

Solar Senior Capital Ltd.
Form 10-Q
August 06, 2018
Table of Contents

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 Quarter Ended June 30, 2018

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 814-00849

SOLAR SENIOR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

27-4288022
(I.R.S. Employer)

Identification No.)

500 Park Avenue

New York, N.Y.

(Address of principal executive offices)

10022

(Zip Code)

(212) 993-1670

(Registrant's telephone number, including area code)

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 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 an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

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

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of August 2, 2018 was 16,040,485.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2018

TABLE OF CONTENTS

	PAGE
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Consolidated Statements of Assets and Liabilities as of June 30, 2018 (unaudited) and December 31, 2017</u>	3
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2018 (unaudited) and the three and six months ended June 30, 2017 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Net Assets for the six months ended June 30, 2018 (unaudited) and the year ended December 31, 2017</u>	5
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2018 (unaudited) and the six months ended June 30, 2017 (unaudited)</u>	6
<u>Consolidated Schedule of Investments as of June 30, 2018 (unaudited)</u>	7
<u>Consolidated Schedule of Investments as of December 31, 2017</u>	11
<u>Notes to Consolidated Financial Statements (unaudited)</u>	15
<u>Report of Independent Registered Public Accounting Firm</u>	37
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	38
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	58
Item 4. <u>Controls and Procedures</u>	58
PART II. OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	59
Item 1A. <u>Risk Factors</u>	59
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	59
Item 3. <u>Defaults Upon Senior Securities</u>	59
Item 4. <u>Mine Safety Disclosures</u>	59
Item 5. <u>Other Information</u>	59
Item 6. <u>Exhibits</u>	60
<u>Signatures</u>	62

Table of Contents**PART I. FINANCIAL INFORMATION**

In this Quarterly Report, Solar Senior, Company, Fund, we, us, and our refer to Solar Senior Capital Ltd. unless context states otherwise.

Item 1. Financial Statements**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

(in thousands, except share amounts)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: \$345,598 and \$289,848, respectively)	\$ 342,240	\$ 283,983
Companies 5% to 25% owned (cost: \$3,866 and \$3,625, respectively)	2,727	2,213
Companies more than 25% owned (cost: \$122,448 and \$121,298, respectively)	125,234	121,885
Cash	11,096	3,726
Cash equivalents (cost: \$59,932 and \$104,874, respectively)	59,932	104,874
Dividends receivable	2,877	2,723
Interest receivable	1,358	1,732
Other receivable	18	20
Receivable for investments sold		508
Prepaid expenses and other assets	187	277
Total assets	\$ 545,669	\$ 521,941
Liabilities		
Credit facility (\$185,900 and \$124,200 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,737 and \$0, respectively. See notes 6 and 7)	\$ 184,163	\$ 124,200
Payable for investments and cash equivalents purchased	86,028	122,110
Distributions payable	1,885	1,884
Management fee payable (see note 3)	1,145	999
Performance-based incentive fee payable (see note 3)	54	374
Interest payable (see note 7)	652	401
Administrative services expense payable (see note 3)	467	944
Other liabilities and accrued expenses	1,351	898
Total liabilities	\$ 275,745	\$ 251,810

Commitments and contingencies (see notes 10, 11 and 12)

Net Assets

Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 16,040,485 and 16,036,730 issued and outstanding, respectively	\$	160	\$	160
Paid-in capital in excess of par		287,906		287,841
Distributions in excess of net investment income		(5,336)		(5,336)
Accumulated net realized loss		(11,095)		(5,844)
Net unrealized depreciation		(1,711)		(6,690)
Total net assets	\$	269,924	\$	270,131
Net Asset Value Per Share	\$	16.83	\$	16.84

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)**

(in thousands, except share amounts)

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
INVESTMENT INCOME:				
Interest:				
Companies less than 5% owned	\$ 6,012	\$ 5,610	\$ 11,829	\$ 10,866
Companies 5% to 25% owned	90	52	141	101
Dividends:				
Companies more than 25% owned	3,250	1,923	6,637	3,847
Other income:				
Companies less than 5% owned	78	54	145	301
Companies 5% to 25% owned	23		23	
Companies more than 25% owned	18	19	37	39
Total investment income	9,471	7,658	18,812	15,154
EXPENSES:				
Management fees (see note 3)	\$ 1,145	\$ 959	\$ 2,193	\$ 1,907
Performance-based incentive fees (see note 3)	491	122	1,109	197
Interest and other credit facility expenses (see note 7)	1,806	896	3,168	1,740
Administrative services expense (see note 3)	387	367	769	735
Other general and administrative expenses	425	477	1,010	953
Total expenses	4,254	2,821	8,249	5,532
Management fees waived (see note 3)		(692)		(1,481)
Performance-based incentive fees waived (see note 3)	(437)	(122)	(745)	(197)
Net expenses	3,817	2,007	7,504	3,854
Net investment income	\$ 5,654	\$ 5,651	\$ 11,308	\$ 11,300
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CASH EQUIVALENTS:				
Net realized gain (loss) on investments and cash equivalents (companies less than 5% owned)	\$ (5,244)	\$ 38	\$ (5,251)	\$ 141

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Net change in unrealized gain (loss) on investments and cash equivalents:				
Companies less than 5% owned	3,948	21	2,506	(21)
Companies 5% to 25% owned	166		274	70
Companies more than 25% owned	995	(481)	2,199	(350)
Net change in unrealized gain (loss) on investments and cash equivalents				
	5,109	(460)	4,979	(301)
Net realized and unrealized loss on investments and cash equivalents				
	(135)	(422)	(272)	(160)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS				
	\$ 5,519	\$ 5,229	\$ 11,036	\$ 11,140
EARNINGS PER SHARE (see note 5)				
	\$ 0.34	\$ 0.33	\$ 0.69	\$ 0.70

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands, except share amounts)

	Six months ended June 30, 2018 (unaudited)	Year ended December 31, 2017
Increase in net assets resulting from operations:		
Net investment income	\$ 11,308	\$ 22,604
Net realized gain (loss)	(5,251)	233
Net change in unrealized gain (loss)	4,979	549
Net increase in net assets resulting from operations	11,036	23,386
Distributions to stockholders:		
From net investment income	(11,308)	(22,604)
Capital transactions (see note 14):		
Reinvestment of distributions	65	204
Net increase in net assets resulting from capital transactions	65	204
Total increase (decrease) in net assets	(207)	986
Net assets at beginning of period	270,131	269,145
Net assets at end of period⁽¹⁾	\$ 269,924	\$ 270,131
Capital share activity (see note 14):		
Common stock issued from reinvestment of distributions	3,755	11,719
Net increase from capital share activity	3,755	11,719

(1) Includes overdistributed net investment income of (\$5,336) and (\$5,336), respectively.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(in thousands)

	Six months ended	
	June 30, 2018	June 30, 2017
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 11,036	\$ 11,140
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:		
Net realized (gain) loss on investments and cash equivalents	5,251	(141)
Net change in unrealized (gain) loss on investments and cash equivalents	(4,979)	301
(Increase) decrease in operating assets:		
Purchase of investments	(112,797)	(94,733)
Proceeds from disposition of investments	50,602	85,073
Capitalization of payment-in-kind interest	(231)	(251)
Collection of payment-in-kind interest	34	
Receivable for investments sold	508	1,401
Interest receivable	374	360
Dividends receivable	(154)	(129)
Other receivable	2	(1)
Prepaid expenses and other assets	90	(98)
Increase (decrease) in operating liabilities:		
Payable for investments and cash equivalents purchased	(36,082)	(51,418)
Management fee payable	146	163
Performance-based incentive fees payable	(320)	
Administrative services expense payable	(477)	(95)
Interest payable	251	58
Other liabilities and accrued expenses	453	131
Net Cash Used in Operating Activities	(86,293)	(48,239)
Cash Flows from Financing Activities:		
Cash distributions paid	(11,242)	(11,193)
Deferred financing costs	29	
Proceeds from borrowings	103,234	75,100
Repayments of borrowings	(43,300)	(64,100)
Net Cash Provided by (Used in) Financing Activities	48,721	(193)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(37,572)	(48,432)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	108,600	151,828
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 71,028	\$ 103,396

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ 2,917	\$ 1,682
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Non-cash financing activities consist of the reinvestment of dividends of \$65 and \$106 for the six months ended June 30, 2018 and June 30, 2017, respectively.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****June 30, 2018****(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index ⁽³⁾	Libor Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost	Value
Debt/Senior									
127.8%									
Start Start (13)	Electrical Equipment, Instruments & Components	L+450	1.00%	6.59%	12/21/2017	2/21/2022	\$ 6,086	\$ 6,072	\$
re, LLC ⁽²⁾	Insurance	L+425	1.00%	5.99%	5/3/2017	11/22/2023	7,409	7,394	
Stage Sales Marketing, (13).	Professional Services	L+325	1.00%	5.34%	2/14/2018	7/25/2021	4,975	4,884	
Stage Sales Marketing, (13).	Professional Services	L+650	1.00%	8.59%	2/14/2013	7/25/2022	8,000	7,965	
Toxicology es eration ⁽²⁾⁽¹³⁾	Health Care Providers & Services	L+550	1.00%	7.87%	5/7/2018	5/9/2025	11,000	10,810	1
Group mediate gs, (13).	Insurance	L+550	1.00%	7.48%	11/28/2016	12/30/2022	7,949	7,881	
ra Sciences, (13).	Pharmaceuticals	L+765		9.65%	1/5/2018	7/1/2022	5,000	4,979	
Health, ka Island al ⁽²⁾⁽¹³⁾	Health Care Providers & Services	L+650	1.00%	8.59%	3/31/2017	9/1/2022	4,007	3,974	
can nferencing es, Ltd. (13)	Communications Equipment	L+650	1.00%	8.86%	5/5/2016	12/8/2021	14,523	13,957	1
one Logistics sition, (13)	Professional Services	L+450	1.00%	6.59%	10/3/2014	10/7/2021	7,888	7,847	
Seguros g II (13)	Insurance	L+525	1.00%	7.56%	10/13/2016	4/19/2022	9,850	9,778	

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Holdings Position Primary (2)(13)	Professional Services	L+400	1.00%	6.09%	6/14/2018	6/30/2022	15,376	15,299	1
Food Bakers Holdings, (13)	Insurance	L+425	1.00%	6.34%	3/28/2018	9/8/2024	15,561	15,561	1
Power Plants Position, Inc. (Spring), (2)(13)	Professional Services	L+450	1.00%	6.83%	11/28/2016	11/30/2023	8,955	8,881	1
Engineering Solutions & Products, (13)	Aerospace & Defense	L+600	2.00%	8.33%	11/5/2013	5/5/2019	201	201	1
Engineering Solutions & Products, (13)	Aerospace & Defense	L+600	2.00%	8.36%	11/5/2013	11/5/2019	2,509	2,298	1
South Group Holdings Corp. (AC)(2)(13)	Chemicals	L+675	1.00%	8.92%	12/15/2016	12/14/2021	8,668	8,668	1
Mark Logistics, (13)	Health Care Providers & Services			6.90%	4/22/2016	10/12/2019	7,633	8,230	1
Holdings Ez Payment Solutions (13)	Consumer Finance	L+750	1.00%	9.81%	3/31/2017	5/5/2022	11,775	11,590	1
Tel*Link Solutions (2)	Communications Equipment	L+400	1.25%	6.33%	11/6/2015	5/23/2020	3,324	3,129	1
Tel*Link Solutions	Communications Equipment	L+825	1.25%	10.58%	5/21/2013	11/23/2020	3,000	2,976	1
Way Solutions (2)(13)	Internet Software & Services	L+575 ⁽⁸⁾	1.25%	7.84%	6/27/2014	12/13/2019	7,811	7,800	1
Meyer Solutions LLC (2)(13)	Commercial Services & Supplies	L+500	1.00%	7.32%	10/31/2014	10/29/2021	4,825	4,800	1
Zoom.com, (13)	Internet Software & Services	L+450	1.00%	6.59%	11/17/2017	11/21/2024	4,975	4,928	1
Holding Company, (13)	Communications Equipment	L+575	1.00%	7.84%	8/11/2017	12/22/2024	10,744	10,642	1
is Solutions Company, (13)	Health Care Technology	L+860	0.25%	10.60%	3/22/2017	2/1/2020	4,000	4,081	1
Air Systems, (13)	Software	L+600	1.00%	8.03%	5/1/2018	5/8/2025	10,000	9,803	1
Intermediate Solutions, LLC	Air Freight & Logistics	L+500	1.00%	7.33%	3/8/2017	3/10/2024	5,604	5,556	1

Miner) ⁽²⁾⁽¹³⁾									
ry Brands, ⁽¹³⁾	Software	L+400	1.00%	6.10%	11/21/2016	12/2/2022	10,014	9,939	
oftware ⁽¹³⁾	Software	L+550	1.00%	7.56%	6/7/2017	6/30/2023	8,183	8,112	
acquiror McLarens ⁽²⁾⁽¹³⁾	Insurance	L+450	1.25%	6.81%	5/21/2014	5/28/2019	3,330	3,323	
acquiror Ltd. rens ⁽²⁾⁽⁴⁾⁽¹³⁾	Insurance	L+450	1.25%	6.81%	5/21/2014	5/28/2019	4,249	4,241	
ication , LLC & Sport gs Inc. ⁽²⁾⁽¹³⁾	Media	L+550	1.00%	7.83%	12/7/2017	9/29/2021	14,760	14,600	1

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2018****(in thousands, except share/unit amounts)**

	Industry	Spread above Index⁽³⁾	Libor Floor	Interest Rate⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost
(2)(13)	Communications Equipment	L+525	1.00%	7.34%	9/29/2016	9/27/2023	\$ 11,124	\$ 10,775
ment C(2)(13)*	Health Care Providers & Services	L+600	1.00%	12.00%	12/15/2016	12/16/2022	7,900	7,835
al (2)(13)	Diversified Consumer Services	L+325		5.23%	4/13/2018	5/1/2025	3,000	2,985
LLC	Specialty Retail	L+475	1.00%	6.85%	4/2/2015	4/6/2021	479	477
g c. (13)	Software	L+475	1.00%	7.11%	8/1/2014	8/7/2021	9,309	9,279
rtners,	Health Care Providers & Services	L+425		6.59%	6/28/2018	7/9/2025	7,500	7,425
(2)(13)	Health Care Equipment & Supplies	L+795		9.95%	5/10/2018	5/1/2022	2,000	1,960
ers,	Asset Management	L+850	1.00%	10.59%	6/10/2015	6/9/2021	3,763	3,722
g I (Shoes (13)	Footwear	L+500	1.00%	7.36%	11/20/2015	10/27/2022	5,850	5,813
al (2)(13)	Health Care Providers & Services	L+600	1.00%	8.31%	5/31/2018	5/31/2023	8,851	8,720
oup, orp oup,	Insurance	L+475	1.00%	7.08%	3/16/2016	6/24/2021	4,765	4,710
Health	Health Care Providers & Services	L+600 ⁽¹⁵⁾	1.25%	8.09%	7/29/2013	7/31/2019	7,045	7,032
y,	Professional Services	L+800	1.00%	10.33%	1/31/2017	3/31/2020	713	695
y,	Professional Services			8.00% ⁽⁹⁾	1/31/2017	3/31/2020	2,025	1,953
y,	Professional Services			9.00% ⁽¹⁰⁾	1/31/2017	3/31/2020	1,895	1,830
	Health Care Providers & Services	L+500	1.00%	7.09%	12/22/2016	5/15/2021	6,379	6,335

Health Care Facilities	L+625	1.00%	10.25%	3/30/2018	4/20/2021	1,475	1,451	
Professional Services	L+475	1.00%	7.08%	2/17/2017	1/29/2022	5,501	5,479	
Professional Services	L+425	1.00%	6.34%	3/27/2017	8/15/2022	6,239	6,214	
Debt/Senior Secured Loans							\$ 344,889	

							Shares/ Units	
Aerospace & Defense				11/5/2013		133,668	\$ 1,367	
Health Care Technology				3/22/2017		52,000	16	
Asset Management				2/13/2015			35,009	
Diversified Financial Services				9/30/2013		32,839	31,439	
Diversified Financial Services				10/20/2017		109	56,000	
Health Care Equipment & Supplies				5/10/2018		16,173	25	
Professional Services				1/31/2017		17,214	3,167	
Non Equity/Equity Interests/Warrants							\$ 127,023	
174.2%							\$ 471,912	
							Par Amount	
Government				6/29/2018	7/26/2018	60,000	\$ 59,932	
196.4%							\$ 531,844	
Excess of Other Assets (96.4%)								
100.0%								

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2018****(in thousands)**

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of June 30, 2018.
- (2) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC (the SPV). Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of Solar Senior Capital Ltd. The respective par amount for the investment partially held through the SPV is \$3,673 for Genmark Diagnostics, Inc. The par balance in excess of this stated amount is held directly by Solar Senior Capital Ltd.
- (3) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (4) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of June 30, 2018, on a fair value basis, non-qualifying assets in the portfolio represented 25.2% of the total assets of the Company.
- (5) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the six months ended June 30, 2018 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Change in Realized		Dividend/Other Income	Fair Value at June 30, 2018
				Gain (Loss)	Unrealized Gain (Loss)		
First Lien Loan Program LLC (FLLP)	\$ 35,835	\$ 1,313	\$ 3,763	\$	\$ (1,301)	\$ 2,037	\$ 32,084
Gemino Healthcare Finance, LLC	35,050		1,400		400	1,768	34,050
North Mill Capital LLC	51,000	5,000			3,100	2,869	59,100
	\$ 121,885	\$ 6,313	\$ 5,163	\$	\$ 2,199	\$ 6,674	\$ 125,234

- (6) Denotes investments in which we are an **Affiliated Person** but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the six months ended June 30, 2018 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Change			Fair Value at June 30, 2018
				Realized Gain (Loss)	Unrealized Gain (Loss)	Interest/Dividend/ Other Income	
Engineering Solutions & Products, LLC (1 st lien)		602	401			27	201
Engineering Solutions & Products, LLC (2 nd lien)	2,145	39			274	137	2,458
Engineering Solutions & Products, LLC (equity interests)	68						68
	\$ 2,213	\$ 641	\$ 401	\$	\$ 274	\$ 164	\$ 2,727

- (7) PSP Group, LLC, PSP Service Newco, Inc., PSP Subco, LLC, PSP Stores, LLC, and PSP Distribution, LLC are co-borrowers.
- (8) Spread is 5.25% Cash / 0.50% PIK.
- (9) Coupon is 4.00% Cash / 4.00% PIK.
- (10) Coupon is 0.25% Cash / 8.75% PIK.
- (11) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corporation, a taxable consolidated subsidiary.
- (12) Aggregate net unrealized depreciation for federal income tax purposes is \$5,260; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$6,022 and \$11,282, respectively, based on a tax cost of \$475,461. The Company generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the **Securities Act**). These investments are generally subject to certain limitations on resale, and may be deemed to be **restricted securities** under the Securities Act.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2018**

- (13) Level 3 investment valued using significant unobservable inputs.
- (14) Our equity investment in North Mill Capital LLC is partially held through ESP SSC Corporation, a taxable consolidated subsidiary.
- (15) Spread is 3.00% Cash / 3.00% PIK.
- * Investment is on non-accrual status.
Non-income producing security.
Investment contains a payment-in-kind (PIK) feature.

Industry Classification	Percentage of Total Investments (at fair value) as of June 30, 2018
Diversified Financial Services (includes Gemino Healthcare Finance, LLC and North Mill Capital LLC)	19.8%
Professional Services	13.0%
Health Care Providers & Services	12.5%
Insurance	11.3%
Communications Equipment	9.0%
Software	8.0%
Asset Management (includes FLLP)	7.6%
Media	3.1%
Internet Software & Services	2.7%
Consumer Finance	2.5%
Chemicals	1.8%
Electronic Equipment, Instruments & Components	1.3%
Footwear	1.2%
Air Freight & Logistics	1.2%
Pharmaceuticals	1.1%
Commercial Services & Supplies	1.0%
Health Care Technology	0.9%
Diversified Consumer Services	0.6%
Aerospace & Defense	0.6%
Health Care Equipment & Supplies	0.4%
Health Care Facilities	0.3%
Specialty Retail	0.1%
Total Investments	100.0%

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2017****(in thousands, except share/unit amounts)**

Investment Description	Industry	Spread above Index ⁽³⁾	Libor Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost	Value
105.9%									
Start Start (14)	Electrical Equipment, Instruments & Components	L+450	1.00%	6.19%	12/21/2017	2/21/2022	\$ 6,105	\$ 6,089	\$
re, LLC ⁽²⁾	Insurance	L+425	1.00%	5.65%	5/3/2017	11/22/2023	7,446	7,429	
Stage Sales Marketing,	Professional Services	L+650	1.00%	7.88%	2/14/2013	7/25/2022	8,000	7,961	
Toxicology es ation ⁽¹⁴⁾	Health Care Providers & Services	L+850	1.00%	10.17%	2/20/2014	8/24/2021	4,000	3,965	
Group mediate gs, (14).	Insurance	L+550	1.00%	6.85%	11/28/2016	12/30/2022	4,279	4,241	
can nferencing es, Ltd. (14)	Communications Equipment	L+650	1.00%	7.90%	5/5/2016	12/8/2021	14,933	14,269	1
esia lting & ement, (14)	Health Care Providers & Services	L+625	1.00%	7.94%	10/20/2016	10/31/2022	4,530	4,492	
one Logistics sition, (14)	Professional Services	L+450	1.00%	6.07%	10/3/2014	10/7/2021	8,159	8,111	
Seguros g II (14)	Insurance	L+525	1.00%	6.73%	10/13/2016	4/19/2022	9,900	9,820	
wer nts sition, Inc. pring). ⁽²⁾⁽¹⁴⁾	Professional Services	L+550	1.00%	7.19%	11/28/2016	11/30/2023	4,579	4,499	

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Engineering Solutions & Products, LLC (14)	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	11/5/2018	2,258	2,258
South Group Holdings Corp. AC)(2)(14)	Chemicals	L+675	1.00%	8.44%	12/15/2016	12/14/2021	8,668	8,668
Mark Logistics, LLC (14)	Health Care Providers & Services			6.90%	4/22/2016	10/12/2019	7,633	8,040
Holdings LLC z Payment Solutions LLC (14)	Consumer Finance	L+650	1.00%	7.99%	3/31/2017	5/5/2022	9,341	9,173
Tel*Link Solutions LLC (2)	Communications Equipment	L+400	1.25%	5.69%	11/6/2015	5/23/2020	3,364	3,118
Tel*Link Solutions LLC (2)	Communications Equipment	L+825	1.25%	9.94%	5/21/2013	11/23/2020	3,000	2,972
LLC (2)(14)	Internet Software & Services	L+475	1.25%	8.44%	6/27/2014	12/13/2019	8,526	8,511
Medical Solutions LLC (14)	Health Care Providers & Services	L+550	1.00%	7.00%	3/31/2017	9/1/2022	4,570	4,528
Meyer Solutions LLC (2)(14)	Commercial Services & Supplies	L+500	1.00%	6.48%	10/31/2014	10/29/2021	4,850	4,821
Zoom.com, LLC (14)	Internet Software & Services	L+450	1.00%	5.94%	11/17/2017	11/21/2024	5,000	4,950
Holding LLC (14)	Communications Equipment	L+575	1.00%	7.28%	8/11/2017	12/22/2024	10,800	10,692
is Solutions LLC (14)	Health Care Technology	L+860	0.25%	9.98%	3/22/2017	2/1/2020	4,000	4,037
Group US 3, LLC (2)(14)	Software	L+750 ⁽⁷⁾	1.00%	9.07%	12/1/2014	12/1/2020	7,953	7,848
Readings LLC (2)(14)	Electronic Equipment, Instruments & Components	L+575	1.00%	7.23%	6/15/2017	8/29/2023	7,940	7,921
Intermediate Solutions LLC (2)(14)	Air Freight & Logistics	L+500	1.00%	6.69%	3/8/2017	3/10/2024	5,460	5,410
ry Brands, LLC (14)	Software	L+500	1.00%	6.38%	11/21/2016	12/2/2022	9,636	9,557
Software LLC (14)	Software	L+625	1.00%	7.83%	6/7/2017	6/30/2023	8,224	8,147
Acquiror LLC McLarens	Insurance	L+450	1.25%	5.83%	5/21/2014	5/28/2019	3,348	3,337

(2)(14)								
Acquiror Ltd.								
rens								
(2)(4)(14)	Insurance	L+450	1.25%	5.84%	5/21/2014	5/28/2019	4,271	4,258
ication								
, LLC &								
Sport								
gs Inc.(2)(14)	Media	L+550	1.00%	7.04%	12/7/2017	9/29/2021	15,000	14,815
Care								
s, LLC(2)(14)	Health Care Facilities	L+600	1.00%	7.35%	6/1/2017	6/8/2023	10,332	10,235
m, Inc.(2)(14)	Communications Equipment	L+525	1.00%	6.72%	9/29/2016	9/27/2023	11,811	11,411

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index ⁽³⁾	Libor Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Management Services, LLC ⁽²⁾⁽¹⁴⁾	Health Care Providers & Services	L+600	1.00%	9.50%	12/15/2016	12/16/2022	\$ 7,920	\$ 7,854	\$ 7,920
Group, LLC									
Supplies ⁽²⁾⁽⁸⁾⁽¹⁴⁾	Specialty Retail	L+475	1.00%	6.32%	4/2/2015	4/6/2021	482	479	482
Holding Company, Inc. Sum ⁽²⁾⁽¹⁴⁾	Software	L+475	1.00%	6.13%	8/1/2014	8/7/2021	6,059	6,025	6,059
Partners, ⁽²⁾⁽¹⁴⁾	Asset Management	L+850	1.00%	9.85%	6/10/2015	6/9/2021	3,932	3,882	3,932
Holding I Corporation (Shoes Stores) ⁽²⁾⁽¹⁴⁾	Footwear	L+500	1.00%	6.42%	11/20/2015	10/27/2022	5,880	5,839	5,880
Urban Broadband, LLC									
Wireless, ⁽²⁾⁽¹⁴⁾	Wireless Telecommunication Services	L+650 ⁽¹⁵⁾	1.00%	8.19%	11/29/2016	3/26/2019	4,938	4,911	4,938
Hilb Group, & Gencorp Insurance Group, ⁽²⁾⁽¹⁴⁾	Insurance	L+475	1.00%	6.44%	3/16/2016	6/24/2021	4,436	4,377	4,436
ent USA Health Services ⁽²⁾⁽¹⁴⁾	Health Care Providers & Services	L+575	1.25%	7.44%	7/29/2013	7/31/2019	8,693	8,670	7,300
ntyEighty, ⁽⁴⁾	Professional Services	L+800 ⁽⁹⁾	1.00%	9.42%	1/31/2017	3/31/2020	918	887	918
ntyEighty, ⁽⁴⁾	Professional Services			8.00% ⁽¹⁰⁾	1/31/2017	3/31/2020	1,984	1,894	1,984
ntyEighty, ⁽⁴⁾	Professional Services			9.00% ⁽¹¹⁾	1/31/2017	3/31/2020	1,814	1,733	1,814
Acute Care Services, LLC ⁽²⁾⁽¹⁴⁾	Health Care Providers & Services	L+500	1.00%	6.69%	12/22/2016	5/15/2021	6,435	6,384	6,435
		L+475	1.00%	6.44%	2/17/2017	1/29/2022	5,983	5,957	5,983

Buyer Acquisition Corp. (text)(2)(14)	Professional Services										
B-Copernicus p, Inc.(2)(14)	Professional Services	L+500	1.00%	6.69%	3/27/2017	8/15/2022	4,466	4,447	4,447	4,447	
Total Bank Debt/Senior Secured Loans								\$ 288,923	\$ 286,923		
Common Equity/Equity Interests/Warrants											
							Shares/ Units				
Engineering Solutions & Products, (6)(12)(14)	Aerospace & Defense				11/5/2013		133,668	\$ 1,367	\$ 1,367		
Finance Group Investments Corporation (Meris) Investments(14)	Health Care Technology				3/22/2017		52,000		16		
Lien Loan Program LLC(4)(5)(14)	Asset Management				2/13/2015			37,459	35,000		
Orlando Healthcare Investment, LLC(4)(5)(14)	Diversified Financial Services				9/30/2013		32,839	32,839	35,000		
Orlando Mill (4)(5)(14)(16)	Diversified Financial Services				10/20/2017		100	51,000	51,000		
Orlando Eighty Investments, LLC(14)	Professional Services				1/31/2017		17,214	3,167			
Total Common Equity/Equity Interests/Warrants								\$ 125,848	\$ 121,923		
Total Investments(13)	151.1%							\$ 414,771	\$ 408,923		
							Par Amount				
Treasury Bill	Government				12/28/2017	2/8/2018	105,000	\$ 104,874	\$ 104,874		
Total Investments & Cash Equivalents								189.9%	\$ 519,645	\$ 512,797	
Liabilities in Excess of Other Assets (89.9%)										(242,902)	
Total Assets								100.0%	\$ 270,795		

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands)**

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2017.
- (2) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC (the SPV). Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of Solar Senior Capital Ltd. The respective par amount for the investment partially held through the SPV is \$3,673 for Genmark Diagnostics, Inc. The par balance in excess of this stated amount is held directly by Solar Senior Capital Ltd.
- (3) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (4) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of December 31, 2017, on a fair value basis, non-qualifying assets in the portfolio represented 25.7% of the total assets of the Company.
- (5) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2017 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2016	Gross Additions	Gross Reductions	Change			Fair Value at December 31, 2017
				Realized Gain (Loss)	in Unrealized Gain (Loss)	Dividend/Othe Income	
First Lien Loan Program LLC (FLLP)	\$ 38,810	\$ 2,835	\$ 6,563	\$	\$ 753	\$ 4,129	\$ 35,835
Gemino Healthcare Finance, LLC	35,500				(450)	3,694	35,050
NorthMill LLC		51,000				1,122	51,000
	\$ 74,310	\$ 53,835	\$ 6,563	\$	\$ 303	\$ 8,945	\$ 121,885

- (6) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2017 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2016	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/Dividend Income	Fair Value at December 31, 2017
Engineering Solutions & Products, LLC (1 st lien)		2,257	2,257			11	
Engineering Solutions & Products, LLC (2 nd lien)	1,757				473	190	2,145
Engineering Solutions & Products, LLC (equity interests)	68						68
	\$ 1,825	\$	\$	\$	\$ 473	\$ 201	\$ 2,213

- (7) Spread is 5.50% Cash / 2.00% PIK.
 (8) PSP Group, LLC, PSP Service Newco, Inc., PSP Subco, LLC, PSP Stores, LLC, and PSP Distribution, LLC are co-borrowers.
 (9) Spread is 3.50% Cash / 4.50% PIK.
 (10) Coupon is 1.00% Cash / 7.00% PIK.
 (11) Coupon is 0.25% Cash / 8.75% PIK.
 (12) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corporation, a taxable consolidated subsidiary.
 (13) Aggregate net unrealized depreciation for federal income tax purposes is \$9,267; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$3,219 and \$12,486, respectively, based on a tax cost of \$417,348.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017**

(14) Investment valued using significant unobservable inputs.

(15) Spread is 4.50% Cash / 2.00% PIK.

(16) Our equity investment in NorthMill LLC is partially held through ESP SSC Corporation, a taxable consolidated subsidiary.

Non-income producing security.

Investment contains a payment-in-kind (PIK) feature.

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2017
Diversified Financial Services (includes Gemino Healthcare Finance, LLC and NorthMill LLC)	21.1%
Communications Equipment	10.7%
Health Care Providers & Services	10.3%
Asset Management (includes FLLP)	9.8%
Professional Services	8.6%
Insurance	8.3%
Software	7.3%
Media	3.6%
Electronic Equipment, Instruments & Components	3.4%
Internet Software & Services	3.2%
Health Care Facilities	2.6%
Consumer Finance	2.3%
Chemicals	2.1%
Footwear	1.4%
Air Freight & Logistics	1.3%
Wireless Telecommunication Services	1.2%
Commercial Services & Supplies	1.2%
Health Care Technology	1.0%
Aerospace & Defense	0.5%
Specialty Retail	0.1%
Total Investments	100.0%

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

June 30, 2018

(in thousands, except share amounts)

Note 1. Organization

Solar Senior Capital Ltd. (Solar Senior , the Company , SUNS , we , us , or our), a Maryland corporation formed December 16, 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company (BDC) under the Investment Company Act of 1940 (the 1940 Act). Furthermore, as the Company is an investment company, it continues to apply the guidance in the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 946. In addition, for tax purposes, we have elected to be treated, and intend to qualify annually, as a regulated investment company (RIC), under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

On January 28, 2011, Solar Senior was capitalized with initial equity of \$2 and commenced operations. On February 24, 2011, Solar Senior priced its initial public offering, selling 9.0 million shares, including the underwriters over-allotment, raising approximately \$168,000 of net proceeds. Concurrent with this offering, our senior management team purchased an additional 500,000 shares through a private placement, raising another \$10,000.

The Company s investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by investing directly or indirectly in senior secured loans, including first lien and second lien debt instruments, made primarily to leveraged private middle-market companies whose debt is rated below investment grade, which the Company refers to collectively as senior loans. From time to time, we may also invest in public companies that are thinly traded. Under normal market conditions, at least 80% of the value of the Company s net assets (including the amount of any borrowings for investment purposes) will be invested in senior loans.

Note 2. Significant Accounting Policies

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 wholly-owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts may have been reclassified to conform to current period presentation.

Interim consolidated financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X, as appropriate. Accordingly, they may not include all of the information and notes required by GAAP for annual consolidated financial statements. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2018.

In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for the fair presentation of financial statements, have been included.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

The significant accounting policies consistently followed by the Company are:

- (a) Investment transactions are accounted for on the trade date;
- (b) The Company conducts the valuation of its assets in accordance with GAAP and the 1940 Act. The Company generally values its assets on a quarterly basis, or more frequently if required. Investments for which market quotations are readily available on an exchange are valued at the closing price on the date of valuation. The Company may also obtain quotes with respect to certain of its investments from pricing services or brokers or dealers in order to value assets. When doing so, management determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the investment. If determined adequate, the Company uses the quote obtained. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of Solar Capital Partners, LLC (the Investment Adviser), does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of the Company's board of directors (the Board). Investments for which reliable market quotations are not readily available or for which the pricing sources do not provide a valuation or methodology or provide a valuation or methodology that, in the judgment of the Investment Adviser or the Board does not represent fair value, shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuations are discussed with senior management of the Investment Adviser; (iii) independent valuation firms engaged by, or on behalf of, the Board will conduct independent appraisals and review the Investment Adviser's preliminary valuations and make their own independent assessment for (a) each portfolio investment that, when taken together with all other investments in the same portfolio company, exceeds 10% of estimated total assets, plus available borrowings, as of the end of the most recently completed fiscal quarter, and (b) each portfolio investment that is presently in payment default and the Investment Adviser does not expect to reach an agreement with the portfolio company in the subsequent quarter; (iv) the Board will discuss the valuations and determine the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser and, where appropriate, the respective independent valuation firm.

The recommendation of fair value generally considers the following factors among others, as relevant: applicable market yields; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flow; the markets in which the issuer does business; and comparisons to publicly traded securities, among others.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the six months ended June 30, 2018, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

In all cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to each investment. The exercise of judgment is based in part on our knowledge of the asset class and our prior experience.

- (c) Gains or losses on investments are calculated by using the specific identification method.
- (d) The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the effective interest method or on a straight-line basis, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record call premiums on loans repaid as interest income when we receive

such amounts. Capital structuring fees, amendment fees, consent fees, and any other non-recurring fee income as well as management fee and other fee income for services rendered, if any, are recorded as other income when earned.

- (e) The Company intends to comply with the applicable provisions of the Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all U.S. federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on such estimated excess taxable income as appropriate.

- (f) Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts annually. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810 *Consolidation*, the Company consolidates its interest in controlled investment company subsidiaries, financing subsidiaries and certain wholly-owned holding companies that serve to facilitate investment in portfolio companies. In addition, the Company may also consolidate any controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against the U.S. dollar on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments in terms of U.S. dollars and therefore the earnings of the Company.
- (j) At December 31, 2017, the Company had made an irrevocable election to apply the fair value option of accounting to its senior secured revolving credit facility (the *Credit Facility*), in accordance with ASC 825-10. As of June 1, 2018, the Company's new Credit Facility did not make this election.
- (k) In accordance with ASC 835-30, the Company records origination and other expenses related to certain debt issuances, if any, as a direct deduction from the carrying amount of the debt liability. These expenses are deferred and amortized using either the effective interest method or the straight-line method over the stated life. The straight-line method may be used on revolving facilities and when it approximates the effective yield method.
- (l) The Company records expenses related to shelf registration statements and applicable equity offering costs as prepaid assets. These expenses are typically charged as a reduction of capital upon utilization, in

accordance with ASC 946-20-25. Certain subsequent costs are expensed per the AICPA Audit & Accounting Guide for Investment Companies.

- (m) Investments that are expected to pay regularly scheduled interest in cash are generally placed on non-accrual status when principal or interest cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining principal and interest obligations. Cash interest payments received on such investments may be recognized as income or applied to principal depending on management's judgment.

- (n) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less would qualify, with limited exceptions. The Company believes that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

Recent Accounting Pronouncements

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, which amends FASB ASC 230. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has adopted ASU 2016-18 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which will amend FASB ASC 310-20. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium, generally requiring the premium to be amortized to the earliest call date. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of ASU 2017-08 on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASC 606, Revenue From Contracts With Customers, originally effective for public business entities with annual reporting periods beginning after December 15, 2016. On August 12, 2015, the FASB issued an ASU, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASC 606 for one year. ASC 606 provides accounting guidance related to revenue from contracts with customers. For public business entities, ASC 606 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company has adopted ASC 606 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

Note 3. Agreements

Solar Senior has an Advisory Agreement with the Investment Adviser, under which the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, Solar Senior. For providing these services, the Investment Adviser receives a fee from Solar Senior, consisting of two components a base management fee and a performance-based incentive fee. The base management fee is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. Base management fees for any partial month or quarter will be appropriately pro-rated. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of

each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The performance-based incentive fee has two parts, as follows: one is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

income (other than fees for providing managerial assistance) accrued during the calendar quarter, minus our operating expenses for the quarter (excluding the performance-based incentive fee). Pre-incentive fee net investment income includes, in the case of investments, if any, with a deferred interest feature (such as original issue discount, debt instruments with pay-in-kind interest and zero-coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains or losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). The Company pays the Investment Adviser a performance-based incentive fee with respect to pre-incentive fee net investment income for each calendar quarter as follows:

no performance-based incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle of 1.75%;

50% of pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.9167% in any calendar quarter (11.67% annualized);

and

20% of the amount of pre-incentive fee net investment income, if any, that exceeds 2.9167% in any calendar quarter (11.67% annualized) will be payable to the Investment Adviser.

The second part of the performance-based incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and will equal 20% of the Company's cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all net capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For financial statement purposes, the second part of the performance-based incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the three and six months ended June 30, 2018 and 2017.

For the three and six months ended June 30, 2018 the Company recognized \$1,145 and \$2,193, respectively, in gross base management fees and \$491 and \$1,109, respectively, in gross performance-based incentive fees. For the three and six months ended June 30, 2018, no base management fees were waived. For the three and six months ended June 30, 2018, \$437 and \$745, respectively, of such performance-based incentive fees were waived. For the three and

six months ended June 30, 2017, the Company recognized \$959 and \$1,907, respectively, in gross base management fees and \$122 and \$197, respectively, in gross performance-based incentive fees. For the three months and six ended June 30, 2017, \$692 and \$1,481, respectively, of such base management fees were waived. For the three and six months ended June 30, 2017, \$122 and \$197, respectively, of such performance-based incentive fees were waived. For the three and six months ended June 30, 2018 and the three and six months ended June 30, 2017, there were no fees recaptured by the Investment Adviser. Any fee waivers prior to July 1, 2017 are not subject to recapture. Subsequent voluntary fee waivers were made at the Investment Adviser's discretion and are subject to recapture by the Investment Adviser and reimbursement by the company under the conditions noted below. No fees will be recouped by the Investment Adviser if (i) for the period in which recoupment occurs, the ratio of operating expenses to average net assets, when considering the reimbursement, exceeds the same ratio for the period in which the waiver occurred; (ii) for the period in which recoupment occurs, the annualized distribution rate cannot fall below the annualized distribution rate for the

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2018

(in thousands, except share amounts)

period in which the waiver occurred; and (iii) recoupment can only occur within three years from the date of the waiver. The table below presents a summary of fees waived that may be subject to recoupment:

Three Months Ended	Management and Performance- Based Incentive Fees Waived	Management and Performance- Based Incentive Fees Recouped
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