizations.

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

As of May 31, 2011, our portfolio consisted of \$93.7 million in investments at fair value, including our investment in the subordinated notes of GSC Investment Corp. CLO 2007 LTD. ("Saratoga CLO"), a collateralized loan obligation fund we manage, which constituted 27.3% of our total investments and, as of May 31, 2011, with a fair value of \$25.6 million.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we have to invest at least 70% of our total assets in "qualifying assets," including securities of U.S. operating companies whose securities are not listed on a national securities exchange, U.S. operating companies with listed securities that have market capitalizations of less than \$250 million, cash, cash equivalents, U.S. government securities and high-quality debt investments that mature in one year or less. In addition, we are only allowed to borrow money such that our asset coverage, which, as defined in the 1940 Act, measures the ratio of total assets less total liabilities (excluding borrowings) to total borrowings, equals at least 200% after such borrowing, with certain limited exceptions.

### **Significant Developments in Our Business**

In July 2010, we consummated a recapitalization transaction that was necessitated by the fact that we had exceeded permissible borrowing limits under our revolving securitized credit facility with Deutsche Bank AG, New York Branch in July 2009, which resulted in an event of default under the revolving securitized credit facility. As a result of the event of default under the revolving securitized credit facility, 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 thereunder. We



engaged the investment banking firm of Stifel, Nicolaus & Company to evaluate strategic transaction opportunities and consider alternatives for us in December 2008. On April 14, 2010, we entered into a stock purchase agreement with SIA and certain of its affiliates and an assignment, assumption and novation agreement with SIA, pursuant to which we assumed certain rights and obligations of SIA under a debt commitment letter SIA received from Madison Capital Funding LLC, indicating Madison Capital Funding's willingness to provide us with a \$40 million senior secured revolving credit facility, subject to the satisfaction of certain terms and conditions. In addition, we and GSCP (NJ), L.P. entered into a termination and release agreement, to be effective as of the closing of the transaction contemplated by the stock purchase agreement, pursuant to which GSCP (NJ), L.P. among other things, agreed to waive any and all accrued and unpaid deferred incentive management fees up to and as of the closing of the transaction contemplated by the stock purchase agreement but continued to be entitled to receive the base management fees earned through the date of the closing of the transaction contemplated by the stock purchase agreement.

On July 30, 2010, the transactions contemplated by the stock purchase agreement with SIA and certain of its affiliates was completed, and included the following actions:

- the private sale of shares of our common stock for \$15 million in aggregate purchase price to SIA and certain of its affiliates;
- the closing of the \$40 million senior secured revolving credit facility with Madison Capital Funding;
- the execution of a registration rights agreement with the investors in the private sale transaction, pursuant to which we agreed to file a registration statement with the SEC to register for resale the shares of our common stock sold in the private sale transaction;
- the execution of a trademark license agreement with SIA pursuant to which SIA granted us a non-exclusive, royalty-free license to use the "Saratoga" name, for so long as SIA or one of its affiliates remains our investment adviser;
- replacing GSCP (NJ), L.P. as our investment adviser and administrator with SIA by executing an investment advisory and management agreement, which was approved by our stockholders, and an administration agreement with SIA;
- the resignations of Robert F. Cummings, Jr. and Richard M. Hayden, both of whom are affiliates of GSCP (NJ) L.P., as members of the board of directors and the election of Christian L. Oberbeck and Richard A. Petrocelli, both of whom are affiliates of SIA, as members of the board of directors;
- the resignation of all of our then existing executive officers and the appointment by our board of directors of Mr. Oberbeck as our chief executive officer and president and Mr. Petrocelli as our chief financial officer, secretary and chief compliance officer; and,
- our name change from "GSC Investment Corp." to "Saratoga Investment Corp."

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We used the net proceeds from the private sale transaction and a portion of the funds available to us under the \$40 million senior secured revolving credit facility with Madison Capital Funding to pay the full amount of principal and accrued interest, including default interest, outstanding under our revolving securitized credit facility with Deutsche Bank. 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. Immediately after the reverse stock split, we had 2,680,842 shares of our common stock outstanding.

## **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 first and second lien term 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 paid-in-kind ("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 and 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% of excess cash flow to the extent the Saratoga CLO subordinated notes receive an internal rate of return equal to or greater than 12%.

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 and incentive 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 allocable portion is based on the ratio of our total assets to the total assets administered by our administrator. Our investment 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:

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

- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- investment advisory and management fees;
- fees payable to third parties, including agents, consultants or other advisers, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;
- federal and state registration fees;
- all costs of registration and listing our common stock on any securities exchange;
- federal, state and local taxes;
- independent directors' fees and expenses;

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- costs of preparing and filing reports or other documents required by governmental bodies (including the SEC);
- costs of any proxy statements or other notices to 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)).

The amount payable to GSCP (NJ), L.P., our former investment adviser and administrator, as administrator was capped to the effect that such amount, together with our other operating expenses, could not exceed an amount equal to 1.5% per annum of our net assets attributable to common stock. In addition, for the one-year term of the administration agreement expiring on March 21, 2011, GSCP (NJ), L.P. had agreed to waive our reimbursement obligation under the administration agreement until our total assets exceeded \$500 million. The amount payable to SIA as administrator is capped at \$1.0 million for the first year of the term of the administration agreement and the existence of a cap, and the determination of a proper cap amount, in the second year of the term of the administration agreement with SIA will be determined by the mutual agreement of our independent directors and SIA.

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

The incentive fee had two parts:

- A fee, payable quarterly in arrears, equal to 20% of our pre-incentive fee net investment income, expressed as a rate of return on the value of the net assets at the end of the immediately preceding quarter, that exceeded a 1.875% quarterly (7.5% annualized) hurdle rate measured as of the end of each fiscal quarter. Under this provision, in any fiscal quarter, our investment adviser received no incentive fee unless our pre-incentive fee net investment income exceeded the hurdle rate of 1.875%. Amounts received as a return of capital were not included in calculating this portion of the incentive fee. Since the hurdle rate was based on net assets, a return of less than the hurdle rate on total assets could still have resulted in an incentive fee.
- A fee, payable at the end of each fiscal year, equal to 20% 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 quarter period ending on or prior to the date such payment was to be made, the sum of (a) our aggregate distributions to our stockholders and (b) our change in net assets (defined as total assets less liabilities before taking into account any incentive fees payable during that period) was less than 7.5% of our net assets at the beginning of such period. These calculations were appropriately pro rated for the first three fiscal quarters of operation and adjusted for any share issuances or repurchases during the applicable period. Such incentive fee would become payable on the next date on which such test had been satisfied for the most recent four full fiscal quarters or upon certain terminations of the investment advisory and management agreement. We commenced deferring cash payment of incentive fees during the quarterly period ended August 31, 2007, and continued to defer such payments through the quarterly period ended May 31, 2010. As of July 30, 2010, the date on which GSCP (NJ), L.P. ceased to be our investment adviser and administrator, we owed GSCP (NJ), L.P. \$2.9 million in fees for services previously provided to us. 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 SIA and certain of its affiliates described above.

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

- The capital gains portion of the incentive fee was reset with respect to gains and losses from May 31, 2010, and therefore losses and gains incurred prior to such time will not be taken into account when calculating the capital gains

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fee payable to SIA and, as a result, SIA will be entitled to 20% of realized gains net of unrealized losses and realized losses that arise after May 31, 2010. In addition, the cost basis for computing realized gains and losses on investments held by us as of May 31, 2010 equal the fair

value of such investment as of such date. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P., the capital gains fee was calculated from March 21, 2007, and the gains were substantially outweighed by losses.

- Under the “catch up” provision, 100% of our pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income that exceeds 1.875% (7.5% annualized) but is less than or equal to 2.344% in any fiscal quarter is payable to SIA. This will enable SIA to receive 20% of all net investment income as such amount approaches 2.344% in any quarter, and SIA will receive 20% of any additional net investment income. Under the investment advisory and management agreement with our former investment adviser, GSCP (NJ), L.P. only received 20% of the excess net investment income over 1.875%.
- We will no longer have deferral rights regarding incentive fees in the event that the distributions to stockholders and change in net assets is less than 7.5% for the preceding four fiscal quarters.

To the extent that any of our leveraged loans are denominated in a currency other than U.S. dollars, we may enter into currency hedging contracts to reduce our exposure to fluctuations in currency exchange rates. We may also enter into interest rate hedging agreements. Such hedging activities, which will be subject to compliance with applicable legal requirements, may include the use of interest rate caps, futures, options and forward contracts. Costs incurred in entering into or settling such contracts will be borne by us.

## PORTFOLIO AND INVESTMENT ACTIVITY

### Corporate Debt Portfolio Overview(1)

	At May 31, 2011		At February 28, 2011	
	(\$ in millions)			
Number of investments		34		34
Number of portfolio companies		22		24
Average investment size	\$	2.0	\$	1.7
Weighted average maturity		3.1 years		3.1 years
Number of industries		15		16
Average investment per portfolio company	\$	3.1	\$	2.5
Non-Performing or delinquent investments	\$	0.0	\$	0.0
Fixed rate debt (% of interest bearing portfolio)	\$	9.3 (15.1)%	\$	9.4 (18.6)%
Weighted average current coupon		14.6%		13.8%
Floating rate debt (% of interest bearing portfolio)	\$	52.0 (84.9)%	\$	41.1 (81.4)%
Weighted average current spread over LIBOR		6.9%		5.6%

(1) Excludes our investment in the subordinated notes of Saratoga CLO and limited partnership interests which, as of May 31, 2011, constituted 23.1% of our total assets.

During the three months ended May 31, 2011, we made \$14.7 million of investments in new or existing portfolio companies, had \$7.0 million in aggregate amount of exits and repayments, resulting in net investments of \$7.7 million for the period. During the three months ended May 31, 2010, we made no investments in new or existing portfolio companies and had \$2.7 million in aggregate amount of exits and repayments, resulting in net repayments of \$2.7 million for the period.

Our portfolio composition based on fair value at May 31, 2011 and February 28, 2011 was as follows:

### Portfolio Composition

	At May 31, 2011		At February 28, 2011	
	Percentage of Total Portfolio	Weighted Average Current Yield	Percentage of Total Portfolio	Weighted Average Current Yield
First lien term loans	29.7%	10.1%	23.1%	9.5%
Saratoga CLO subordinated notes	27.3	15.5	28.4	15.8
Second lien term loans	23.2	10.1	25.3	10.1
Senior secured notes	10.3	16.6	12.4	15.9
Equity interests	7.3	N/A	8.4	N/A
Unsecured notes	2.2	18.0	2.4	13.8
Limited partnership interests	—	N/A	—	N/A
Total	100.0%	11.7%	100.0%	11.5%

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Our investment in the subordinated notes of Saratoga CLO represents a first loss position in a portfolio that, at May 31, 2011 and February 28, 2011, was composed of \$386.9 and \$410.2 million, respectively, in aggregate principal amount of predominantly senior secured first lien term loans. This investment is subject to unique risks. Please see Part II, Item 1A “Risk Factors—Our investment in GSC Investment Corp. CLO 2007 LTD, constitutes a leveraged investment in a portfolio of predominantly senior secured first lien term loans and is subject to additional risks and volatility” in our annual report on Form 10-K for the year ended February 28, 2011 and “Note 4. Investment in GSC Investment Corp. CLO 2007 Ltd.” in this quarterly report on Form 10-Q for more information about Saratoga CLO. We do not consolidate the Saratoga CLO portfolio in our financial statements. Accordingly, the metrics below do not include the underlying Saratoga CLO portfolio investments. However, at May 31, 2011, over 98.9% of the Saratoga CLO portfolio investments had a CMR (as defined below) color rating of green or yellow and one Saratoga CLO portfolio investment was in default. At February 28, 2011, 97.0% of the Saratoga CLO portfolio investments had a CMR color rating of green or yellow and five Saratoga CLO portfolio investments were in default.

SIA 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 May 31, 2011 and February 28, 2011 was as follows:

**Portfolio CMR Distribution**

	At May 31, 2011		At February 28, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
N/A(1)	\$ 32,400	34.6%	\$ 29,467	36.8%
Green	23,180	24.7	10,900	13.6
Red	20,774	22.2	24,660	30.8
Yellow	17,302	18.5	14,998	18.8
Total	\$ 93,656	100.0%	\$ 80,025	100.0%

(1) Comprised of our investments in the subordinated notes of Saratoga CLO, equity interests, and limited partnership interests.

The following table shows the portfolio composition by industry grouping at fair value at May 31, 2011 and February 28, 2011.

**Portfolio composition by industry grouping at fair value**

	At May 31, 2011		At February 28, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Structured Finance Securities (1)	\$ 25,555	27.3%	\$ 22,732	28.4%
Consumer Products	11,258	12.0	10,249	12.8
Electronics	8,786	9.4	8,634	10.8
Healthcare Services	8,102	8.7	8,014	10.0
Manufacturing	7,388	7.9	7,358	9.2
Metals	6,409	6.8	4,231	5.3
Logistics	6,061	6.5	2,499	3.1
Publishing	6,024	6.4	5,855	7.3
Financial Services	3,792	4.0	1,710	2.2
Environmental	2,899	3.1	2,952	3.7
Consumer Services	2,651	2.8	245	0.3
Food and Beverage	1,486	1.6	1,546	1.9
Natural Resources	1,451	1.5	—	—
Homebuilding	763	0.8	816	1.0
Education	749	0.8	259	0.3
Building Products	282	0.4	155	0.2
Packaging	—	—	2,453	3.1
Apparel	—	—	—	—
Oil and Gas	—	—	317	0.4
Printing	—	—	—	—
Total	\$ 93,656	100.0%	\$ 80,025	100%

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

The following table shows the portfolio composition by geographic location at fair value at May 31, 2011 and February 28, 2011. The geographic composition is determined by the location of the corporate headquarters of the portfolio company.

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

	At May 31, 2011		At February 28, 2011	
	Investments at Fair Value	Percentage of Total Portfolio	Investments at Fair Value	Percentage of Total Portfolio
	(\$ in thousands)			
Other(1)	\$ 25,555	27.3%	\$ 22,732	28.4%
West	21,688	23.2	16,332	20.4
Midwest	20,911	22.3	18,490	23.1
Southeast	12,878	13.8	7,815	9.8
Northeast	12,624	13.4	12,203	15.2
International	—	—	2,453	3.1
Total	\$ 93,656	100.0%	\$ 80,025	100%

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

## RESULTS OF OPERATIONS

Operating results for the three months ended May 31, 2011 and 2010 are as follows;

	For the three months ended	
	May 31, 2011	May 31, 2010
	(\$ in thousands)	
Total investment income	\$ 2,898	\$ 2,811
Total expenses, net	2,319	2,809
Net investment income	579	2
Net realized gains (losses)	98	(2,551)
Net unrealized gains	5,032	5,204
Net increase in net assets resulting from operations	\$ 5,709	\$ 2,655

### Investment income

The composition of our investment income for the three months ended May 31, 2011 and 2010 was as follows:

#### Investment Income

	For the three months ended	
	May 31, 2011	May 31, 2010
	(\$ in thousands)	
Interest from investments	\$ 2,388	\$ 2,270
Management fee income from Saratoga CLO	506	507
Interest from cash and cash equivalents and other income	4	34
Total	\$ 2,898	\$ 2,811

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For the three months ended May 31, 2011, total investment income increased \$0.1 million, or 3.1%, compared to the three months ended May 31, 2010. The increase in total investment income for the three months ended May 31, 2011 versus the three months ended May 31, 2010 was the result of higher interest income recognized on our investment in Saratoga CLO, partially offset by a decrease in investment income earned on our other investments.

For the three months ended May 31, 2011, total PIK income was \$0.6 million. For the three months ended May 31, 2010 total PIK income was \$0.4 million.

### Operating Expenses

The composition of our operating expenses for the three months ended May 31, 2011 and 2010 was as follows:

#### Operating Expenses

	For the three months ended	
	May 31, 2011	May 31, 2010
	(\$ in thousands)	
Interest and credit facility expense	\$ 370	\$ 831
Base management fees	398	411
Professional fees	294	1,143
Incentive management fees	721	—
Administrator expenses	240	155
Insurance expenses	157	195
Directors fees	51	165
General and administrative expenses	88	64
Total operating expenses before manager waiver and reimbursement	\$ 2,319	\$ 2,964

For the three months ended May 31, 2011, total operating expenses before manager expense waiver and reimbursement decreased \$0.6 million, or 21.8%, compared to the three months ended May 31, 2010. This decrease was primarily attributable to a decrease in professional fees related to the recapitalization transaction described in "Note 13. Recapitalization Transaction" and a decrease in interest and credit facility expense attributable to a decrease in the amount of our outstanding debt, in each case, in connection with or as a result of the recapitalization transaction described above offset somewhat by an increase in incentive management fees. The increase in incentive management fees for the three months ended May 31, 2011 was primarily attributed to an increase in accrued incentive fees related to net unrealized appreciation on investments.

As discussed above, the decrease in interest and credit facility expense for the three months ended May 31, 2011 is primarily attributable to a decrease in the amount of outstanding debt, during such periods. In this regard, there were outstanding balances under our senior secured revolving credit facility with Madison Capital of \$4.5 million at February 28, 2011 and \$0.0 million at May 31, 2011. In the prior period, we had outstanding balances under our revolving securitized credit facility with Deutsche Bank of \$37.0 million at February 28, 2010 and \$33.8 million at May 31, 2010, which were repaid on July 30, 2010 in connection with the recapitalization transaction, including through the use of \$20 million of borrowings under the senior secured revolving credit facility with Madison Capital Funding. For the three months ended May 31, 2011, the weighted average interest rate on our outstanding indebtedness was 7.50% compared to 9.25% for the three months ended May 31, 2010.

### Net Realized Gains/Losses from Investments

For the three months ended May 31, 2011, we had \$7.0 million of sales, repayments, exits and restructurings resulting in \$0.1 million of net realized gains. The most significant realized gains and losses during the three months ended May 31, 2011 were as follows:

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**Three months ended May 31, 2011**

Issuer	Asset Type	Gross Proceeds	Cost	Net Realized Gain/(Loss)
			(\$ in thousands)	
Targus Holdings, Inc.	First Lien Term Loan	\$ 3,066	\$ 2,971	\$ 95

**Three months ended May 31, 2010**

For the three months ended May 31, 2010, we had \$2.6 million of net realized losses. The most significant gains and losses for the three months ended May 31, 2010 were the following:

Issuer	Asset Type	Gross Proceeds	Cost	Net Realized Gain/(Loss)
	(\$ in thousands)			
Custom Direct, Inc.	First Lien Term Loan	\$ 1,832	\$ (1,535)	\$ 297
Legacy Cabinets, Inc.	Second Lien Term Loan	139	(2,002)	(1,863)
Legacy Cabinets, Inc.	First Lien Term Loan	502	(1,496)	(994)

**Net Unrealized Appreciation/Depreciation on Investments**

For the three months ended May 31, 2011, our investments had a increase in net unrealized appreciation of \$5.0 million versus a increase in net unrealized appreciation of \$5.2 million for the three months ended May 31, 2010. The most significant cumulative changes in unrealized appreciation for the three months ended May 31, 2011, were the following:

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Depreciation	Year-To-Date Change in Unrealized Appreciation/(Depreciation)
			(\$ in thousands)		
Saratoga CLO	Other/Structured Finance Securities	\$ 26,205	\$ 25,555	\$ 650	\$ 3,982
Energy Alloys, LLC	Senior Secured Notes	6,476	1,451	5,025	1,087

The \$3.9 million net unrealized appreciation in our investment in the Saratoga CLO subordinated notes was due to higher cash flow projections (based on an improvement in the overall portfolio, a decrease in the assumed portfolio default rate and an improvement in reinvestment assumptions based on current market conditions and projections) and a lower discount rate used to present value the cash flows based on current market conditions. In addition, the \$1.1 million of unrealized appreciation on our investment in Energy Alloys resulted from its improved operating performance.

For the three months ended May 31, 2010, the Company had net unrealized gains of \$5.2 million, which was comprised of \$5.3 million in unrealized appreciation, \$3.2 million in unrealized depreciation and \$3.1 million related to the reversal of prior period net unrealized depreciation recorded upon the exit of an investment. The most significant changes in net unrealized appreciation and depreciation for the three months ended May 31, 2010 were as follows:

**Three months ended May 31, 2010**

Issuer	Asset Type	Cost	Fair Value	Total Unrealized Depreciation	Year-To-Date Change in Unrealized Appreciation/(Depreciation)
			(\$ in thousands)		
Saratoga CLO	Other/Structured Finance Securities	\$ 29,233	\$ 18,209	\$ (11,024)	\$ 1,510
McMillin Companies, LLC	Senior Secured Notes	7,356	4,466	(2,890)	809
Elyria Foundry Company, LLC	Senior Secured Notes	4,889	4,550	(339)	751
Grant U.S. Holdings, LLP	Second Lien Term Loan	6,349	592	(5,757)	434
USS Mergerco, Inc.	Common stock	3,159	2,355	(804)	294
Jason Incorporated	Unsecured Notes	13,700	1,096	(12,604)	(592)
Energy Alloys, LLC	Second Lien Term Loan	6,285	610	(5,675)	(565)
Penton Media, Inc.	First Lien Term Loan	3,952	3,449	(503)	(503)

The \$1.5 million decrease in net unrealized depreciation in our investment in the Saratoga CLO subordinated notes was due to changes in various assumptions, such as portfolio default rate, recovery rate on defaults and portfolio prepayment rate, used in our discounted cash flow model. These changes were made in accordance with current market practice for CLO equity investments and not as a result of any change in the underlying portfolio of Saratoga CLO. The unrealized appreciation in our investments in McMillin Companies, LLC and Elyria Foundry Company, LLC, were due to an improvement in the outlook for these companies. The increase in unrealized depreciation in our investments in Jason Incorporated and Energy Alloy were due to declining prospects for each of the companies. The change in the fair values of our investments in Grant U.S. Holdings and Penton Media, Inc were due to fluctuations in the market quotations obtained for these investments compared to the prior period.

**Net Unrealized Appreciation/Depreciation on Derivatives**

For the three months ended May 31, 2011, changes in the value of our interest rate caps resulted in unrealized depreciation of \$10,542 versus an unrealized depreciation of \$19,869 for the three months ended May 31, 2010. For a more detailed discussion of the interest rate caps, see "Note 7. Interest

Rate Cap Agreements” to our consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

For the three months ended May 31, 2011, we recorded a net increase in net assets resulting from operations of \$5.7 million versus a net increase in net assets resulting from operations of \$2.7 million for the three months ended May 31, 2010. The difference is attributable to an increase in net investment income, a decrease in realized losses on our investments and an increase in net unrealized appreciation for the three months ended May 31, 2011, as compared to the same period in the prior year. Based on 3,277,077 and 1,694,011 weighted average common shares outstanding for the three months ended May 31, 2011 and May 31, 2010, our per share net increase in net assets resulting from operations was \$1.74 for the three months ended May 31, 2011 versus a per share net increase in net assets from operations of \$1.57 for the three months ended May 31, 2010.

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**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

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. In March 2009, we amended the Revolving Facility to decrease the minimum required collateralization and increase the portion of the portfolio that can be invested in “CCC” rated investments in return for an increased interest rate and expedited amortization.

On July 30, 2009, an event of default under the Revolving Facility occurred. As a result of this event of default, the lender under the Revolving Facility had the right to accelerate repayment of the outstanding indebtedness and to foreclose and liquidate the collateral pledged thereunder. Due to the event of default, the interest rate on the Revolving Facility increased from the commercial paper rate plus 4.00% to an interest rate at February 28, 2010 and May 31, 2010 of 9.25%.

At May 31, 2010 and February 28, 2010, we had \$33.8 million and \$37.0 million, respectively, in borrowings under the Revolving Facility versus \$59.9 million in borrowings at February 28, 2009.

On July 30, 2010, we used the net proceeds from the stock purchase transaction with SIA and certain of its affiliates and a portion of the funds available to us under the senior secured revolving credit facility with Madison Capital Funding to pay the full amount of principal and accrued interest, including default interest, outstanding under the Revolving Facility. Below is a summary of the terms of the \$40 million senior secured revolving credit facility we have with Madison Capital Funding (the “Replacement Facility”).

**Availability.** Under the Replacement Facility, we can draw up to the lesser of (i) \$40 million (the “Facility Amount”) and (ii) the product of the applicable advance rate (which varies from 50% to 75% depending on the type of loan asset) and the value, determined in accordance with the Replacement 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 we have 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 us as of the date on which the Replacement Facility was closed was valued as of that date and each loan asset that we acquire 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 Replacement 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, we 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.

At any time prior to the second anniversary of the closing of the Replacement Facility and subject to certain conditions, we may request an increase in the Facility Amount of up to \$60 million for a combined aggregate Facility Amount of \$100 million.

**Collateral.** The Replacement Facility is secured by substantially all of our assets and includes the subordinated notes (“CLO Notes”) issued by Saratoga CLO and our rights under the CLO Management Agreement (as defined below).

**Interest Rate and Fees.** Under the Replacement 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 our 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, we will pay the lenders a commitment fee of 0.75% per year on the unused amount of the Replacement Facility for the duration of the Revolving Period (defined below). Accrued interest and commitment fees are payable monthly. We were also obligated to pay certain other fees to the lenders in connection with the closing of the Replacement Facility.

**Revolving Period and Maturity Date.** We may make and repay borrowings under the Replacement Facility for a period of three years following the closing of the Replacement Facility (the “Revolving Period”). The Revolving Period may be terminated at an

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earlier time by us or, upon the occurrence of an event of default, by action of the lenders or automatically. All borrowings and other amounts payable under the Replacement Facility are due and payable in five years after the end of the Revolving Period.



*Collateral Tests.* It is a condition precedent to any borrowing under the Replacement Facility that the principal amount outstanding under the Replacement 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 Replacement Facility, to accrued interest and commitment fees and any breakage costs payable to the lenders under the Replacement Facility for the last 6 payment periods must equal at least 175%.

· *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 Replacement Facility plus the Unfunded Exposure Amount must equal at least 200%.

· *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% and 80% during the one-year periods prior to the first and second anniversary of the closing date, respectively, and 85% at all times thereafter.

The Replacement Facility also requires payment of outstanding borrowings or replacement of pledged loan assets upon our breach of our 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 us.

*Priority of Payments.* During the Revolving Period, the priority of payments provisions of the Replacement 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 Replacement Facility requires us 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% of the aggregate Adjusted Borrowing Value of “eligible” pledged loan assets, we are required to set aside such interest and fees due and payable on the next succeeding six payment dates. Amounts in the reserve account can be applied solely to the payment of administrative agent fees, commitment fees, accrued and unpaid interest and any breakage costs payable to the lenders.

*Unfunded Exposure Account.* With respect to revolver or delayed draw loan assets, we are required to set aside in a designated account (the “Unfunded Exposure Account”) 100% of our outstanding and undrawn funding commitments with respect to such loan assets. The Unfunded Exposure Account is funded at the time we acquire a revolver or delayed draw loan asset and request a related borrowing under the Replacement Facility. The Unfunded Exposure Account is funded through a combination of proceeds of the requested borrowing and our other 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 Replacement Facility provides for the payment of certain of our operating expenses 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% or the percentage increase in the fair market value of all of our assets only on the first monthly payment date to occur after each one-year anniversary following the closing of the Replacement 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.

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

- an Interest Coverage Ratio of less than 175%;
- an Overcollateralization Ratio of less than 200%;
- the filing of certain ERISA or tax liens; and
- the occurrence of certain “Manager Events” such as:
  - failure by SIA and its affiliates to maintain collectively, directly or indirectly, a cash equity investment in us in an amount equal to at least \$5,000,000 at any time prior to the third anniversary of the closing date of the Replacement Facility;
  - failure of the management agreement between SIA and us to be in full force and effect;
  - indictment or conviction of SIA or any “key person” for a felony offense, or any fraud, embezzlement or misappropriation of funds by SIA 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 SIA’s daily activities, all without a reputable, experienced individual reasonably satisfactory to Madison Capital Funding appointed within 30 days; or,
  - occurrence of any event constituting “cause” under the Collateral Management Agreement between the Company and Saratoga CLO (the “CLO Management Agreement”), delivery of a notice under Section 12(c) of the CLO Management Agreement with

respect to the removal of the Company as collateral manager or we cease to act as collateral manager under the CLO Management Agreement.

*Conditions to Acquisitions and Pledges of Loan Assets.* The Replacement Facility imposes certain additional conditions to the acquisition and pledge of additional loan assets. Among other things, we 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 SIA's policies, personnel and processes relating to the loan assets.

*Fees and Expenses.* We 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 Replacement 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 SIA and certain of its affiliates. These amounts totaled \$2.0 million.

As of May 31, 2011, we had no outstanding borrowings under the Replacement Facility.

Our asset coverage ratio, as defined in the 1940 Act, was 2,013% as of February 28, 2011.

At May 31, 2011 and February 28, 2011, the fair value of investments, cash and cash equivalents and cash and cash equivalents, securitization accounts were as follows:

	At May 31, 2011		At February 28, 2011	
	Fair Value	Percent of Total	Fair Value	Percent of Total
	(\$ in thousands)			
Cash and cash equivalents	\$ 10,064	9.4%	\$ 10,736	11.3%
Cash and cash equivalents, securitization accounts	3,448	3.2	4,370	4.6
First lien term loans	27,828	26.0	18,475	19.4
Second lien term loans	21,698	20.2	20,276	21.3
Senior secured notes	9,638	9.0	9,892	10.4
Unsecured notes	2,092	2.0	1,915	2.0
Structured finance securities	25,555	23.8	22,732	23.9
Common stock	6,845	6.4	6,735	7.1
Other/limited partnership interests	—	—	—	—
Total	\$ 107,168	100.0%	\$ 95,131	100.0%

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On November 12, 2010, our board of directors declared a dividend of \$4.40 per share payable on December 29, 2010, to common stockholders of record on November 19, 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 \$1.2 million or \$0.44 per share.

Based on shareholder elections, the dividend consisted of \$1.2 million in cash and 596,265 shares of common stock, or 22% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 10.0% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$17.8049 per share, which equaled the volume weighted average trading price per share of the common stock on December 20, 21 and 22, 2010.

On November 13, 2009, our board of directors declared a dividend of \$18.25 per share payable on December 31, 2009, to common stockholders of record on November 25, 2009. Shareholders had the option to receive payment of the dividend in cash, shares of common stock, or a combination of cash and shares of common stock, provided that the aggregate cash payable to all shareholders was limited to \$2.1 million or \$0.25 per share.

Based on shareholder elections, the dividend consisted of \$2.1 million in cash and 864,872.5 shares of common stock, or 104% of our outstanding common stock prior to the dividend payment. The amount of cash elected to be received was greater than the cash limit of 13.7% of the aggregate dividend amount, thus resulting in the payment of a combination of cash and stock to shareholders who elected to receive cash. The number of shares of common stock comprising the stock portion was calculated based on a price of \$15.099 per share, which equaled the volume weighted average trading price per share of the common stock on December 24 and 28, 2009.

On December 8, 2008, our board of directors declared a cash dividend of \$2.50 per share payable on December 29, 2008, to common stockholders of record on December 18, 2008.

## **Contractual Obligations**

The following table shows our payment obligations for repayment of debt and other contractual obligations at May 31, 2011:

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

## **OFF-BALANCE SHEET ARRANGEMENTS**

At May 31, 2011 and February 28, 2011, we did not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

[Table of Contents](#)**Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Our market risks have not changed materially from the risks reported in our Form 10-K for the year ended February 28, 2011.

**Item 4. Controls and Procedures**

- (a) As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). Based on that evaluation, our chief executive officer and our chief financial officer have concluded that our current disclosure controls and procedures are effective in facilitating timely decisions regarding required disclosure of any material information relating to us that is required to be disclosed by us in the reports we file or submit under the Securities Exchange Act of 1934.
- (b) There have been no changes in our internal control over financial reporting that occurred during the quarter ended May 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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## PART II. OTHER INFORMATION

**Item 1. Legal Proceedings**

Neither we nor our wholly-owned subsidiary, Saratoga Investment Funding LLC, are currently subject to any material legal proceedings.

**Item 1A. Risk Factors**

There have been no material changes from the risk factors set forth in our annual report on Form 10-K for the year ended February 28, 2011.

[Table of Contents](#)**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

Not applicable.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Removed and Reserved****Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

Listed below are the exhibits which are filed as part of this report (according to the number assigned to them in Item 601 of Regulation S-K):

Exhibit Number	Description of Document
31.1*	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
31.2*	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934
32.1*	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)
32.2*	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

\* Submitted herewith.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: July 13, 2011

SARATOGA INVESTMENT CORP.

By /s/ Christian L. Oberbeck  
Christian L. Oberbeck  
Chief Executive Officer and President

By /s/ Richard A. Petrocelli  
Richard A. Petrocelli  
Chief Financial Officer, Chief Compliance Officer and Secretary

I, Christian L. Oberbeck, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended May 31, 2011 of Saratoga Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 13th day of July, 2011.

By: /s/ Christian L. Oberbeck  
Christian L. Oberbeck  
Chief Executive Officer and President

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I, Richard A. Petrocelli, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended May 31, 2011 of Saratoga Investment Corp.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 13th day of July, 2011.

By: /s/ Richard A. Petrocelli  
Richard A. Petrocelli  
Chief Financial Officer, Chief Compliance Officer and Secretary

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**Certification of Chief Executive Officer**  
**Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended **May 31, 2011** (the "Report") of **Saratoga Investment Corp.** (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, **Christian L. Oberbeck**, the Chief Executive Officer and President of the Registrant, hereby certify, to the best of my knowledge, that:

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

By: /s/ Christian L. Oberbeck  
Christian L. Oberbeck  
Chief Executive Officer and President

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**Certification of Chief Financial Officer**  
**Pursuant to**  
**Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the quarter ended **May 31, 2011** (the "Report") of **Saratoga Investment Corp.** (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, **Richard A. Petrocelli**, the Chief Financial Officer, Chief Compliance Officer and Secretary of the Registrant, hereby certify, to the best of my knowledge, that:

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

By: /s/ Richard A. Petrocelli  
Richard A. Petrocelli  
Chief Financial Officer, Chief Compliance  
Officer and Secretary

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