

Solar Senior Capital Ltd.  
Form 10-Q  
November 05, 2018  
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**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 September 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 (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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company 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.

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 November 1, 2018 was 16,040,485.

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**SOLAR SENIOR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018**

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**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)

	September 30, 2018 (unaudited)	December 31, 2017
<b>Assets</b>		
Investments at fair value:		
Companies less than 5% owned (cost: \$372,779 and \$289,848, respectively)	\$ 369,138	\$ 283,983
Companies 5% to 25% owned (cost: \$3,835 and \$3,625, respectively)	2,711	2,213
Companies more than 25% owned (cost: \$87,439 and \$121,298, respectively)	93,350	121,885
Cash	4,759	3,726
Cash equivalents (cost: \$0 and \$104,874, respectively)		104,874
Receivable for investments sold	9,642	508
Dividends receivable	1,927	2,723
Interest receivable	1,978	1,732
Other receivable	103	20
Prepaid expenses and other assets	229	277
<b>Total assets</b>	<b>\$ 483,837</b>	<b>\$ 521,941</b>
<b>Liabilities</b>		
Credit facility (\$148,600 and \$124,200 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,738 and \$0, respectively. See notes 6 and 7)	\$ 146,862	\$ 124,200
FLLP 2015-1, LLC revolving credit facility (the FLLP Facility) (see notes 6 and 7)	44,784	
Payable for investments and cash equivalents purchased	14,610	122,110
Distributions payable	1,976	1,884
Management fee payable (see note 3)	1,222	999
Performance-based incentive fee payable (see note 3)	1,344	374
Interest payable (see note 7)	1,394	401
Administrative services expense payable (see note 3)	708	944

Other liabilities and accrued expenses	1,261	898
<b>Total liabilities</b>	<b>\$ 214,161</b>	<b>\$ 251,810</b>
Commitments and contingencies (see notes 10, 11 and 12)		
<b>Net Assets</b>		
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	(5,228)	(5,336)
Accumulated net realized loss	(11,099)	(5,844)
Net unrealized appreciation (depreciation) (see note 11)	(2,063)	(6,690)
<b>Total net assets</b>	<b>\$ 269,676</b>	<b>\$ 270,131</b>
<b>Net Asset Value Per Share</b>	<b>\$ 16.81</b>	<b>\$ 16.84</b>

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		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>INVESTMENT INCOME:</b>				
Interest:				
Companies less than 5% owned	\$ 7,734	\$ 5,946	\$ 19,563	\$ 16,812
Companies 5% to 25% owned	117	51	258	152
Dividends:				
Companies more than 25% owned	3,138	1,924	9,775	5,771
Other income:				
Companies less than 5% owned	11	25	156	326
Companies 5% to 25% owned			23	
Companies more than 25% owned	13	20	50	59
Total investment income	11,013	7,966	29,825	23,120
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 1,222	\$ 955	\$ 3,415	\$ 2,862
Performance-based incentive fees (see note 3)	1,344	231	2,453	428
Interest and other credit facility expenses (see note 7)	2,034	977	5,202	2,717
Administrative services expense (see note 3)	390	372	1,159	1,107
Other general and administrative expenses	261	491	1,271	1,444
Total expenses	5,251	3,026	13,500	8,558
Management fees waived (see note 3)		(481)		(1,962)
Performance-based incentive fees waived (see note 3)		(231)	(745)	(428)
Net expenses	5,251	2,314	12,755	6,168
Net investment income	\$ 5,762	\$ 5,652	\$ 17,070	\$ 16,952
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CASH EQUIVALENTS:</b>				
	\$ (4)	\$ 52	\$ (5,255)	\$ 193

Net realized gain (loss) on investments  
and cash equivalents (companies less  
than 5% owned)

Net change in unrealized gain (loss) on investments and cash equivalents:				
Companies less than 5% owned	(282)	(457)	2,224	(478)
Companies 5% to 25% owned	14	281	288	351
Companies more than 25% owned	(84)	484	2,115	134
Net change in unrealized gain (loss) on investments and cash equivalents				
	(352)	308	4,627	7
Net realized and unrealized gain (loss) on investments and cash equivalents				
	(356)	360	(628)	200
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>				
	\$ 5,406	\$ 6,012	\$ 16,442	\$ 17,152
<b>EARNINGS PER SHARE (see note 5)</b>				
	\$ 0.34	\$ 0.37	\$ 1.03	\$ 1.07

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)

	<b>Nine months ended September 30, 2018 (unaudited)</b>	<b>Year ended December 31, 2017</b>
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 17,070	\$ 22,604
Net realized gain (loss)	(5,255)	233
Net change in unrealized gain (loss)	4,627	549
<b>Net increase in net assets resulting from operations</b>	<b>16,442</b>	<b>23,386</b>
<b>Distributions to stockholders:</b>		
From net investment income	(16,442)	(22,604)
<b>Capital transactions (see note 14):</b>		
Reinvestment of distributions	65	204
<b>Net increase in net assets resulting from capital transactions</b>	<b>65</b>	<b>204</b>
<b>Total increase (decrease) in net assets</b>	<b>(455)</b>	<b>986</b>
Net assets at beginning of period	270,131	269,145
<b>Net assets at end of period<sup>(1)</sup></b>	<b>\$ 269,676</b>	<b>\$ 270,131</b>
<b>Capital share activity (see note 14):</b>		
Common stock issued from reinvestment of distributions	3,755	11,719
<b>Net increase from capital share activity</b>	<b>3,755</b>	<b>11,719</b>

(1) Includes overdistributed net investment income of (\$5,228) 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)

	Nine months ended	
	September 30, 2018	September 30, 2017
<b>Cash Flows from Operating Activities:</b>		
<b>Net increase in net assets resulting from operations</b>	\$ 16,442	\$ 17,152
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	5,255	(193)
Net change in unrealized (gain) loss on investments and cash equivalents	(4,627)	(7)
Effect of consolidation of First Lien Loan Program LLC ( FLLP ) (see note 11)	(3,210)	
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(188,062)	(113,348)
Proceeds from disposition of investments	134,263	111,452
Capitalization of payment-in-kind interest	(771)	(378)
Collection of payment-in-kind interest	34	
Receivable for investments sold	(9,134)	642
Interest receivable	(246)	351
Dividends receivable	796	(130)
Other receivable	(83)	(1)
Prepaid expenses and other assets	48	(52)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments and cash equivalents purchased	(107,500)	(15,369)
Management fee payable	223	370
Performance-based incentive fees payable	970	
Administrative services expense payable	(236)	39
Interest payable	993	60
Other liabilities and accrued expenses	363	209
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>(154,482)</b>	<b>797</b>
<b>Cash Flows from Financing Activities:</b>		
Cash distributions paid	(16,805)	(16,800)
Deferred financing costs	123	
Consolidation of FLLP Facility	49,796	
Proceeds from borrowings	132,340	84,200
Repayments of borrowings	(114,813)	(91,500)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>50,641</b>	<b>(24,100)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(103,841)</b>	<b>(23,303)</b>

<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	108,600	151,828
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 4,759	\$ 128,525
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 4,209	\$ 2,657

Non-cash financing activities consist of the reinvestment of dividends of \$65 and \$151 for the nine months ended September 30, 2018 and September 30, 2017, respectively.

See notes to consolidated financial statements.

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

Investment	Industry	Spread above Index <sup>(3)</sup>	Libor Floor	Interest Rate <sup>(1)</sup>	Acquisition Date	Maturity Date	Par Amount	Cost
<b>Investment in Senior Secured Loans</b>	<b>137.8%</b>							
Investment Start LLC <sup>(2)(13)</sup>	Electrical Equipment, Instruments & Components	L+450	1.00%	6.74%	12/21/2017	2/21/2022	\$ 6,077	\$ 6,064
Investment Start LLC <sup>(13)(16)</sup>	Electrical Equipment, Instruments & Components	L+475	1.00%	6.99%	9/18/2018	2/21/2022	6,805	6,766
Investment LLC <sup>(2)</sup>	Insurance	L+425	1.00%	6.59%	5/3/2017	11/22/2023	7,390	7,376
Investment Sales and Marketing, Inc. <sup>(2)(13)</sup>	Professional Services	L+325	1.00%	5.49%	2/14/2018	7/25/2021	4,962	4,879
Investment Sales and Marketing, Inc. <sup>(13)</sup>	Professional Services	L+650	1.00%	8.74%	2/14/2013	7/25/2022	8,000	7,967
Investment Toxicology Sciences Investment <sup>(2)(13)</sup>	Health Care Providers & Services	L+550	1.00%	7.84%	5/7/2018	5/9/2025	11,000	10,815
Investment Group Intermediate Holdings, Investment Sciences, Inc. <sup>(2)(13)</sup>	Insurance Pharmaceuticals	L+450 L+765		6.74% 9.77%	7/27/2018 1/5/2018	8/1/2025 7/1/2022	2,993 5,000	2,985 4,994
Investment Health, LLC (fka Island Investment) <sup>(2)(13)(16)</sup>	Health Care Providers & Services	L+650	1.00%	8.74%	3/31/2017	9/1/2022	7,490	7,432
Investment in Teleconferencing Services, Ltd. <sup>(13)</sup>	Communications Equipment	L+650	1.00%	8.84%	5/5/2016	12/8/2021	14,318	13,800
Investment Acquisition Holding, Inc. <sup>(2)(13)</sup>	Software	L+425	1.00%	6.64%	9/7/2018	5/24/2023	5,690	5,633
Investment Logistics Acquisition, <sup>(16)</sup>	Professional Services	L+450	1.00%	6.74%	10/3/2014	10/7/2021	12,358	12,297
Investment Reguros Holding II Co. <sup>(2)(13)(16)</sup>	Insurance	L+525	1.00%	7.49%	10/13/2016	4/19/2022	14,552	14,452
Investment Holdings Acquisition Subsidiary <sup>(3)</sup>	Professional Services	L+400	1.00%	6.10%	6/14/2018	6/30/2022	4,963	4,940
Investment and Partners Holdings, LLC <sup>(2)(13)(16)</sup>	Insurance	L+425	1.00%	6.49%	3/28/2018	9/8/2024	13,305	13,288
Investment for Payments Acquisition, Inc. <sup>(2)(13)(16)</sup>	Professional Services	L+450 L+600	1.00% 2.00%	6.74% 8.35%	11/28/2016 11/5/2013	11/30/2023 5/5/2019	14,886 134	14,745 134

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ing Solutions & Products, )	Aerospace & Defense								
ing Solutions & Products, )	Aerospace & Defense	L+600	2.00%	8.34%	11/5/2013	11/5/2019	2,509	2,334	
Group Holdings Corp. ) (2)(13)(16)	Chemicals	L+675	1.00%	8.99%	12/15/2016	12/14/2021	12,462	12,462	
Diagnosics, Inc(2)(4)(13)	Health Care Providers & Services			6.90%	4/22/2016	1/1/2021	7,633	8,458	
holdings LLC & Payment Concepts )	Consumer Finance	L+750	1.00%	9.83%	3/31/2017	5/5/2022	11,550	11,379	
el*Link Corporation(2)	Communications Equipment	L+400	1.25%	6.39%	11/6/2015	5/23/2020	3,315	3,144	
el*Link Corporation	Communications Equipment	L+825	1.25%	10.64%	5/21/2013	11/23/2020	3,000	2,978	
Corporation(2)(13)	Internet Software & Services	L+575(8)	1.25%	8.09%	6/27/2014	12/13/2019	7,814	7,805	
yer Bergensons Services, LLC (13)(16)	Commercial Services & Supplies	L+500	1.00%	7.32%	10/31/2014	10/29/2021	8,644	8,596	
om.com, Inc.(2)(13)	Internet Software & Services	L+425	1.00%	6.46%	11/17/2017	11/21/2024	4,962	4,917	
olding Company, LLC(2)(13)	Communications Equipment	L+575	1.00%	7.99%	8/11/2017	12/22/2024	10,716	10,617	
Systems, Inc.(2)(13)	Software	L+600	1.00%	8.14%	5/1/2018	5/8/2025	9,975	9,784	
ermediate Holdings, LLC ner)(2)(13)	Air Freight & Logistics	L+500	1.00%	7.39%	3/8/2017	3/10/2024	5,589	5,544	
Brands, LLC(2)(13)(16)	Software	L+400	1.00%	6.24%	11/21/2016	12/2/2022	14,357	14,254	
ware LLC(2)(13)	Software	L+550	1.00%	7.65%	6/7/2017	6/30/2023	8,408	8,338	
nc. (Service Logic) (2)(13)(16)	Commercial Services & Supplies	L+425	1.00%	6.56%	7/12/2018	7/31/2023	2,726	2,712	

See notes to consolidated financial statements.

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

	<b>Industry</b>	<b>Spread above Index <sup>(3)</sup></b>	<b>Libor Floor</b>	<b>Interest Rate <sup>(1)</sup></b>	<b>Acquisition Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>
	Insurance	L+450	1.25%	6.84%	5/21/2014	5/28/2019	\$ 3,322	\$ 3,317
	Insurance	L+450	1.25%	6.84%	5/21/2014	5/28/2019	4,238	4,232
	Health Care Providers & Services	L+450	1.00%	6.74%	9/18/2018	6/2/2024	2,591	2,580
	Media	L+550	1.00%	7.83%	12/7/2017	9/29/2021	14,521	14,374
	Specialty Retail	L+550	1.00%	7.84%	9/18/2018	7/5/2022	4,600	4,552
	Health Care Providers & Services	L+750 PIK	1.00%	9.69%	12/15/2016	12/16/2022	8,321	8,259
	Diversified Consumer Services	L+325		5.49%	4/13/2018	5/1/2025	2,783	2,769
	Specialty Retail	L+475	1.00%	7.00%	4/2/2015	4/6/2021	5,076	5,055
	Health Care Providers & Services	L+425		6.59%	6/28/2018	7/9/2025	7,500	7,427
	Health Care Equipment & Supplies	L+795		10.07%	5/10/2018	5/1/2022	2,000	1,967
	Footwear	L+500	1.00%	7.34%	11/20/2015	10/27/2022	5,835	5,800
	Health Care Providers & Services	L+600	1.00%	8.39%	5/31/2018	5/31/2023	8,740	8,616

al (2)(13)	Wireless Telecommunication Services	L+425	1.00%	6.64%	9/18/2018	6/24/2019	4,784	4,778
3)(16)	Insurance	L+475	1.00%	7.14%	3/16/2016	6/24/2021	8,863	8,769
up, orp oup,	Health Care Providers & Services	L+600 <sup>(15)</sup>	1.25%	8.24%	7/29/2013	7/31/2019	7,068	7,058
y,	Professional Services	L+800	1.00%	10.39%	1/31/2017	3/31/2020	107	105
y,	Professional Services			8.00% <sup>(9)</sup>	1/31/2017	3/31/2020	2,045	1,983
y,	Professional Services			9.00% <sup>(10)</sup>	1/31/2017	3/31/2020	1,937	1,881
are	Health Care Providers & Services	L+500	1.00%	7.24%	12/22/2016	5/15/2021	6,379	6,338
oup,	Software	L+375		6.17%	9/17/2018	10/10/2025	9,000	8,977
nicus	Professional Services	L+425	1.00%	6.49%	3/27/2017	8/15/2022	11,369	11,313
<b>Debt/Senior Secured Loans</b>								<b>\$ 372,039</b>
								<b>Shares/Units</b>
<b>Equity/Equity Interests/Warrants</b>								
	Aerospace & Defense				11/5/2013		133,668	\$ 1,367
up	Health Care Technology				3/22/2017		52,000	16
	Diversified Financial Services				9/30/2013		32,839	31,439
apital (4)	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

y  
C(13)

on Equity/Equity Interests/Warrants	\$ 92,014
ments <sup>(12)</sup> 172.5%	\$ 464,053
Excess of Other Assets (72.5%)	(195,523)
100.0%	\$ 269,676

See notes to consolidated financial statements.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 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 September 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 SUNS 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.
- (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 September 30, 2018, on a fair value basis, non-qualifying assets in the portfolio represented 22.9% 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 nine months ended September 30, 2018 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Change		Dividend /Other Income	Fair Value at September 30, 2018
				Realized Gain (Loss)	in Unrealized Gain (Loss)		
First Lien Loan Program LLC (17)	\$ 35,835	\$ 5,521	\$ 42,980	\$	\$ (1,585)	\$ 2,889	\$
Gemino Healthcare Finance, LLC	35,050		1,400		500	2,633	34,150
North Mill Capital LLC	51,000	5,000			3,200	4,303	59,200
	\$ 121,885	\$ 10,521	\$ 44,380	\$	\$ 2,115	\$ 9,825	\$ 93,350

See notes to consolidated financial statements.





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

- (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 nine months ended September 30, 2018 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/ Dividend/ Other Income	Fair Value at September 30, 2018
Engineering Solutions & Products, LLC (1 <sup>st</sup> lien)		602	468			54	134
Engineering Solutions & Products, LLC (2 <sup>nd</sup> lien)	2,145	76			288	227	2,509
Engineering Solutions & Products, LLC (equity interests)	68						68
	\$ 2,213	\$ 678	\$ 468	\$	\$ 288	\$ 281	\$ 2,711

- (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 \$2,048; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$6,499 and \$8,547, respectively, based on a tax cost of \$467,247. 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.
- (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.

- (16) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary FLLP 2015-1 LLC (the FLLP SPV ). Such investments are pledged as collateral under the FLLP 2015-1, LLC 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.
- (17) On September 18, 2018, the Company acquired 100% of the equity of FLLP and as such is consolidating this investment as of this date.  
Non-income producing security.  
Investment contains a payment-in-kind ( PIK ) feature.

See notes to consolidated financial statements.

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

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of September 30, 2018</b>
Diversified Financial Services (includes Gemino Healthcare Finance, LLC and North Mill Capital LLC)	20.1%
Health Care Providers & Services	13.9%
Professional Services	13.0%
Insurance	11.7%
Software	10.1%
Communications Equipment	6.7%
Media	3.1%
Electronic Equipment, Instruments & Components	2.8%
Internet Services & Infrastructure	2.7%
Chemicals	2.7%
Consumer Finance	2.5%
Commercial Services & Supplies	2.5%
Specialty Retail	2.1%
Footwear	1.2%
Air Freight & Logistics	1.2%
Pharmaceuticals	1.1%
Wireless Telecommunication Services	1.0%
Diversified Consumer Services	0.6%
Aerospace & Defense	0.6%
Health Care Equipment & Supplies	0.4%
Health Care Technology	0.0%
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)**

<b>Description</b>	<b>Industry</b>	<b>Spread above Index <sup>(3)</sup></b>	<b>Libor Floor</b>	<b>Interest Rate <sup>(1)</sup></b>	<b>Acquisition Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Bank Debt/Senior Secured Loans 105.9%</b>									
1A Smart Start LLC <sup>(2)(14)</sup>	Electrical Equipment, Instruments & Components	L+450	1.00%	6.19%	12/21/2017	2/21/2022	\$ 6,105	\$ 6,089	\$ 6,089
Acrisure, LLC <sup>(2)</sup>	Insurance	L+425	1.00%	5.65%	5/3/2017	11/22/2023	7,446	7,429	7,531
Advantage Sales and Marketing, Inc.	Professional Services	L+650	1.00%	7.88%	2/14/2013	7/25/2022	8,000	7,961	7,520
Aegis Toxicology Sciences Corporation <sup>(14)</sup>	Health Care Providers & Services	L+850	1.00%	10.17%	2/20/2014	8/24/2021	4,000	3,965	3,880
Alera Group Intermediate Holdings, Inc. <sup>(2)(14)</sup>	Insurance	L+550	1.00%	6.85%	11/28/2016	12/30/2022	4,279	4,241	4,257
American Teleconferencing Services, Ltd. (PGI) <sup>(2)(14)</sup>	Communications Equipment	L+650	1.00%	7.90%	5/5/2016	12/8/2021	14,933	14,269	14,710
Anesthesia Consulting & Management, LP <sup>(2)(14)</sup>	Health Care Providers & Services	L+625	1.00%	7.94%	10/20/2016	10/31/2022	4,530	4,492	4,258
Capstone Logistics Acquisition, Inc. <sup>(2)(14)</sup>	Professional Services	L+450	1.00%	6.07%	10/3/2014	10/7/2021	8,159	8,111	8,078
Confie Seguros Holding II Co. <sup>(2)(14)</sup>	Insurance	L+525	1.00%	6.73%	10/13/2016	4/19/2022	9,900	9,820	9,909
Empower Payments	Professional Services	L+550	1.00%	7.19%	11/28/2016	11/30/2023	4,579	4,499	4,579

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Acquisition, Inc. (RevSpring).(2)(14)										
Engineering Solutions & Products, LLC(6)(14)	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	11/5/2018	2,258	2,258	2,145	
Falmouth Group Holdings Corp. (AMPAC) (2)(14)	Chemicals	L+675	1.00%	8.44%	12/15/2016	12/14/2021	8,668	8,668	8,668	
GenMark Diagnostics, Inc(2)(4)(14)	Health Care Providers & Services			6.90%	4/22/2016	10/12/2019	7,633	8,040	8,039	
Global Holdings LLC & Payment Concepts LLC(2)(14)	Consumer Finance	L+650	1.00%	7.99%	3/31/2017	5/5/2022	9,341	9,173	9,341	
Global Tel*Link Corporation(2)	Communications Equipment	L+400	1.25%	5.69%	11/6/2015	5/23/2020	3,364	3,118	3,381	
Global Tel*Link Corporation	Communications Equipment	L+825	1.25%	9.94%	5/21/2013	11/23/2020	3,000	2,972	3,007	
Hostway Corporation(2)(14)	Internet Software & Services	L+475	1.25%	8.44%	6/27/2014	12/13/2019	8,526	8,511	8,185	
Island Medical Management Holdings, LLC(2)(14)	Health Care Providers & Services	L+550	1.00%	7.00%	3/31/2017	9/1/2022	4,570	4,528	4,432	
Kellermeyer Bergensons Services, LLC (KBS)(2)(14)	Commercial Services & Supplies	L+500	1.00%	6.48%	10/31/2014	10/29/2021	4,850	4,821	4,850	
LegalZoom.com, Inc.(2)(14)	Internet Software & Services	L+450	1.00%	5.94%	11/17/2017	11/21/2024	5,000	4,950	4,950	
Logix Holding Company, LLC(2)(14)	Communications Equipment	L+575	1.00%	7.28%	8/11/2017	12/22/2024	10,800	10,692	10,692	
Lumeris Solutions Company, LLC(2)(14)	Health Care Technology	L+860	0.25%	9.98%	3/22/2017	2/1/2020	4,000	4,037	4,040	
Metamorph US 3, LLC (Metalogix)(2)(14)	Software	L+750(7)	1.00%	9.07%	12/1/2014	12/1/2020	7,953	7,848	5,805	

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)**

<b>Description</b>	<b>Industry</b>	<b>Spread above Index <sup>(3)</sup></b>	<b>Libor Floor</b>	<b>Interest Rate <sup>(1)</sup></b>	<b>Acquisition Date</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value</b>
er Readings ding, LLC lara) <sup>(2)(14)</sup>	Electronic Equipment, Instruments & Components	L+575	1.00%	7.23%	6/15/2017	8/29/2023	\$ 7,940	\$ 7,921	\$ 7,9
E Intermediate dings, LLC S-Miner) <sup>(2)(14)</sup>	Air Freight & Logistics	L+500	1.00%	6.69%	3/8/2017	3/10/2024	5,460	5,410	5,4
istry Brands, C) <sup>(2)(14)</sup>	Software	L+500	1.00%	6.38%	11/21/2016	12/2/2022	9,636	9,557	9,6
I Software C) <sup>(2)(14)</sup>	Software	L+625	1.00%	7.83%	6/7/2017	6/30/2023	8,224	8,147	8,1
I Acquiror p. (McLarens ng) <sup>(2)(14)</sup>	Insurance	L+450	1.25%	5.83%	5/21/2014	5/28/2019	3,348	3,337	3,3
I Acquiror Ltd. Larens ng) <sup>(2)(4)(14)</sup>	Insurance	L+450	1.25%	5.84%	5/21/2014	5/28/2019	4,271	4,258	4,2
Location nts, LLC & neSport dings Inc. <sup>(2)(14)</sup>	Media	L+550	1.00%	7.04%	12/7/2017	9/29/2021	15,000	14,815	14,8
Vet Care ters, LLC <sup>(2)(14)</sup>	Health Care Facilities	L+600	1.00%	7.35%	6/1/2017	6/8/2023	10,332	10,235	10,4
vcom, Inc. ) <sup>(4)</sup>	Communications Equipment	L+525	1.00%	6.72%	9/29/2016	9/27/2023	11,811	11,411	11,9
F Management dings, C) <sup>(2)(14)</sup>	Health Care Providers & Services	L+600	1.00%	9.50%	12/15/2016	12/16/2022	7,920	7,854	7,6
P Group, LLC Supplies ) <sup>(2)(8)(14)</sup>	Specialty Retail	L+475	1.00%	6.32%	4/2/2015	4/6/2021	482	479	4
S Holding pany, Inc. orum) <sup>(2)(14)</sup>	Software	L+475	1.00%	6.13%	8/1/2014	8/7/2021	6,059	6,025	6,0
	Asset Management	L+850	1.00%	9.85%	6/10/2015	6/9/2021	3,932	3,882	3,9

ent Partners, (2)(14)										
D Holding I poration oes for ws)(2)(14)	Footwear	L+500	1.00%	6.42%	11/20/2015	10/27/2022	5,880	5,839	5,7	
urban adband, LLC Wireless, (2)(14)	Wireless Telecommunication Services	L+650 <sup>(15)</sup>	1.00%	8.19%	11/29/2016	3/26/2019	4,938	4,911	4,9	
Hilb Group, & Gencorp urance Group, (2)(14)	Insurance	L+475	1.00%	6.44%	3/16/2016	6/24/2021	4,436	4,377	4,4	
ent USA lth ices (2)(14)	Health Care Providers & Services	L+575	1.25%	7.44%	7/29/2013	7/31/2019	8,693	8,670	7,3	
entyEighty, (14)	Professional Services	L+800 <sup>(9)</sup>	1.00%	9.42%	1/31/2017	3/31/2020	918	887	9	
entyEighty, (14)	Professional Services			8.00% <sup>(10)</sup>	1/31/2017	3/31/2020	1,984	1,894	1,8	
entyEighty, (14)	Professional Services			9.00% <sup>(11)</sup>	1/31/2017	3/31/2020	1,814	1,733	1,6	
. Acute Care ations, (2)(14)	Health Care Providers & Services	L+500	1.00%	6.69%	12/22/2016	5/15/2021	6,435	6,384	6,3	
Buyer quisition Corp. ritext)(2)(14)	Professional Services	L+475	1.00%	6.44%	2/17/2017	1/29/2022	5,983	5,957	5,9	
RB-Copernicus up, Inc.(2)(14)	Professional Services	L+500	1.00%	6.69%	3/27/2017	8/15/2022	4,466	4,447	4,4	
<b>Total Bank Debt/Senior Secured Loans</b>							<b>\$ 288,923</b>	<b>\$ 286,0</b>		

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)**

<b>Description</b>	<b>Industry</b>	<b>Spread Index</b>	<b>Interest Floor (1)</b>	<b>Acquisition Date</b>	<b>Maturity Date</b>	<b>Shares/Units</b>	<b>Cost</b>	<b>Fair Value</b>	
<b>Common Equity/Equity Interests/Warrants</b>									
<b>45.2%</b>									
Engineering Solutions & Products, LLC(6)(12)(14)	Aerospace & Defense			11/5/2013		133,668	\$ 1,367	\$ 68	
Essence Group Holdings Corporation (Lumeris) Warrants(14)	Health Care Technology			3/22/2017		52,000	16	39	
First Lien Loan Program LLC(4)(5)(14)	Asset Management			2/13/2015			37,459	35,835	
Gemino Healthcare Finance, LLC(4)(5)(14)	Diversified Financial Services			9/30/2013		32,839	32,839	35,050	
NorthMill LLC(4)(5)(14)(16)	Diversified Financial Services			10/20/2017		100	51,000	51,000	
TwentyEighty Investors, LLC(14)	Professional Services			1/31/2017		17,214	3,167		
<b>Total Common Equity/Equity Interests/Warrants</b>							<b>\$ 125,848</b>	<b>\$ 121,992</b>	
<b>Total Investments(13)</b>							<b>151.1%</b>	<b>\$ 414,771</b>	<b>\$ 408,081</b>
<b>Cash Equivalents</b>							<b>38.8%</b>	<b>Par Amount</b>	
U.S. Treasury Bill	Government			12/28/2017	2/8/2018	105,000	\$ 104,874	\$ 104,874	
<b>Total Investments &amp; Cash Equivalents</b>							<b>189.9%</b>	<b>\$ 519,645</b>	<b>\$ 512,955</b>
Liabilities in Excess of Other Assets							(89.9%)		(242,824)
<b>Net Assets</b>							<b>100.0%</b>		<b>\$ 270,131</b>

(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.

See notes to consolidated financial statements.

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

- (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		Dividend /Other Income	Fair Value at December 31, 2017
				Realized Gain (Loss)	Unrealized Gain (Loss)		
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	Change		Interest/ Dividend Income	Fair Value at December 31, 2017
				Realized Gain (Loss)	Unrealized Gain (Loss)		
Engineering Solutions & Products, LLC (1 <sup>st</sup> lien)		2,257	2,257			11	
Engineering Solutions & Products, LLC (2 <sup>nd</sup> 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.

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2017</b>
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%
<b>Total Investments</b>	<b>100.0%</b>

See notes to consolidated financial statements.



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**SOLAR SENIOR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**September 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, including FLLP effective September 2018. 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.

The significant accounting policies consistently followed by the Company are:

- (a) Investment transactions are accounted for on the trade date;



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**SOLAR SENIOR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2018**

**(in thousands, except share amounts)**

(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 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

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**SOLAR SENIOR CAPITAL LTD.**

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**September 30, 2018**

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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 nine months ended September 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.
- (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, including FLLP, 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 (see note 11).

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**SOLAR SENIOR CAPITAL LTD.**

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- (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. The Company's wholly owned investment subsidiary FLLP made an irrevocable election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10.
- (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.

#### Recent Accounting Pronouncements

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-13 on its consolidated financial statements and disclosures.

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In August 2018, the US Securities and Exchange Commission adopted final rules to eliminate redundant, duplicative, overlapping, outdated or superseded disclosure requirements in light of other disclosure requirements, GAAP or changes in the information environment. These rules amend certain provisions of Regulation S-X and Regulation S-K, certain rules promulgated under the Securities Act of 1933 and the Securities Exchange Act of 1934 and certain related forms. These changes become effective thirty days after the date of publication in the Federal Register. The Company is evaluating the impact of these changes on its consolidated financial statements and disclosures.

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.



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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 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 nine months ended September 30, 2018 and 2017.

For the three and nine months ended September 30, 2018 the Company recognized \$1,222 and \$3,415, respectively, in gross base management fees and \$1,344 and \$2,453, respectively, in gross performance-based incentive fees. For the three and nine months ended September 30, 2018, no base management fees were waived. For the three and nine months ended September 30, 2018, \$0 and \$745, respectively, of such performance-based incentive fees were waived. For the three and nine months ended September 30, 2017, the Company recognized \$955 and \$2,862, respectively, in gross base management fees and \$231 and \$428, respectively, in gross performance-based incentive fees. For the three and nine months ended September 30, 2017, \$481 and \$1,962, respectively, of such base management fees were waived. For the three and nine months ended September 30, 2017, \$231 and \$428, respectively, of such performance-based incentive fees were waived. For the three and nine months ended September 30, 2018, \$153 and \$153, respectively, of performance-based incentive fees were recaptured. For the three and nine months ended September 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

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occurred; (ii) for the period in which recoupment occurs, the annualized distribution rate cannot fall below the annualized distribution rate for the 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:

<b>Three Months Ended</b>	<b>Management and Performance-Based Incentive Fees Waived</b>	<b>Management and Performance-Based Incentive Fees Recouped</b>	<b>Unreimbursed Management and Performance-Based Incentive Fees</b>	<b>Ratio of Operating Expense to Average Net Assets for the Period<sup>(1)</sup></b>	<b>Annualized Distribution Rate for the Period<sup>(2)</sup></b>	<b>Eligible for Recoupment Through</b>
September 30, 2017	\$ 712	\$	\$ 712	0.32%	8.40%	June 30, 2019
December 31, 2017	281		281	0.33%	8.39%	September 30, 2019
March 31, 2018	308		308	0.28%	8.37%	December 31, 2019
June 30, 2018	437	153	284	0.30%	8.37%	March 31, 2020
<b>Total</b>	<b>\$ 1,738</b>	<b>\$ 153</b>	<b>\$ 1,585</b>			

(1) Operating expense includes all expenses borne by the Company, except for organizational and offering costs, base management fees, performance-based incentive fees and interest expense.

(2) Annualized distribution rate equals the annualized rate of distributions paid to shareholders based on the amount of the distributions declared prior to the date that the waivers of expenses related to management and performance-based incentive fees were incurred.

Solar Senior has also entered into an Administration Agreement with Solar Capital Management, LLC (the Administrator ) under which the Administrator provides administrative services for Solar Senior. For providing these services, facilities and personnel, Solar Senior reimburses the Administrator for Solar Senior's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent. The Administrator will also provide, on Solar Senior's behalf, managerial assistance to those portfolio companies to which Solar Senior is required to provide such assistance. The Company typically

reimburses the Administrator on a quarterly basis.

For the three and nine months ended September 30, 2018, the Company recognized expenses under the Administration Agreement of \$390 and \$1,159, respectively. For the three and nine months ended September 30, 2017, the Company recognized expenses under the Administration Agreement of \$372 and \$1,107, respectively. No managerial assistance fees were accrued or collected for the three and nine months ended September 30, 2018 and 2017.

**Note 4. Net Asset Value Per Share**

At September 30, 2018, the Company's total net assets and net asset value per share were \$269,676 and \$16.81, respectively. This compares to total net assets and net asset value per share at December 31, 2017 of \$270,131 and \$16.84, respectively.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share amounts)****Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted net increase in net assets per share resulting from operations, pursuant to ASC 260-10, for the three and nine months ended September 30, 2018 and 2017:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<u>Earnings per share (basic &amp; diluted)</u>				
Numerator net increase in net assets resulting from operations:	\$ 5,406	\$ 6,012	\$ 16,442	\$ 17,152
Denominator weighted average shares:	16,040,485	16,033,270	16,039,917	16,029,844
Earnings per share:	\$ 0.34	\$ 0.37	\$ 1.03	\$ 1.07

**Note 6. Fair Value**

Fair value is defined as 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. GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

**Level 1.** Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access.

**Level 2.** Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;

- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

**Level 3.** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's and, if applicable, an independent third-party valuation firm's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3).

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Gains and losses for assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Such reclassifications are reported as transfers in/out of the appropriate category as of the end of the quarter in which the reclassifications occur.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2018 and December 31, 2017:

**Fair Value Measurements****As of September 30, 2018**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$	\$ 13,787	\$ 357,908	\$ 371,695
Common Equity/Equity Interests/Warrants			93,504	93,504
Total Investments	\$	\$ 13,787	\$ 451,412	\$ 465,199
<b>Liabilities:</b>				
FLLP Facility	\$	\$	\$ 44,784	\$ 44,784

**Fair Value Measurements****As of December 31, 2017**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Measured at Net Asset Value*</b>	<b>Total</b>
<b>Assets:</b>					
Bank Debt/Senior Secured Loans	\$	\$ 21,439	\$ 264,650	\$	\$ 286,089
Common Equity/Equity Interests/Warrants			86,157	35,835	121,992

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Total Investments	\$	\$ 21,439	\$ 350,807	\$	35,835	\$ 408,081
<b>Liabilities:</b>						
Credit Facility	\$	\$	\$ 124,200	\$		\$ 124,200

\* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities. The portfolio investment in this category is FLLP. See Note 11 for more information on this investment, including its investment strategy and the Company's unfunded equity commitment to FLLP. This investment is not redeemable by the Company absent an election by the members of the entity to liquidate all investments and distribute the proceeds to the members.



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The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the nine months ended September 30, 2018, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2018:

**Fair Value Measurements Using Level 3 Inputs**

	<b>Bank Debt/Senior Secured Loans</b>	<b>Common Equity/Equity Interests/Warrants</b>	<b>Total</b>
<b>Fair value, December 31, 2017</b>	\$ 264,650	\$ 86,157	\$ 350,807
Total gains or losses included in earnings:			
Net realized gain (loss)	(5,455)		(5,455)
Net change in unrealized gain (loss)	2,001	3,722	5,723
Purchase of investment securities	131,767	5,025	136,792
Proceeds from dispositions of investment securities	(126,203)	(1,400)	(127,603)
Transfers in/out of Level 3	91,148		91,148
<b>Fair value, September 30, 2018</b>	\$ 357,908	\$ 93,504	\$ 451,412
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:			
Net change in unrealized gain (loss):	\$ 2,001	\$ 3,722	\$ 5,723

During the quarter ended June 30, 2018, Advantage Sales and Marketing Inc. was transferred from Level 2 to Level 3. At June 30, 2018, the Investment Adviser believed that the available quote for Advantage Sales and Marketing Inc. was no longer representative of fair value. However, the quote was still considered as an input to the fair value determination. As such, Advantage Sales and Marketing Inc. was transferred from Level 2 to Level 3 as the Investment Adviser could no longer rely on the available quote from a third-party source and was using additional assumptions in fair valuing the investment. During the quarter ended September 30, 2018, the Company's investment in FLLP was consolidated, and as such the Level 3 assets held by FLLP are reflected as transfers into Level 3.

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the nine months ended September 30, 2018:

Beginning fair value at December 31, 2017	\$ 124,200
Borrowings	
Repayments	(5,013)
Transfers in/out of Level 3	(74,403)
Ending fair value at September 30, 2018	\$ 44,784

The Company's wholly owned investment subsidiary FLLP made an irrevocable election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10. On September 30, 2018, there were borrowings of \$44,784 on the FLLP Facility. For the nine months ended September 30, 2018, the FLLP Facility had no net change in unrealized (appreciation) depreciation. As a result of the consolidation of FLLP, the FLLP Facility is shown as a transfer into Level 3.

The Company did not elect to apply the fair value option of accounting to the Credit Facility, which was refinanced by way of amendment on June 1, 2018. As this refinancing was deemed to be a significant

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modification of debt, per ASC 825-10-25, a new election date was triggered. As such the Credit Facility is shown as a transfer out of Level 3.

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2017, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2017:

**Fair Value Measurements Using Level 3 Inputs**

	<b>Bank Debt/Senior Secured Loans</b>	<b>Common Equity/Equity Interests/Warrants</b>
<b>Fair value, December 31, 2016</b>	\$ 250,268	\$ 35,568
Total gains or losses included in earnings:		
Net realized gain (loss)	129	
Net change in unrealized gain (loss)	3,436	(3,593)
Purchase of investment securities	132,045	54,182
Proceeds from dispositions of investment securities	(137,054)	
Transfers in/out of Level 3	15,826	
<b>Fair value, December 31, 2017</b>	<b>\$ 264,650</b>	<b>\$ 86,157</b>
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:		
Net change in unrealized gain (loss):	\$ 3,436	\$ (3,593)

During the fiscal year ended December 31, 2017, Securus Technologies, Inc. and nThrive, Inc. were transferred from Level 2 to Level 3. At June 30, 2017, the Investment Adviser believed that Securus Technologies, Inc. was likely going to be prepaid at par in the near future. As such, the Investment Adviser, in its recommendation to the Board, provided that it was more representative of fair value to price the position at par, matching the price we would receive if the investment was prepaid. Securus Technologies, Inc. was repaid at par in the quarter ended December 31, 2017. At March 31, 2017, the Investment Adviser also believed that nThrive, Inc. was likely going to be prepaid in the near

future. As such, the Investment Adviser, in its recommendation to the Board, provided that it was more representative of fair value to price the position at par, matching the price we would receive if the investment was prepaid. nThrive, Inc. was repaid in the quarter ended June 30, 2017.

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the year ended December 31, 2017:

Beginning fair value at December 31, 2016	\$ 98,300
Borrowings	162,000
Repayments	(136,100)
Transfers in/out of Level 3	
Ending fair value at December 31, 2017	\$ 124,200

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. On December 31, 2017, there were borrowings of \$124,200 on the Credit Facility. For the year ended December 31, 2017, the Credit Facility had no net change in unrealized

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(appreciation) depreciation. The Company used an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility.

**Quantitative Information about Level 3 Fair Value Measurements**

The Company typically determines the fair value of its performing debt investments utilizing a yield analysis. In a yield analysis, a price is ascribed for each investment based upon an assessment of current and expected market yields for similar investments and risk profiles. Additional consideration is given to current contractual interest rates, relative maturities and other key terms and risks associated with an investment. Among other factors, a significant determinant of risk is the amount of leverage used by the portfolio company relative to the total enterprise value of the company, and the rights and remedies of our investment within each portfolio company.

Significant unobservable quantitative inputs typically used in the fair value measurement of the Company's Level 3 assets and liabilities primarily reflect current market yields, including indices, and readily available quotes from brokers, dealers, and pricing services as indicated by comparable assets and liabilities, as well as enterprise values, returns on equity and earnings before income taxes, depreciation and amortization ( EBITDA ) multiples of similar companies, and comparable market transactions for equity securities.

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of September 30, 2018 is summarized in the table below:

		Fair Value at Asset or September 30, Liability 2018	Principal Valuation Technique/ Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 357,908	Income Approach	Market Yield	5.6% 15.0% (8.1%)
		\$ 154	Market Approach	EBITDA Multiple	5.8x-14.4x (14.4x)
Common Equity/Equity Interests/Warrants	Asset	\$ 93,350	Market Approach	Return on Equity	6.9% - 28.0% (14.7%)
FLLP Facility					L+1.4% L+4.8%
	Liability	\$ 44,784	Yield Analysis	Market Yield	(L+2.3%)

Significant increases or decreases in any of the above unobservable inputs in isolation, including unobservable inputs used in deriving bid-ask spreads, if applicable, would result in a significantly lower or higher fair value measurement for such assets and liabilities.

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Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2017 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2017	Principal Valuation Technique/ Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 264,650	Yield Analysis	Market Yield	6.1% - 21.6% (8.6%)
		\$ 107	Enterprise Value	EBITDA Multiple	5.5x-16.0x (16.0x)
Common Equity/Equity Interests/Warrants	Asset	\$ 86,050	Enterprise Value	Return on Equity	5.9% - 24.4% (13.4%)
					L+1.4% - L+4.8% (L+2.0%)
Credit Facility	Liability	\$ 124,200	Yield Analysis	Market Yield	(L+2.0%)

Significant increases or decreases in any of the above unobservable inputs in isolation, including unobservable inputs used in deriving bid-ask spreads, if applicable, would result in a significantly lower or higher fair value measurement for such assets and liabilities.

**Note 7. Debt**

*Credit Facility* On August 26, 2011, the Company established our wholly-owned subsidiary, SUNS SPV LLC (the SUNS SPV) which entered into the Credit Facility with Citigroup Global Markets Inc. acting as administrative agent. On January 10, 2017, commitments to the Credit Facility, as amended, were increased from \$175,000 to \$200,000 by utilizing the accordion feature. The commitment can also be expanded up to \$600,000. The stated interest rate on the Credit Facility is LIBOR plus 2.00% with no LIBOR floor requirement and the current final maturity date is June 1, 2023. The Credit Facility is secured by all of the assets held by SUNS SPV. Under the terms of the Credit Facility, Solar Senior and SUNS SPV, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The Credit Facility also includes usual and customary events of default for credit facilities of this nature. The Credit Facility was amended on November 7, 2012, June 30, 2014, May 29, 2015 to extend maturities and add greater investment flexibility, among other changes. On June 1, 2018, the Credit Facility was refinanced by way of amendment, allowing for greater investment flexibility and the extension of

the maturity date, among other changes. On July 13, 2018, commitments to the Credit Facility, as amended, were increased from \$200,000 to \$225,000 by utilizing the accordion feature.

*FLLP Facility* On February 13, 2015, FLLP as transferor and FLLP 2015-1, LLC, a newly formed wholly owned subsidiary of FLLP, as borrower entered into a \$75,000 FLLP Facility with Wells Fargo Securities, LLC acting as administrative agent. Solar Senior Capital Ltd. acts as servicer under the FLLP Facility. The FLLP Facility was scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.25%-2.50%. FLLP and FLLP 2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. On August 15, 2016, the FLLP Facility was amended, expanding commitments to \$100,000 and extending the maturity date to August 16, 2021. There were \$44,784 of borrowings outstanding as of September 30, 2018.

The Company's wholly owned investment subsidiary FLLP made an irrevocable election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10. We believe accounting for this



Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share amounts)**

facility at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. ASC 825-10 requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the above facilities are reported in the Consolidated Statement of Operations.

The average annualized interest cost for all borrowings for the nine months ended September 30, 2018 and the year ended December 31, 2017 was 4.01% and 3.16%, respectively. These costs are exclusive of other credit facility expenses such as unused fees and fees paid to the back-up servicer, if any. The maximum amount borrowed on the revolving credit facilities during the nine months ended September 30, 2018 and the year ended December 31, 2017, was \$214,296 and \$136,000, respectively.

**Note 8. Financial Highlights and Senior Securities Table**

The following is a schedule of financial highlights for the nine months ended September 30, 2018 and for the year ended December 31, 2017:

	<b>Nine months ended September 30, 2018</b>	<b>Year ended December 31, 2017 (audited)</b>
<b>Per Share Data: (a)</b>		
Net asset value, beginning of year	\$ 16.84	\$ 16.80
Net investment income	1.06	1.41
Net realized and unrealized gain (loss)	(0.03)	0.04
Net increase in net assets resulting from operations	1.03	1.45
Distributions to stockholders:		
From net investment income	(1.06)	(1.41)
Net asset value, end of period	\$ 16.81	\$ 16.84
<b>Per share market value, end of period</b>		
	\$ 16.71	\$ 17.76
Total Return (b)	0.18%	17.11%

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Net assets, end of period	\$	269,676	\$	270,131
Shares outstanding, end of period		16,040,485		16,036,730
<b>Ratios to average net assets (c):</b>				
Net investment income		6.32%		8.39%
Operating expenses		2.80%*		2.12%*
Interest and other credit facility expenses		1.92%		1.43%
Total expenses		4.72%*		3.55%*
Average debt outstanding	\$	162,208	\$	100,700
Portfolio turnover ratio		34.4%		41.4%

(a) Calculated using the average shares outstanding method.

(b) Total return is based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with the dividend reinvestment plan. Total return does not include a sales load.

(c) Not annualized for periods less than one year.

\* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is shown net of voluntary management and incentive fee waivers (see note 3). For the nine months ended

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September 30, 2018, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.07% and 5.00%, respectively, without the voluntary incentive fee waiver. For the year ended December 31, 2017, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.11% and 4.54%, respectively, without the voluntary management and incentive fee waivers. Information about our senior securities is shown in the following table as of each year ended December 31 since the Company commenced operations, unless otherwise noted. The        indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

<b>Class and Year</b>	<b>Total Amount Outstanding(1)</b>	<b>Asset Coverage Per Unit(2)</b>	<b>Involuntary Liquidating Preference Per Unit(3)</b>	<b>Average Market Value Per Unit(4)</b>
<b>Credit Facility</b>				
Fiscal 2018 (through September 30, 2018)	\$ 148,600	\$ 1,840	\$	N/A
Fiscal 2017	124,200	3,175		N/A
Fiscal 2016	98,300	3,738		N/A
Fiscal 2015	116,200	2,621		N/A
Fiscal 2014	143,200	2,421		N/A
Fiscal 2013	61,400	4,388		N/A
Fiscal 2012	39,100	5,453		N/A
Fiscal 2011	8,600	21,051		N/A
<b>FLLP Facility</b>				
Fiscal 2018 (through September 30, 2018)	44,784	555		N/A
<b>Total Senior Securities</b>				
Fiscal 2018 (through September 30, 2018)	\$ 193,384	\$ 2,395	\$	N/A
Fiscal 2017	124,200	3,175		N/A
Fiscal 2016	98,300	3,738		N/A
Fiscal 2015	116,200	2,621		N/A
Fiscal 2014	143,200	2,421		N/A
Fiscal 2013	61,400	4,388		N/A
Fiscal 2012	39,100	5,453		N/A
Fiscal 2011	8,600	21,051		N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each. As of September 30, 2018, asset coverage was 239.5%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, we do not have senior securities that are registered for public trading.

**Note 9. Gemino Healthcare Finance, LLC**

We acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) ( Gemino ) on September 30, 2013. Gemino is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized companies operating in the healthcare

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share amounts)**

industry. Our initial investment in Gemino was \$32,839. The management team of Gemino co-invested in the transaction and continues to lead Gemino. As of September 30, 2018, Gemino's management team and Solar Senior own approximately 7% and 93% of the equity in Gemino, respectively.

Concurrent with the closing of the transaction, Gemino entered into a new, four-year, non-recourse, \$100,000 credit facility with non-affiliates, which was expandable to \$150,000 under its accordion feature. Effective March 31, 2014, the credit facility was expanded to \$105,000 and again on June 27, 2014 to \$110,000. On May 27, 2016, Gemino entered into a new \$125,000 credit facility which replaced the previously existing facility. The new facility has similar terms as compared to the previous facility and includes an accordion feature increase to \$200,000 and has a maturity date of May 27, 2020.

Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2018, the portfolio totaled approximately \$169,192 of commitments, of which \$108,080 were funded, on total assets of \$97,685. As of December 31, 2017, the portfolio totaled approximately \$176,332 of commitments, of which \$106,620 were funded, on total assets of \$110,584. At September 30, 2018, the portfolio consisted of 33 issuers with an average balance of approximately \$3,275 versus 29 issuers with an average balance of approximately \$3,677 at December 31, 2017. All of the commitments in Gemino's portfolio are floating-rate, senior-secured, cash-pay loans. Gemino's credit facility, which is non-recourse to us, had approximately \$64,000 and \$75,000 of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, Gemino had net income of \$1,129 and \$1,139, respectively, on gross income of \$2,950 and \$3,111, respectively. For the nine months ended September 30, 2018 and 2017, Gemino had net income of \$2,509 and \$2,562, respectively, on gross income of \$8,414 and \$8,723, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

**Note 10. Commitments and Contingencies**

The Company had unfunded debt and equity commitments to various revolving and delayed draw loans as well as to Gemino Healthcare Finance, LLC. The total amount of these unfunded commitments as of September 30, 2018 and December 31, 2017 is \$22,533 and \$27,472, respectively, comprised of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
DISA Holdings Acquisition Corp.	\$ 5,365	\$
The Hilb Group, LLC & Gencorp Insurance Group, Inc.	5,313	332

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Solara Medical Supplies, Inc.	2,990	
WIRB-Copernicus Group, Inc.	2,833	
MRI Software LLC	2,706	2,361
Gemino Healthcare Finance, LLC*	1,400	5,000
MSHC, Inc.	1,243	
Engineering Solutions & Products, LLC	401	1,736
AQA Acquisition Holding, Inc.	142	
TwentyEighty, Inc.	140	140
VetCor Professional Practices LLC		6,721
Edgewood Partners Holdings, LLC		
Alera Group Intermediate Holdings, Inc.		4,695
VT Buyer Acquisition Corp. (Veritext)		3,450
MHE Intermediate Holdings, LLC		983
PetVet Care Centers, LLC		1,627
Ministry Brands, LLC		427
Total Commitments	\$ 22,533	\$ 27,472

\* The Company controls the funding of the Gemino commitment and may cancel it at its discretion.

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As of September 30, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

**Note 11. First Lien Loan Program LLC**

On September 10, 2014, the Company entered into a limited liability company agreement to create FLLP with Voya Investment Management LLC ( Voya ). Voya acts as the investment advisor for several wholly-owned insurance subsidiaries of Voya Financial, Inc. (NYSE: VOYA). The joint venture vehicle, structured as an unconsolidated Delaware limited liability company, is expected to invest primarily in senior secured floating rate term loans to middle market companies predominantly owned by private equity sponsors or entrepreneurs. Solar Senior and Voya have committed to provide \$50,750 and \$7,250, respectively, of capital to the joint venture. All portfolio decisions and generally all other decisions in respect of the FLLP must be approved by an investment committee of the FLLP consisting of representatives of the Company and Voya (with approval from a representative of each required). On February 13, 2015, FLLP commenced operations. On February 13, 2015, FLLP as transferor and FLLP 2015-1, LLC, a newly formed wholly owned subsidiary of FLLP, as borrower entered into a \$75,000 senior secured revolving credit facility (the FLLP Facility ) with Wells Fargo Securities, LLC acting as administrative agent. Solar Senior Capital Ltd. acts as servicer under the FLLP Facility. The FLLP Facility was scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.25%-2.50%. FLLP and FLLP 2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. On August 15, 2016, the FLLP Facility was amended, expanding commitments to \$100,000 and extending the maturity date to August 16, 2021. There were \$44,784 and \$78,644 of borrowings outstanding as of September 30, 2018 and December 31, 2017, respectively. On September 18, 2018, the Company acquired Voya's share of the equity in FLLP and now holds 100% of the equity in FLLP. As such, the Company is consolidating FLLP as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$3,210 in unrealized depreciation on the Company's equity investment in FLLP is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, FLLP had total assets of \$80,305 and \$121,791, respectively. For the same periods, FLLP's portfolio consisted of first lien floating rate senior secured loans to 16 and 23 different borrowers, respectively. For the three months ended September 30, 2018, FLLP invested \$1,601 across 3 portfolio companies. For the three months ended September 30, 2017, FLLP invested \$7,186 across 7 portfolio companies. Investments sold or prepaid totaled \$30,695 for the three months ended September 30, 2018 and \$4,672 for the three months ended September 30, 2017. At September 30, 2018 and December 31, 2017, the weighted average yield of

FLLP's portfolio was 7.2% and 7.3%, respectively, measured at fair value and 7.3% and 7.2%, respectively, measured at cost.



**Table of Contents****SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share amounts)****FLLP Portfolio as of September 30, 2018**

<b>Description</b>	<b>Industry</b>	<b>Spread Above LIBOR Index<sup>(1)</sup></b>	<b>Floor</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
1A Smart Start LLC	Electronic Equipment, Instruments & Components	L+475	1.00%	6.99%	2/21/22	\$ 6,805	\$ 6,766	\$ 6,805
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	3,495	3,468	3,337
Capstone Logistics Acquisition, Inc.	Professional Services	L+450	1.00%	6.74%	10/7/21	4,470	4,447	4,487
Confie Seguros Holding II Co.	Insurance	L+525	1.00%	7.49%	4/19/22	4,727	4,694	4,626
Edgewood Partners Holdings, LLC (Epic)	Insurance	L+425	1.00%	6.49%	9/8/24	4,344	4,327	4,344
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+450	1.00%	6.74%	11/30/23	5,955	5,884	5,955
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	4,172	4,172	4,172
Kellermeyer Bergensons Services, LLC (KBS)	Commercial Services & Supplies	L+500	1.00%	7.32%	10/29/21	3,832	3,807	3,832
Ministry Brands, LLC	Software	L+400	1.00%	6.24%	12/2/22	4,368	4,336	4,368
MSHC, Inc. (Service Logic)	Commercial Services & Supplies	L+425	1.00%	6.56%	7/31/23	916	912	912
National Spine and Pain Centers, LLC	Health Care Providers & Services	L+450	1.00%	6.74%	6/2/24	2,591	2,580	2,565
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	4,600	4,552	4,600
PSP Group, LLC (Pet Supplies Plus)	Specialty Retail	L+475	1.00%	7.00%	4/6/21	4,598	4,578	4,598
Telular Corporation	Wireless Telecommunication	L+425	1.25%	6.64%	6/24/19	4,784	4,778	4,784

## Services

The Hilb Group, LLC & Gencorp Insurance Group, Inc.	Insurance	L+475	1.00%	7.14%	6/24/21	4,191	4,147	4,191
Wirb-Copernicus Group, Inc.	Professional Services	L+425	1.00%	6.49%	8/15/22	5,146	5,114	5,146
							\$ 68,562	\$ 68,722

- (1) 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.
- (2) 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 September 30, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.

**FLLP Portfolio as of December 31, 2017 (audited)**

Description	Industry	Spread Above Index <sup>(1)</sup>	LIBOR Floor	Interest Rate <sup>(2)</sup>	Maturity Date	Par Amount	Cost	Fair Value <sup>(3)</sup>
1A Smart Start LLC <sup>(4)</sup>	Electronic Equipment, Instruments & Components	L+475	1.00%	6.44%	2/21/22	\$ 7,840	\$ 7,787	\$ 7,820
Alera Group Intermediate Holdings, Inc. <sup>(4)</sup>	Insurance	L+550	1.00%	6.85%	12/30/22	4,279	4,241	4,257
Anesthesia Consulting & Management, LP <sup>(4)</sup>	Health Care Providers & Services	L+625	1.00%	7.94%	10/31/22	4,530	4,493	4,258
Capstone Logistics Acquisition, Inc. <sup>(4)</sup>	Professional Services	L+450	1.00%	6.07%	10/7/21	5,284	5,252	5,231

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<b>Description</b>	<b>Industry</b>	<b>Spread Above Index<sup>(1)</sup></b>	<b>LIBOR Floor</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
Confie Seguros Holding II Co. <sup>(4)</sup>	Insurance	L+525	1.00%	6.73%	4/19/22	5,445	5,401	5,450
Edgewood Partners Holdings, LLC (Epic)	Insurance	L+475	1.00%	6.14%	9/8/24	4,467	4,447	4,444
Empower Payments Acquisition, Inc. (RevSpring) <sup>(4)</sup>	Professional Services	L+550	1.00%	7.19%	11/30/23	4,579	4,499	4,579
Falmouth Group Holdings Corp. (AMPAC) <sup>(4)</sup>	Chemicals	L+675	1.00%	8.44%	12/14/21	5,018	5,018	5,018
Island Medical Management Holdings, LLC <sup>(4)</sup>	Health Care Providers & Services	L+550	1.00%	7.00%	9/1/22	4,570	4,528	4,432
Kellermeyer Bergensons Services, LLC (KBS) <sup>(4)</sup>	Commercial Services & Supplies	L+500	1.00%	6.48%	10/29/21	4,415	4,381	4,415
Metamorph US 3, LLC (Metalogix) <sup>(4)</sup>	Software	L+750 <sup>(5)</sup>	1.00%	9.07%	12/1/20	3,976	3,922	2,903
Ministry Brands, LLC <sup>(4)</sup>	Software	L+500	1.00%	6.38%	12/2/22	4,818	4,777	4,818
National Spine and Pain Centers, LLC	Health Care Providers & Services	L+450	1.00%	6.19%	6/2/24	2,985	2,971	2,963
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.84%	7/5/22	5,111	5,050	5,086
PSP Group, LLC (Pet Supplies Plus) <sup>(4)</sup>	Specialty Retail	L+475	1.00%	6.32%	4/6/21	5,298	5,269	5,298
QBS Holding Company, Inc. (Quorum) <sup>(4)</sup>	Software	L+475	1.00%	6.13%	8/7/21	3,263	3,243	3,238

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Salient Partners, L.P. <sup>(4)</sup>	Asset Management	L+850	1.00%	9.85%	6/9/21	4,806	4,745	4,806
Sarnova HC, LLC	Trading Companies and Distributors	L+475	1.00%	6.32%	1/28/22	4,913	4,877	4,913
Suburban Broadband, LLC (Jab Wireless, Inc.) <sup>(4)</sup>	Wireless Telecommunication Services	L+650 <sup>(6)</sup>	1.00%	8.19%	3/26/19	8,067	8,007	8,067
Telular Corporation	Wireless Telecommunication Services	L+425	1.25%	5.94%	6/24/19	5,743	5,729	5,728
The Hilb Group, LLC & Gencorp Insurance Group, Inc. <sup>(4)</sup>	Insurance	L+475	1.00%	6.44%	6/24/21	4,519	4,459	4,519
VT Buyer Acquisition Corp. (Veritext) <sup>(4)</sup>	Professional Services	L+475	1.00%	6.44%	1/29/22	5,926	5,901	5,897
Wirb-Copernicus Group, Inc. <sup>(4)</sup>	Professional Services	L+500	1.00%	6.69%	8/15/22	5,928	5,882	5,928
							\$ 114,879	\$ 114,068

- (1) 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.
- (2) 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.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.
- (5) Spread is 5.50% Cash / 2.0% PIK.
- (6) Spread is 4.50% Cash / 2.0% PIK.

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Below is certain summarized financial information for FLLP as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Selected Balance Sheet Information for FLLP:</b>		
Investments at fair value (cost \$68,562 and \$114,879, respectively)	\$ 68,722	\$ 114,068
Cash and other assets.	11,583	7,723
Total assets	\$ 80,305	\$ 121,791
Debt outstanding	\$ 44,784	\$ 78,644
Distributions payable	930	1,180
Interest payable and other credit facility related expenses	898	843
Accrued expenses and other payables	149	170
Total liabilities	\$ 46,761	\$ 80,837
Members' equity	\$ 33,544	\$ 40,954
Total liabilities and members' equity	\$ 80,305	\$ 121,791

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
<b>Selected Income Statement Information for FLLP:</b>				
Interest income	\$ 1,809	\$ 2,160	\$ 5,992	\$ 6,260
Service fees*	\$ 13	\$ 20	\$ 50	\$ 59
	835	786	2,623	2,229

Interest and other credit facility expenses				
Other general and administrative expenses	18	49	108	89
Total expenses	866	855	2,781	2,377
Net investment income	\$ 943	\$ 1,305	\$ 3,211	\$ 3,883
Realized gain (loss) on investments	6		(2,613)	69
Net change in unrealized gain (loss) on investments	(142)	486	971	(30)
Net realized and unrealized gain (loss) on investments	(136)	486	(1,642)	39
Net income	\$ 807	\$ 1,791	\$ 1,569	\$ 3,922

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

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**SOLAR SENIOR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2018**

**(in thousands, except share amounts)**

**Note 12. Solar Life Science Program LLC**

On February 22, 2017, the Company and Solar Capital Ltd. formed LSJV with an affiliate of Deerfield Management. The Company committed \$75,000 to LSJV. On August 16, 2018, the LSJV was dissolved, without commencing operations.

**Note 13. North Mill Capital LLC**

We acquired 100% of the equity interests of North Mill Capital LLC ( NMC ) on October 20, 2017. NMC is a leading asset-backed lending commercial finance company that provides senior secured asset-backed financings to U.S. based small-to-medium-sized businesses primarily in the manufacturing, services and distribution industries. We invested approximately \$51,000 to effect the transaction. Subsequently, the Company contributed 1% of its equity interest in NMC to ESP SSC Corporation. Immediately thereafter, the Company and ESP SSC Corporation contributed their equity interests to NorthMill LLC ( NorthMill ). On May 1, 2018, NorthMill merged with and into NMC, with NMC being the surviving company. The Company and ESP SSC Corporation own 99% and 1% of the equity interests of NMC, respectively. The management team of NMC continues to lead NMC.

NMC currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2018, the portfolio totaled approximately \$272,476 of commitments, of which \$145,953 were funded, on total assets of \$167,812. As of December 31, 2017, the portfolio totaled approximately \$283,461 of commitments, of which \$151,604 were funded, on total assets of \$176,354. At September 30, 2018, the portfolio consisted of 87 issuers with an average balance of approximately \$1,677 versus 92 issuers with an average balance of approximately \$1,600 at December 31, 2017. NMC has a senior credit facility with a bank lending group for \$160,000 which expires on October 20, 2020. Borrowings are secured by substantially all of NMC's assets. NMC's credit facility, which is non-recourse to us, had approximately \$104,340 and \$116,574 of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018, NMC had net income of \$895 on gross income of \$5,649. For the nine months ended September 30, 2018, NMC had net income of \$2,425 on gross income of \$15,902. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in NMC's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that NMC will be able to maintain consistent dividend payments to us.

**Note 14. Capital Share Transactions**

As of September 30, 2018 and December 31, 2017, 200,000,000 shares of \$0.01 par value capital stock were authorized.

Transactions in capital stock were as follows:

	Shares		Amount	
	Nine months ended	Year ended	Nine months ended	Year ended
	September 30, 2018	December 31, 2017	September 30, 2018	December 31, 2017
Shares issued in reinvestment of distributions	3,755	11,719	\$ 65	\$ 204
Net increase	3,755	11,719	\$ 65	\$ 204

**Note 15. Subsequent Events**

The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the consolidated financial statements were issued.



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**SOLAR SENIOR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2018**

**(in thousands, except share amounts)**

On October 4, 2018, the Board declared a monthly distribution of \$0.1175 per share payable on November 1, 2018 to holders of record as of October 24, 2018.

The Small Business Credit Availability Act permits BDCs to reduce the required minimum asset coverage ratio applicable to a BDC from 200% to 150%, subject to certain requirements described therein. At the Company's Annual Stockholder Meeting held on October 11, 2018, the Company's stockholders approved the proposal to authorize the Company to become subject to a minimum asset coverage ratio of at least 150% effective as of October 12, 2018.

On November 5, 2018, the Board declared a monthly distribution of \$0.1175 per share payable on December 4, 2018 to holders of record as of November 21, 2018.

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**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

Solar Senior Capital Ltd.:

*Results of Review of Interim Financial Information*

We have reviewed the consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd. (the Company) as of September 30, 2018, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2018 and 2017, the related consolidated statement of changes in net assets for the nine-month period ended September 30, 2018, the related consolidated statements of cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statement of assets and liabilities, including the consolidated schedule of investments, of the Company as of December 31, 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of assets and liabilities, including the consolidated schedule of investments, from which it has been derived.

*Basis for Review Results*

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

New York, New York

November 5, 2018

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

*The information contained in this section should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.*

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein 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;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as "anticipates," "believes," "expects," "intends" and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including any factors set forth in "Risk Factors" and elsewhere in this report.

We have based the forward-looking statements included in this report on information available to us on the date of this report, and we assume no obligation to update any such forward-looking statements. Although we undertake no obligation to revise or update any forward-looking statements, whether as a result of new information, future events or otherwise, you are advised to consult any additional disclosures that we may make directly to you or through reports that we in the future may file with the SEC, including any annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

## **Overview**

Solar Senior Capital Ltd. ( Solar Senior , the Company , we or our ), a Maryland corporation formed in December 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, as amended (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, the Company has 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 February 24, 2011, we priced our initial public offering, selling 9.0 million shares, including the underwriters over-allotment, raising approximately \$168 million in net proceeds. Concurrent with this offering, Solar Senior Capital Investors LLC, an entity controlled by Michael S. Gross, our Chairman and Chief Executive Officer, and Bruce Spohler, our Chief Operating Officer, purchased an additional 500,000 shares through a concurrent private placement, raising another \$10 million.

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We invest primarily in privately held U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. We define middle market to refer to companies with annual revenues between \$50 million and \$1 billion. Our investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by directly and indirectly investing in senior loans, including first lien, stretch first lien, and second lien debt instruments, made to private middle-market companies whose debt is rated below investment grade, which we refer to collectively as senior loans. We may also invest in debt of public companies that are thinly traded or in equity securities. Under normal market conditions, at least 80% of the value of our net assets (including the amount of any borrowings for investment purposes) will be invested in senior loans. Senior loans typically pay interest at rates which are determined periodically on the basis of a floating base lending rate, primarily LIBOR, plus a premium. Senior loans in which we invest are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior loans typically are rated below investment grade. Securities rated below investment grade are often referred to as leveraged loans, high yield or junk securities, and may be considered high risk compared to debt instruments that are rated investment grade. In addition, some of our debt investments are not scheduled to fully amortize over their stated terms, which could cause us to suffer losses if the respective issuer of such debt investment is unable to refinance or repay their remaining indebtedness at maturity. While the Company does not typically seek to invest in traditional equity securities as part of its investment objective, the Company may occasionally acquire some equity securities in connection with senior loan investments and in certain other unique circumstances, such as the Company's equity investments in Gemino Healthcare Finance, LLC ( Gemino ) and North Mill Capital LLC ( NMC ).

We invest in senior loans made primarily to private, leveraged middle-market companies with approximately \$20 million to \$100 million of earnings before income taxes, depreciation and amortization ( EBITDA ). Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our direct investments in individual securities will generally range between \$5 million and \$30 million each, although we expect that this investment size will vary proportionately with the size of our capital base and/or strategic initiatives. In addition, we may invest a portion of our portfolio in other types of investments, which we refer to as opportunistic investments, which are not our primary focus but are intended to enhance our overall returns. These opportunistic investments may include, but are not limited to, direct investments in public companies that are not thinly traded and securities of leveraged companies located in select countries outside of the United States. We may invest up to 30% of our total assets in such opportunistic investments, including loans issued by non-U.S. issuers, subject to compliance with our regulatory obligations as a BDC under the 1940 Act. Our investment activities are managed by Solar Capital Partners, LLC ( Solar Capital Partners or Investment Adviser ) and supervised by our board of directors, a majority of whom are non-interested, as such term is defined in the 1940 Act. Solar Capital Management, LLC ( Solar Capital Management or Administrator ) provides the administrative services necessary for us to operate.

As of September 30, 2018, the Investment Adviser has directly invested over \$7.5 billion in more than 350 different portfolio companies since 2006. Over the same period, the Investment Adviser completed transactions with more than 190 different financial sponsors.

**Recent Developments**

On October 4, 2018, the Board declared a monthly distribution of \$0.1175 per share payable on November 1, 2018 to holders of record as of October 24, 2018.

The Small Business Credit Availability Act permits BDCs to reduce the required minimum asset coverage ratio applicable to a BDC from 200% to 150%, subject to certain requirements described therein. At the Company's Annual

Stockholder Meeting held on October 11, 2018, the Company's stockholders approved the proposal to authorize the Company to become subject to a minimum asset coverage ratio of at least 150% effective as of October 12, 2018.

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On November 5, 2018, the Board declared a monthly distribution of \$0.1175 per share payable on December 4, 2018 to holders of record as of November 21, 2018.

## **Investments**

Our level of investment activity can and does vary substantially from period to period depending on many factors, including the amount of debt and equity capital available to middle market companies, the level of merger and acquisition activity for such companies, the general economic environment and the competitive environment for the types of investments we make. As a BDC, we must not acquire any assets other than qualifying assets specified in the 1940 Act unless, at the time the acquisition is made, at least 70% of our total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. The definition of eligible portfolio company includes certain public companies that do not have any securities listed on a national securities exchange and companies whose securities are listed on a national securities exchange but whose market capitalization is less than \$250 million.

## **Revenue**

We generate revenue primarily in the form of interest and dividend income from the securities we hold and capital gains, if any, on investment securities that we may sell. Our debt investments generally have a stated term of three to seven years and typically bear interest at a floating rate usually determined on the basis of a benchmark London interbank offered rate ( LIBOR ), commercial paper rate, or the prime rate. Interest on our debt investments is generally payable monthly or quarterly but may be bi-monthly or semi-annually. In addition, our investments may provide payment-in-kind ( PIK ) interest. Such amounts of accrued PIK interest are added to the cost of the investment on the respective capitalization dates and generally become due at maturity of the investment or upon the investment being called by the issuer. We may also generate revenue in the form of commitment, origination, structuring fees, fees for providing managerial assistance and, if applicable, consulting fees, etc.

## **Expenses**

All investment professionals of the Investment Adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Solar Capital Partners. We bear all other costs and expenses of our operations and transactions, including (without limitation):

the cost of our organization and public offerings;

the cost of calculating our net asset value, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of our shares and other securities;

interest payable on debt, if any, to finance our investments;

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fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees, any stock exchange listing fees;

federal, state and local taxes;

independent directors fees and expenses;



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brokerage commissions;

fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;

direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;

fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

all other expenses incurred by either Solar Capital Management or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and our chief financial officer and their respective staffs.

We expect our general and administrative operating expenses related to our ongoing operations to increase moderately in dollar terms. During periods of asset growth, we generally expect our general and administrative operating expenses to decline as a percentage of our total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities, among others, may also increase or reduce overall operating expenses based on portfolio performance, interest rate benchmarks, and offerings of our securities relative to comparative periods, among other factors.

**Portfolio and Investment Activity**

During the three months ended September 30, 2018, we invested \$28.3 million across 8 portfolio companies. This compares to investing \$31.5 million in 11 portfolio companies for the three months ended September 30, 2017. Investments sold or prepaid during the three months ended September 30, 2018 totaled \$84.2 million versus \$29.6 million for the three months ended September 30, 2017.

At September 30, 2018, our portfolio consisted of 49 portfolio companies and was invested 79.9% directly in senior secured loans and 20.1% in common equity/equity interests/warrants (of which 7.3% is Gemino and 12.7% is NMC, through which the Company indirectly invests in senior secured loans) measured at fair value versus 46 portfolio companies invested 80.2% in senior secured loans and 19.8% in common equity/equity interests (of which 9.6% is Gemino and 10.2% is FLLP) at September 30, 2017. As of September 30, 2018 and December 31, 2017, we have zero issuers on non-accrual status.

At September 30, 2018, 94.3% or \$438.4 million of our income producing investment portfolio\* was floating rate and 5.7% or \$26.6 million was fixed rate, measured at fair value. At September 30, 2017, 96.8% or \$356.1 million of our income producing investment portfolio\* was floating rate and 3.2% or \$11.8 million was fixed rate, measured at fair value.

Since the initial public offering of Solar Senior on February 24, 2011 and through September 30, 2018, invested capital totaled approximately \$1.4 billion in over 130 portfolio companies. Over the same period, Solar Senior completed transactions with more than 75 different financial sponsors.

\* We have included First Lien Loan Program LLC, Gemino Healthcare Finance, LLC and North Mill Capital LLC within our income producing investment portfolio.

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**Table of Contents****Gemino Healthcare Finance, LLC**

We acquired Gemino (d/b/a Gemino Senior Secured Healthcare Finance) on September 30, 2013. Gemino is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized companies operating in the healthcare industry. Our initial investment in Gemino was \$32.8 million. The management team of Gemino co-invested in the transaction and continues to lead Gemino. As of September 30, 2018, Gemino's management team and Solar Senior own approximately 7% and 93% of the equity in Gemino, respectively.

Concurrent with the closing of the transaction, Gemino entered into a new, four-year, non-recourse, \$100.0 million credit facility with non-affiliates, which was expandable to \$150.0 million under its accordion feature. Effective March 31, 2014, the credit facility was expanded to \$105.0 million and again on June 27, 2014 to \$110.0 million. On May 27, 2016, Gemino entered into a new \$125.0 million credit facility which replaced the previously existing facility. The new facility has similar terms as compared to the previous facility and includes an accordion feature increase to \$200.0 million and has a maturity date of May 27, 2020.

Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2018, the portfolio totaled approximately \$169.2 million of commitments, of which \$108.1 million were funded, on total assets of \$97.7 million. As of December 31, 2017, the portfolio totaled approximately \$176.3 million of commitments, of which \$106.6 million were funded, on total assets of \$110.6 million. At September 30, 2018, the portfolio consisted of 33 issuers with an average balance of approximately \$3.7 million versus 29 issuers with an average balance of approximately \$3.7 million at December 31, 2017. All of the commitments in Gemino's portfolio are floating-rate, senior-secured, cash-pay loans. Gemino's credit facility, which is non-recourse to us, had approximately \$64.0 million and \$75.0 million of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, Gemino had net income of \$1.1 million and \$1.1 million, respectively, on gross income of \$3.0 million and \$3.1 million, respectively. For the nine months ended September 30, 2018 and 2017, Gemino had net income of \$2.5 million and \$2.6 million, respectively, on gross income of \$8.4 million and \$8.7 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in Gemino's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that Gemino will be able to maintain consistent dividend payments to us.

**First Lien Loan Program LLC**

On September 10, 2014, the Company entered into a limited liability company agreement to create FLLP with Voya Investment Management LLC (Voya). Voya acts as the investment advisor for several wholly-owned insurance subsidiaries of Voya Financial, Inc. (NYSE: VOYA). The joint venture vehicle, structured as an unconsolidated Delaware limited liability company, is expected to invest primarily in senior secured floating rate term loans to middle market companies predominantly owned by private equity sponsors or entrepreneurs. Solar Senior and Voya have committed to provide \$50.75 million and \$7.25 million, respectively, of capital to the joint venture. All portfolio decisions and generally all other decisions in respect of the FLLP must be approved by an investment committee of the FLLP consisting of representatives of the Company and Voya (with approval from a representative of each required). On February 13, 2015, FLLP commenced operations. On February 13, 2015, FLLP as transferor and FLLP 2015-1, LLC, a newly formed wholly owned subsidiary of FLLP, as borrower entered into a \$75.0 million senior secured revolving credit facility (the FLLP Facility) with Wells Fargo Securities, LLC acting as administrative agent. Solar Senior acts as servicer under the FLLP Facility. The FLLP Facility was scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.25%-2.50%. FLLP and FLLP 2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required

to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. On August 15, 2016, the FLLP Facility was amended, expanding commitments to \$100.0 million and extending the maturity

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date to August 16, 2021. There were \$44.8 million and \$78.6 million of borrowings outstanding as of June 30, 2018 and December 31, 2017, respectively. On September 18, 2018, the Company acquired Voya's share of the equity in FLLP and now holds 100% of the equity in FLLP. As such, the Company is consolidating FLLP as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$3.2 million in unrealized depreciation on the Company's equity investment in FLLP is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, FLLP had total assets of \$80.3 million and \$121.8 million, respectively. For the same periods, FLLP's portfolio consisted of first lien floating rate senior secured loans to 16 and 23 different borrowers, respectively. For the three months ended September 30, 2018, FLLP invested \$1.6 million across 3 portfolio companies. For the three months ended September 30, 2017, FLLP invested \$7.2 million across 7 portfolio companies. Investments sold or prepaid totaled \$30.7 million for the three months ended September 30, 2018 and \$4.7 million for the three months ended September 30, 2017. At September 30, 2018 and December 31, 2017, the weighted average yield of FLLP's portfolio was 7.2% and 7.3%, respectively, measured at fair value and 7.3% and 7.2%, respectively, measured at cost.

**FLLP Portfolio as of September 30, 2018 (in thousands)**

Description	Industry	Spread Above Index <sup>(1)</sup>	LIBOR Floor	Interest Rate <sup>(2)</sup>	Maturity Date	Par Amount	Cost	Fair Value <sup>(3)</sup>
1A Smart Start LLC	Electronic Equipment, Instruments & Components	L+475	1.00%	6.99%	2/21/22	\$ 6,805	\$ 6,766	\$ 6,805
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	3,495	3,468	3,337
Capstone Logistics Acquisition, Inc.	Professional Services	L+450	1.00%	6.74%	10/7/21	4,470	4,447	4,487
Confie Seguros Holding II Co.	Insurance	L+525	1.00%	7.49%	4/19/22	4,727	4,694	4,626
Edgewood Partners Holdings, LLC (Epic)	Insurance	L+425	1.00%	6.49%	9/8/24	4,344	4,327	4,344
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+450	1.00%	6.74%	11/30/23	5,955	5,884	5,955
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	4,172	4,172	4,172
		L+500	1.00%	7.32%	10/29/21	3,832	3,807	3,832

Kellermeyer Bergensons Services, LLC (KBS)	Commercial Services & Supplies								
Ministry Brands, LLC	Software	L+400	1.00%	6.24%	12/2/22	4,368	4,336	4,368	

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Description	Industry	Spread Above Index <sup>(1)</sup>	LIBOR Floor	Interest Rate <sup>(2)</sup>	Maturity Date	Par Amount	Cost	Fair Value <sup>(3)</sup>
MSHC, Inc. (Service Logic)	Commercial Services & Supplies	L+425	1.00%	6.56%	7/31/23	\$ 916	\$ 912	\$ 912
National Spine and Pain Centers, LLC	Health Care Providers & Services	L+450	1.00%	6.74%	6/2/24	2,591	2,580	2,565
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	4,600	4,552	4,600
PSP Group, LLC (Pet Supplies Plus)	Specialty Retail	L+475	1.00%	7.00%	4/6/21	4,598	4,578	4,598
Telular Corporation	Wireless Telecommunication Services	L+425	1.25%	6.64%	6/24/19	4,784	4,778	4,784
The Hilb Group, LLC & Gencorp Insurance Group, Inc.	Insurance	L+475	1.00%	7.14%	6/24/21	4,191	4,147	4,191
Wirb-Copernicus Group, Inc.	Professional Services	L+425	1.00%	6.49%	8/15/22	5,146	5,114	5,146
							\$ 68,562	\$ 68,722

- (1) 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.
- (2) 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 September 30, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.

**FLLP Portfolio as of December 31, 2017 (audited) (in thousands)**

Description	Industry	Spread Above Index <sup>(1)</sup>	LIBOR Floor	Interest Rate <sup>(2)</sup>	Maturity Date	Par Amount	Cost	Fair Value <sup>(3)</sup>
1A Smart Start LLC <sup>(4)</sup>	Electronic Equipment, Instruments & Components	L+475	1.00%	6.44%	2/21/22	\$ 7,840	\$ 7,787	\$ 7,820
Alera Group Intermediate Holdings, Inc. <sup>(4)</sup>	Insurance	L+550	1.00%	6.85%	12/30/22	4,279	4,241	4,257

Anesthesia Consulting & Management, LP <sup>(4)</sup>	Health Care Providers & Services	L+625	1.00%	7.94%	10/31/22	4,530	4,493	4,258
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<b>Description</b>	<b>Industry</b>	<b>Spread Above Index<sup>(1)</sup></b>	<b>LIBOR Floor</b>	<b>Interest Rate<sup>(2)</sup></b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value<sup>(3)</sup></b>
Capstone Logistics Acquisition, Inc. <sup>(4)</sup>	Professional Services	L+450	1.00%	6.07%	10/7/21	\$ 5,284	\$ 5,252	\$ 5,231
Confie Seguros Holding II Co. <sup>(4)</sup>	Insurance	L+525	1.00%	6.73%	4/19/22	5,445	5,401	5,450
Edgewood Partners Holdings, LLC (Epic)	Insurance	L+475	1.00%	6.14%	9/8/24	4,467	4,447	4,444
Empower Payments Acquisition, Inc. (RevSpring) <sup>(4)</sup>	Professional Services	L+550	1.00%	7.19%	11/30/23	4,579	4,499	4,579
Falmouth Group Holdings Corp. (AMPAC) <sup>(4)</sup>	Chemicals	L+675	1.00%	8.44%	12/14/21	5,018	5,018	5,018
Island Medical Management Holdings, LLC <sup>(4)</sup>	Health Care Providers & Services	L+550	1.00%	7.00%	9/1/22	4,570	4,528	4,432
Kellermeyer Bergensons Services, LLC (KBS) <sup>(4)</sup>	Commercial Services & Supplies	L+500	1.00%	6.48%	10/29/21	4,415	4,381	4,415
Metamorph US 3, LLC (Metalogix) <sup>(4)</sup>	Software	L+750 <sup>(5)</sup>	1.00%	9.07%	12/1/20	3,976	3,922	2,903
Ministry Brands, LLC <sup>(4)</sup>	Software	L+500	1.00%	6.38%	12/2/22	4,818	4,777	4,818
National Spine and Pain Centers, LLC	Health Care Providers & Services	L+450	1.00%	6.19%	6/2/24	2,985	2,971	2,963
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.84%	7/5/22	5,111	5,050	5,086
PSP Group, LLC (Pet Supplies Plus) <sup>(4)</sup>	Specialty Retail	L+475	1.00%	6.32%	4/6/21	5,298	5,269	5,298
QBS Holding Company, Inc. (Quorum) <sup>(4)</sup>	Software	L+475	1.00%	6.13%	8/7/21	3,263	3,243	3,238
Salient Partners, L.P. <sup>(4)</sup>	Asset Management	L+850	1.00%	9.85%	6/9/21	4,806	4,745	4,806
Sarnova HC, LLC	Trading Companies and Distributors	L+475	1.00%	6.32%	1/28/22	4,913	4,877	4,913

Suburban Broadband, LLC (Jab Wireless, Inc.) <sup>(4)</sup>	Wireless Telecommunication Services	L+650 <sup>(6)</sup>	1.00%	8.19%	3/26/19	8,067	8,007	8,067
Telular Corporation	Wireless Telecommunication Services	L+425	1.25%	5.94%	6/24/19	5,743	5,729	5,728
The Hilb Group, LLC & Gencorp Insurance Group, Inc. <sup>(4)</sup>	Insurance	L+475	1.00%	6.44%	6/24/21	4,519	4,459	4,519

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Description	Industry	Spread		Interest Rate <sup>(2)</sup>	Maturity Date	Par Amount	Cost	Fair Value <sup>(3)</sup>
		Above Index <sup>(1)</sup>	LIBOR Floor					
VT Buyer Acquisition Corp. (Veritext) <sup>(4)</sup>	Professional Services	L+475	1.00%	6.44%	1/29/22	\$ 5,926	\$ 5,901	\$ 5,897
Wirb-Copernicus Group, Inc. <sup>(4)</sup>	Professional Services	L+500	1.00%	6.69%	8/15/22	5,928	5,882	5,928
							\$ 114,879	\$ 114,068

- (1) 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.
- (2) 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.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.
- (5) Spread is 5.50% Cash / 2.0% PIK.
- (6) Spread is 4.50% Cash / 2.0% PIK.

Below is certain summarized financial information for FLLP as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	September 30, 2018	December 31, 2017
<b>Selected Balance Sheet Information for FLLP (in thousands):</b>		
Investments at fair value (cost \$68,562 and \$114,879, respectively)	\$ 68,722	\$ 114,068
Cash and other assets.	11,583	7,723
<b>Total assets</b>	<b>\$ 80,305</b>	<b>\$ 121,791</b>
Debt outstanding	\$ 44,784	\$ 78,644
Distributions payable	930	1,180
Interest payable and other credit facility related expenses	898	843
Accrued expenses and other payables	149	170
<b>Total liabilities</b>	<b>\$ 46,761</b>	<b>\$ 80,837</b>
Members' equity	\$ 33,544	\$ 40,954

Total liabilities and members equity	\$	80,305	\$	121,791
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<b>Selected Income Statement Information for FLLP (in thousands):</b>	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
Interest income	\$ 1,809	\$ 2,160	\$ 5,992	\$ 6,260
Service fees*	\$ 13	\$ 20	\$ 50	\$ 59
Interest and other credit facility expenses	835	786	2,623	2,229
Other general and administrative expenses	18	49	108	89
Total expenses	866	855	2,781	2,377
Net investment income	\$ 943	\$ 1,305	\$ 3,211	\$ 3,883
Realized gain (loss) on investments	6		(2,613)	69
Net change in unrealized gain (loss) on investments	(142)	486	971	(30)
Net realized and unrealized gain (loss) on investments	(136)	486	(1,642)	39
Net income	\$ 807	\$ 1,791	\$ 1,569	\$ 3,922

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

**North Mill Capital LLC**

We acquired 100% of the equity interests of North Mill Capital LLC ( "NMC" ) on October 20, 2017. NMC is a leading asset-backed lending commercial finance company that provides senior secured asset-backed financings to U.S. based small-to-medium-sized businesses primarily in the manufacturing, services and distribution industries. We invested approximately \$51 million to effect the transaction. Subsequently, the Company contributed 1% of its equity interest in NMC to ESP SSC Corporation. Immediately thereafter, the Company and ESP SSC Corporation contributed their equity interests to NorthMill. On May 1, 2018, NorthMill merged with and into NMC, with NMC being the surviving company. The Company and ESP SSC Corporation own 99% and 1% of the equity interests of NMC, respectively. The management team of NMC continues to lead NMC.

NMC currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2018, the portfolio totaled approximately \$272.5 million of commitments, of which \$146.0 million were funded, on total assets of \$167.8 million. As of December 31, 2017, the portfolio totaled

approximately \$283.5 million of commitments, of which \$151.6 million were funded, on total assets of \$176.4 million. At September 30, 2018, the portfolio consisted of 87 issuers with an average balance of approximately \$1.7 million versus 92 issuers with an average balance of approximately \$1.6 million at December 31, 2017. NMC has a senior credit facility with a bank lending group for \$160.0 million which expires on October 20, 2020. Borrowings are secured by substantially all of NMC's assets. NMC's credit facility, which is non-recourse to us, had approximately \$104.3 million and \$116.6 million of borrowings outstanding at

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September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018, NMC had net income of \$0.9 million on gross income of \$5.6 million. For the nine months ended September 30, 2018, NMC had net income of \$2.4 million on gross income of \$15.9 million. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in NMC's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that NMC will be able to maintain consistent dividend payments to us.

## **Solar Life Science Program LLC**

On February 22, 2017, the Company and Solar Capital Ltd. formed LSJV with an affiliate of Deerfield Management. The Company committed \$75.0 million to LSJV. On August 16, 2018, the LSJV was dissolved, without commencing operations

## **Critical Accounting Policies**

The preparation of consolidated financial statements and related disclosures in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies. Within the context of these critical accounting policies and disclosed subsequent events herein, we are not currently aware of any other reasonably likely events or circumstances that would result in materially different amounts being reported.

## ***Valuation of Portfolio Investments***

We conduct the valuation of our assets, pursuant to which our net asset value is determined, at all times consistent with GAAP, and the 1940 Act. Our valuation procedures are set forth in more detail below:

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 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, each 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



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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 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 nine months ended September 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.

Accounting Standards Codification (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.

Determination of fair value involves subjective judgments and estimates. Accordingly, the notes to our consolidated financial statements express the uncertainty with respect to the possible effect of such valuations, and any change in such valuations, on our consolidated financial statements.

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**Table of Contents*****Valuation of FLLP Facility***

The Company's wholly owned investment subsidiary FLLP made an irrevocable election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10. We believe accounting for this facility at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility.

***Revenue Recognition***

The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on investments may be recognized as income or applied to principal depending upon management's judgment. Some of our investments may have contractual PIK interest or dividends. PIK interest and dividends computed at the contractual rate are accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at the maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends is reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring fees are recorded as other income when earned.

The typically higher yields and interest rates on PIK securities, to the extent we invested, reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Investment Adviser based on non-cash accruals that ultimately may not be realized, but the Investment Adviser will be under no obligation to reimburse the Company for these fees. For the three and nine months ended September 30, 2018, capitalized PIK income totaled \$0.5 million and \$0.8 million, respectively. For the three and nine months ended September 30, 2017, capitalized PIK income totaled \$0.1 million and \$0.4 million, respectively.

***Net Realized Gain or Loss and Net Change in Unrealized Gain or Loss***

We generally measure realized gain or loss by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation

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previously recognized, but considering unamortized origination or commitment fees and prepayment penalties. The net change in unrealized gain or loss reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized gain or loss, when gains or losses are realized. Gains or losses on investments are calculated by using the specific identification method.

## ***Income Taxes***

Solar Senior Capital, a U.S. corporation, has elected to be treated, and intends to qualify annually, as a RIC under Subchapter M of the Code. In order to qualify for taxation as a RIC, the Company is required, among other things, to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. Depending on the level of taxable income earned in a given tax year, we may choose to carry forward taxable income in excess of current year 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 distributions, the Company accrues an estimated excise tax, if any, on estimated excess taxable income.

## **Recent Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-13 on its consolidated financial statements and disclosures.

In August 2018, the US Securities and Exchange Commission adopted final rules to eliminate redundant, duplicative, overlapping, outdated or superseded disclosure requirements in light of other disclosure requirements, GAAP or changes in the information environment. These rules amend certain provisions of Regulation S-X and Regulation S-K, certain rules promulgated under the Securities Act of 1933 and the Securities Exchange Act of 1934 and certain related forms. These changes become effective thirty days after the date of publication in the Federal Register. The Company is evaluating the impact of these changes on its consolidated financial statements and disclosures.

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.

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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.

**RESULTS OF OPERATIONS**

Results comparisons are for the three and nine months ended September 30, 2018 and 2017:

**Investment Income**

For the three and nine months ended September 30, 2018, gross investment income totaled \$11.0 million and \$29.8 million, respectively. For the three and nine months ended September 30, 2017, gross investment income totaled \$8.0 million and \$23.1 million, respectively. The increase in gross investment income for the year over year three and nine month periods was primarily due to average portfolio growth, including from our investment in NMC, as well as our portfolio yield increasing year over year.

**Expenses**

Net expenses totaled \$5.3 million and \$12.8 million, respectively, for the three and nine months ended September 30, 2018, of which \$2.6 million and \$5.9 million, respectively, were gross base management fees and gross performance-based incentive fees and \$2.0 million and \$5.2 million, respectively, were interest and other credit facility expenses. Over the same periods, \$0.0 million and \$0.7 million, respectively, of performance-based incentive fees were waived. Administrative services and other general and administrative expenses totaled \$0.7 million and \$2.4 million, respectively, for the three and nine months ended September 30, 2018. Net expenses totaled \$2.3 million and \$6.2 million, respectively, for the three and nine months ended September 30, 2017, of which \$1.2 million and \$3.3 million, respectively, were gross base management fees and gross performance-based incentive fees and \$1.0 million and \$2.7 million, respectively, were interest and other credit facility expenses. Over the same periods, \$0.5 million and \$2.0 million, respectively, of base management fees were waived and \$0.2 million and \$0.4 million, respectively, of performance-based incentive fees were waived. Administrative services and other general and administrative expenses totaled \$0.9 million and \$2.6 million, respectively, for the three and nine months ended September 30, 2017. Expenses generally consist of management fees, performance-based incentive fees, administrative services expenses, insurance, legal expenses, directors' expenses, audit and tax expenses, transfer agent fees and expenses, and other general and administrative expenses. Interest and other credit facility expenses generally consist of interest, unused fees, agency fees and loan origination fees, if any, among others. For the three and nine month periods, the increase in net expenses year over year is primarily due to higher interest, incentive and management fee expense on a larger, higher yielding portfolio as compared to the year ago periods.

**Net Investment Income**

The Company's net investment income totaled \$5.8 million and \$17.1 million, or \$0.36 and \$1.06, per average share, respectively, for the three and nine months ended September 30, 2018. The Company's net investment income totaled \$5.7 million and \$17.0 million, or \$0.35 and \$1.06, per average share, respectively, for the three and nine months ended September 30, 2017.

**Net Realized Gain**

The Company had investment sales and prepayments totaling approximately \$84.2 million and \$135.2 million, respectively, for the three and nine months ended September 30, 2018. Net realized losses over



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the same periods were \$0.0 million and \$5.3 million, respectively. The Company had investment sales and prepayments totaling approximately \$26.5 million and \$112.0 million, respectively, for the three and nine months ended September 30, 2017. Net realized gains over the same periods were \$0.05 million and \$0.2 million, respectively. Net realized losses for the nine months ended September 30, 2018 were primarily related to the Company's exit from its investment in Metamorph US 3, LLC. Net realized gains for the three and nine months ended September 30, 2017 were related to the sale of select assets.

**Net Change in Unrealized Gain (Loss)**

For the three and nine months ended September 30, 2018, net change in unrealized gain (loss) on the Company's assets and liabilities totaled (\$0.4) million and \$4.6 million, respectively. For the three and nine months ended September 30, 2017, net change in unrealized gain on the Company's assets and liabilities totaled \$0.3 million and \$0.0 million, respectively. Net unrealized loss for the three months ended September 30, 2018 is primarily due to some appreciation on our investments in Advantage Sales and Marketing, Inc., American Teleconferencing Services, Ltd. and Aegis Toxicology Sciences Corporation, among others, offset by a greater amount of depreciation in Trident USA Health Services and PPT Management Holdings, LLC, among others. Net unrealized gain for the nine months ended September 30, 2018 is primarily due to the reversal of previously recorded unrealized loss on our investment in Metamorph US 3, LLC, as well as appreciation on our investments in North Mill Capital LLC and Gemino Healthcare Finance, LLC, among others, partially offset by depreciation in PPT Management Holdings, LLC, Polycom Inc. and Confie Seguros Holding II Co., among others. Net unrealized gain for the three months ended September 30, 2017 is primarily due to appreciation in the value of our investments in Metamorph US 3, LLC, FLLP and Engineering Solutions & Products, LLC, among others, partially offset by depreciation in Trident USA Health Services, Advantage Sales and Marketing, Inc. and American Teleconferencing Services, Ltd., among others. Net unrealized gain for the nine months ended September 30, 2017 was unremarkable.

**Net Increase in Net Assets From Operations**

For the three and nine months ended September 30, 2018, the Company had a net increase in net assets resulting from operations of \$5.4 million and \$16.4 million, respectively. For the same periods, earnings per average share were \$0.34 and \$1.03, respectively. For the three and nine months ended September 30, 2017, the Company had a net increase in net assets resulting from operations of \$6.0 million and \$17.2 million, respectively. For the same periods, earnings per average share were \$0.37 and \$1.07, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generally available through its revolving credit facilities, through periodic follow-on equity offerings, as well as from cash flows from operations, investment sales and pre-payments of investments. At September 30, 2018, the Company had \$193.4 million in borrowings outstanding on its credit facilities and \$131.6 million of unused capacity, subject to borrowing base limits.

In September 2016, the Company closed a follow-on public equity offering of 4.5 million shares of common stock at \$16.76 per share raising approximately \$75.0 million in net proceeds. In the future, the Company may raise additional equity or debt capital, among other considerations. The primary uses of funds will be investments in portfolio companies, reductions in debt outstanding and other general corporate purposes. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

We currently expect that our liquidity needs will be met with cash flows from operations, borrowings under our \$225 million senior secured revolving credit facility (the Credit Facility ), including its accordion feature, as well as from other available financing activities.

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**Table of Contents****Cash Equivalents**

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. The Company makes purchases that are consistent with its purpose of making investments in securities described in paragraphs 1 through 3 of Section 55(a) of the 1940 Act. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents as temporary assets with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held no cash equivalents as of September 30, 2018.

**Debt**

*Credit Facility* On August 26, 2011, the Company established our wholly-owned subsidiary, SUNS SPV LLC (the SUNS SPV ) which entered into the Credit Facility with Citigroup Global Markets Inc. acting as administrative agent. On January 10, 2017, commitments to the Credit Facility, as amended, were increased from \$175 million to \$200 million by utilizing the accordion feature. The commitments can also be expanded up to \$600 million. The stated interest rate on the Credit Facility is LIBOR plus 2.00% with no LIBOR floor requirement and the current maturity date is June 1, 2023. The Credit Facility is secured by all of the assets held by SUNS SPV. Under the terms of the Credit Facility, Solar Senior Capital and SUNS SPV, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The Credit Facility also includes usual and customary events of default for credit facilities of this nature. The Credit Facility was amended on November 7, 2012, June 30, 2014 and May 29, 2015 to extend maturities and add greater investment flexibility, among other changes. On June 1, 2018, the Credit Facility was refinanced by way of amendment, allowing for greater investment flexibility and the extension of the maturity date, among other changes. On July 13, 2018, commitments to the Credit Facility, as amended, were increased from \$200 million to \$225 million by utilizing the accordion feature. At September 30, 2018, the Company was in compliance with all financial and operational covenants required by the Credit Facility.

*FLLP Facility* On February 13, 2015, FLLP as transferor and FLLP 2015-1, LLC, a newly formed wholly owned subsidiary of FLLP, as borrower entered into a \$75.0 million FLLP Facility with Wells Fargo Securities, LLC acting as administrative agent. Solar Senior acts as servicer under the FLLP Facility. The FLLP Facility was scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.25%-2.50%. FLLP and FLLP 2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. On August 15, 2016, the FLLP Facility was amended, expanding commitments to \$100.0 million and extending the maturity date to August 16, 2021. There were \$44.8 million of borrowings outstanding as of September 30, 2018.

***Contractual Obligations***

**Payments due by Period as of September 30, 2018**  
**(dollars in millions)**

	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Revolving credit facilities (1)	\$ 193.4	\$	\$ 44.8	\$ 148.6	\$

(1) At September 30, 2018, \$131.6 million of capacity remained unused.

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Information about our senior securities is shown in the following table (in thousands) as of each year ended December 31 since the Company commenced operations, unless otherwise noted. The **dash** indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

<b>Class and Year</b>	<b>Total Amount Outstanding(1)</b>	<b>Asset Coverage Per Unit(2)</b>	<b>Involuntary Liquidating Preference Per Unit(3)</b>	<b>Average Market Value Per Unit(4)</b>
<b>Credit Facility</b>				
Fiscal 2018 (through September 30, 2018)	\$ 148,600	\$ 1,840	\$	N/A
Fiscal 2017	124,200	3,175		N/A
Fiscal 2016	98,300	3,738		N/A
Fiscal 2015	116,200	2,621		N/A
Fiscal 2014	143,200	2,421		N/A
Fiscal 2013	61,400	4,388		N/A
Fiscal 2012	39,100	5,453		N/A
Fiscal 2011	8,600	21,051		N/A
<b>FLLP Facility</b>				
Fiscal 2018 (through September 30, 2018)	44,784	555		N/A
<b>Total Senior Securities</b>				
Fiscal 2018 (through September 30, 2018)	\$ 193,384	\$ 2,395	\$	N/A
Fiscal 2017	124,200	3,175		N/A
Fiscal 2016	98,300	3,738		N/A
Fiscal 2015	116,200	2,621		N/A
Fiscal 2014	143,200	2,421		N/A
Fiscal 2013	61,400	4,388		N/A
Fiscal 2012	39,100	5,453		N/A
Fiscal 2011	8,600	21,051		N/A

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each. As of September 30, 2018, asset coverage was 239.5%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, we do not have senior securities that are registered for public trading.

We have also entered into two contracts under which we have future commitments: the Advisory Agreement, pursuant to which Solar Capital Partners has agreed to serve as our investment adviser, and the Administration Agreement,

pursuant to which Solar Capital Management has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the Advisory Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs

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of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate each of the Advisory Agreement and Administration Agreement without penalty upon 60 days written notice to the other. See note 3 to our Consolidated Financial Statements.

**Off-Balance Sheet Arrangements**

From time-to-time and in the normal course of business, the Company may make unfunded capital commitments to current or prospective portfolio companies. Typically, the Company may agree to provide delayed-draw term loans or, to a lesser extent, revolving loan or equity commitments. These unfunded capital commitments always take into account the Company's liquidity and cash available for investment, portfolio and issuer diversification, and other considerations. Accordingly, the Company had the following unfunded capital commitments at September 30, 2018 and December 31, 2017, respectively:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<i>(in millions)</i>		
DISA Holdings Acquisition Corp	\$ 5.4	\$
The Hilb Group, LLC & Gencorp Insurance Group, Inc.	5.3	0.4
Solara Medical Supplies, Inc.	3.0	
WIRB-Copernicus Group, Inc.	2.8	
MRI Software LLC	2.7	2.4
Gemino Healthcare Finance, LLC*	1.4	5.0
MSHC, Inc.	1.3	
Engineering Solutions & Products, LLC	0.4	1.7
AQA Acquisition Holding, Inc.	0.1	
TwentyEighty, Inc	0.1	0.1
VetCor Professional Practices LLC		6.7
Edgewood Partners Holdings, LLC		
Alera Group Intermediate Holdings, Inc		4.7
VT Buyer Acquisition Corp. (Veritext)		3.5
MHE Intermediate Holdings, LLC		1.0
PetVet Care Centers, LLC		1.6
Ministry Brands, LLC		0.4
<b>Total Commitments</b>	<b>\$ 22.5</b>	<b>\$ 27.5</b>

\* The Company controls the funding of the Gemino commitment and may cancel it at its discretion.

As of September 30, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

In the normal course of its business, we invest or trade in various financial instruments and may enter into various investment activities with off-balance sheet risk, which may include forward foreign currency contracts. Generally, these financial instruments represent future commitments to purchase or sell other financial instruments at specific terms at future dates. These financial instruments contain varying degrees of off-balance sheet risk whereby changes

in the market value or our satisfaction of the obligations may exceed the amount recognized in our Consolidated Statements of Assets and Liabilities.



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The following table reflects the cash distributions per share on our common stock for the two most recent fiscal years and the current fiscal year to date:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
<b>Fiscal 2018</b>			
November 5, 2018	November 21, 2018	December 4, 2018	\$ 0.1175
October 4, 2018	October 24, 2018	November 1, 2018	0.1175
September 6, 2018	September 25, 2018	October 2, 2018	0.1175
August 2, 2018	August 23, 2018	August 31, 2018	0.1175
July 3, 2018	July 19, 2018	July 31, 2018	0.1175
June 6, 2018	June 21, 2018	July 3, 2018	0.1175
May 7, 2018	May 23, 2018	June 1, 2018	0.1175
April 3, 2018	April 19, 2018	May 2, 2018	0.1175
February 22, 2018	March 22, 2018	April 3, 2018	0.1175
February 7, 2018	February 22, 2018	March 1, 2018	0.1175
January 5, 2018	January 18, 2018	January 31, 2018	0.1175
<b>Fiscal YTD Total (2018)</b>			<b>\$ 1.2925</b>
<b>Fiscal 2017</b>			
December 7, 2017	December 21, 2017	January 4, 2018	\$ 0.1175
November 2, 2017	November 22, 2017	December 1, 2017	0.1175
October 5, 2017	October 19, 2017	November 1, 2017	0.1175
September 14, 2017	September 22, 2017	October 3, 2017	0.1175
August 1, 2017	August 17, 2017	August 31, 2017	0.1175
July 6, 2017	July 20, 2017	August 1, 2017	0.1175
June 7, 2017	June 22, 2017	July 6, 2017	0.1175
May 2, 2017	May 18, 2017	June 2, 2017	0.1175
April 6, 2017	April 20, 2017	May 2, 2017	0.1175
February 22, 2017	March 23, 2017	April 4, 2017	0.1175
February 7, 2017	February 23, 2017	March 1, 2017	0.1175
January 5, 2017	January 19, 2017	February 1, 2017	0.1175
<b>Total (2017)</b>			<b>\$ 1.41</b>
<b>Fiscal 2016</b>			
December 8, 2016	December 22, 2016	January 4, 2017	\$ 0.1175
November 2, 2016	November 23, 2016	December 1, 2016	0.1175
October 5, 2016	October 20, 2016	November 1, 2016	0.1175
September 12, 2016	September 22, 2016	October 4, 2016	0.1175
August 2, 2016	August 18, 2016	September 1, 2016	0.1175
July 7, 2016	July 21, 2016	August 2, 2016	0.1175
June 7, 2016	June 23, 2016	July 1, 2016	0.1175
May 3, 2016	May 19, 2016	June 2, 2016	0.1175

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April 7, 2016	April 21, 2016	May 3, 2016	0.1175
February 24, 2016	March 24, 2016	April 1, 2016	0.1175
February 4, 2016	February 18, 2016	March 2, 2016	0.1175
January 7, 2016	January 21, 2016	February 2, 2016	0.1175
<b>Total (2016)</b>			<b>\$ 1.41</b>

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Tax characteristics of all distributions will be reported to shareholders on Form 1099 after the end of the calendar year. Future distributions, if any, will be determined by our Board. We expect that our distributions to stockholders will generally be from accumulated net investment income, from net realized capital gains or non-taxable return of capital, if any, as applicable.

We have elected to be taxed as a RIC under Subchapter M of the Code. To maintain our RIC status, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us as a business development company, we may in the future be limited in our ability to make distributions. Also, our revolving credit facility may limit our ability to declare distributions if we default under certain provisions. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of the tax benefits available to us as a regulated investment company. In addition, in accordance with GAAP and tax regulations, we include in income certain amounts that we have not yet received in cash, such as contractual payment-in-kind interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the requirement to distribute at least 90% of our investment company taxable income to obtain tax benefits as a regulated investment company.

With respect to the distributions to stockholders, income from origination, structuring, closing and certain other upfront fees associated with investments in portfolio companies are treated as taxable income and accordingly, distributed to stockholders. For the nine months ended September 30, 2018 and the year ended December 31, 2017, 3.8% and 11.8% of distributions were funded from the waiver of management and/or incentive fees.

## **Related Parties**

We have entered into a number of business relationships with affiliated or related parties, including the following:

We have entered into the Advisory Agreement with Solar Capital Partners. Mr. Gross, our Chairman and Chief Executive Officer and Mr. Spohler, our Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial and controlling interests in, the Investment Adviser. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Corporate Secretary serves as the Chief Financial Officer for Solar Capital Partners.

The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the

allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and their respective staffs.

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We have entered into a license agreement with the Investment Adviser, pursuant to which the Investment Adviser has granted us a non-exclusive, royalty-free license to use the name Solar Capital. The Investment Adviser may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Investment Adviser presently serves as investment adviser to Solar Capital Ltd., a publicly traded BDC, which focuses on investing in senior secured loans, including unitranche loans, mezzanine loans and equity securities. In addition, Michael S. Gross, our Chairman and Chief Executive Officer, Bruce Spohler, our Chief Operating Officer, and Richard L. Peteka, our Chief Financial Officer, serve in similar capacities for Solar Capital Ltd. The Investment Adviser and certain investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures.

Related party transactions may occur among Solar Senior Capital Ltd., Gemino and NMC. These transactions may occur in the normal course of business. No administrative fees are paid to Solar Capital Partners by Gemino or NMC.

In addition, we have adopted a formal code of ethics that governs the conduct of our officers and directors. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Maryland General Corporation Law.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the nine months ended September 30, 2018, certain of the investments in our comprehensive investment portfolio had floating interest rates. These floating rate investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has a revolving credit facility that is generally based on floating LIBOR. Assuming no changes to our balance sheet as of September 30, 2018 and no new defaults by portfolio companies, a hypothetical one-quarter of one percent decrease in LIBOR on our comprehensive floating rate assets and liabilities would reduce our net investment income by three cents per average share over the next twelve months. Assuming no changes to our balance sheet as of September 30, 2018 and no new defaults by portfolio companies, a hypothetical one percent increase in LIBOR on our comprehensive floating rate assets and liabilities would increase our net investment income by approximately eleven cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in any benefits of certain changes in interest rates with respect to our portfolio of investments. At September 30, 2018, we have no interest rate hedging instruments outstanding on our balance sheet.

Increase (Decrease) in LIBOR	(0.25%)	1.00%
Increase (Decrease) in Net Investment Income Per Share Per Year	\$ (0.03)	\$ 0.11



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As of September 30, 2018 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

***(b) Changes in Internal Controls Over Financial Reporting***

Management has not identified any change in the Company's internal control over financial reporting that occurred during the third quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings**

We, Solar Capital Management, LLC and Solar Capital Partners, LLC are not currently subject to any material pending legal proceedings threatened against us. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations beyond what has been disclosed with these financial statements.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in "Risk Factors" in the May 24, 2018 filing of our Registration Statement on Form N-2, which could materially affect our business, financial condition and/or operating results. The risks described in our Registration Statement on Form N-2 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. Other than as set forth below, there have been no material changes during the period ended September 30, 2018 to the risk factors discussed in "Risk Factors" in the May 24, 2018 filing of our Registration Statement on Form N-2.

***Regulations governing our operation as a BDC affect our ability to, and the way in which we will, raise additional capital. As a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks***

*associated with leverage.*

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our



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stockholders. We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the Investment Company Act of 1940, as amended (the 1940 Act). Under the provisions of the 1940 Act, we had been permitted, as a BDC, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals not less than 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. However, our shareholders have approved a resolution permitting the Company to be subject to a 150% asset coverage ratio effective as of October 12, 2018. If the value of our assets declines, we may be unable to satisfy the asset coverage test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. In addition, because our management fee is calculated as a percentage of our gross assets, which includes any borrowings for investment purposes, the management fee expenses will increase if we incur additional indebtedness.

As of September 30, 2018, we had \$148.6 million outstanding under the Credit Facility and \$44.8 million outstanding under the FLLP Facility. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would generally vote together with common stockholders but would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of Solar Senior Capital and its stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution. This dilution would occur as a result of a proportionately greater decrease in a stockholder's interest in our earnings and assets and voting interest in us than the increase in our assets resulting from such issuance. Because the number of future shares of common stock that may be issued below our net asset value per share and the price and timing of such issuances are not currently known, we cannot predict the actual dilutive effect of any such issuance. We cannot determine the resulting reduction in our net asset value per share of any such issuance. We also cannot predict whether shares of our common stock will trade above, at or below our net asset value.

At our 2018 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 11, 2018 and expiring on the earlier of the one-year anniversary of the date of the 2018 Annual Stockholders Meeting and the date of our 2019 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving

such stockholder approval.

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***We have and may continue to borrow money, which would magnify the potential for loss on amounts invested and may increase the risk of investing in us.***

We borrow money as part of our business plan. Borrowings, also known as leverage, magnify the potential for loss on amounts invested and, therefore, increase the risks associated with investing in our securities. As of September 30, 2018, we had \$148.6 million outstanding under the Credit Facility and \$44.8 million outstanding under the FLLP Facility. We may borrow from and issue senior debt securities to banks, insurance companies and other lenders in the future. Lenders of these senior securities, including the Credit Facility, will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make distribution payments on our common stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, as the management fee payable to our investment adviser, Solar Capital Partners, will be payable based on our gross assets, including those assets acquired through the use of leverage, Solar Capital Partners will have a financial incentive to incur leverage which may not be consistent with our stockholders' interests. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to Solar Capital Partners.

As a BDC, we generally had been required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. However, our shareholders have approved a resolution permitting the Company to be subject to a 150% asset coverage ratio effective as of October 12, 2018. Even though the Company is subject to a 150% asset coverage ratio effective as of October 12, 2018, contractual leverage limitations under our existing credit facilities or future borrowings may limit our ability to incur additional indebtedness. Some of our wholly and substantially owned portfolio companies, including North Mill and Gemino, may incur significantly more leverage than we can but we do not consolidate North Mill and Gemino and their leverage is non-recourse to us. Additionally, the Credit Facility requires us to comply with certain financial and other restrictive covenants, including maintaining an asset coverage ratio of at least 200% at any time. Failure to maintain compliance with these covenants could result in an event of default and all of our debt being declared immediately due and payable. If this ratio declines below 200%, we may not be able to incur additional debt and could be required by law to sell a portion of our investments to repay some debt when it is disadvantageous to do so, which could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

In addition, the Credit Facility imposes, and any other debt facility into which we may enter would likely impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain RIC tax treatment under Subchapter M of the Code.

The debt securities that we may issue will be governed by an indenture or other instrument containing covenants restricting our operating flexibility. We, and indirectly our stockholders, bear the cost of issuing and servicing such debt securities. Any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our common stock.



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

	<b>Assumed total return (net of interest expense)</b>				
	<b>(10)%</b>	<b>(5)%</b>	<b>0%</b>	<b>5%</b>	<b>10%</b>
Corresponding return to stockholder <sup>(1)</sup>	(20.8)%	(11.8)%	(2.9)%	6.1%	15.1%

<sup>(1)</sup> Assumes \$483.8 million in total assets and \$193.4 million in total debt outstanding, which reflects our total assets and total debt outstanding as of September 30, 2018, and a cost of funds of 4.01%. Excludes non-leverage related expenses.

In order for us to cover our annual interest payments on our outstanding indebtedness at September 30, 2018, we must achieve annual returns on our September 30, 2018 total assets of at least 1.6%.

***Recent legislation allows us to incur additional leverage, which could increase the risk of investing in the Company.***

The 1940 Act had generally been prohibiting us from incurring indebtedness unless immediately after such borrowing we had an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). However, on March 23, 2018, the Small Business Credit Availability Act (the "SBCA") was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150% (i.e. the amount of debt may not exceed 66.7% of the value of our total assets), if certain requirements are met. On August 2, 2018, our board of directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA and recommended the submission of a proposal for stockholders to approve the application of the 150% minimum asset coverage ratio to the Company at our annual meeting of stockholders, which was held on October 11, 2018. The stockholder proposal was approved by the required votes of the Company's stockholders at such annual meeting of stockholders, and thus the Company became subject to the 150% minimum asset coverage ratio on October 12, 2018. Changing the asset coverage ratio permits the Company to double its leverage, which results in increased leverage risk and increased expenses.

As a result of the SBCA, and of us obtaining the necessary stockholder approval, we are able to increase our leverage up to an amount that reduces our asset coverage ratio from 200% to 150%. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique.



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**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

We did not engage in unregistered sales of securities during the quarter ended September 30, 2018.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

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

**Exhibit**

<b>Number</b>	<b>Description</b>
3.1	<u>Articles of Amendment and Restatement(1)</u>
3.2	<u>Amended and Restated Bylaws(1)</u>
4.1	<u>Form of Common Stock Certificate(1)</u>
10.1	<u>Dividend Reinvestment Plan(1)</u>
10.2	<u>First Amended and Restated Investment Advisory and Management Agreement by and between Registrant and Solar Capital Partners, LLC (5)</u>
10.3	<u>Form of Custody Agreement(4)</u>
10.4	<u>Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC(4)</u>
10.5	<u>Form of Indemnification Agreement by and between Registrant and each of its directors(1)</u>
10.6	<u>Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC(1)</u>
10.7	<u>Form of Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(1)</u>
10.8	<u>Form of Amendment No. 1 to Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(2)</u>
10.9	<u>Form of Contribution Agreement, dated as of August 26, 2011, by and between SUNS SPV LLC, as the contributee, and Solar Senior Capital Ltd., as the contributor(3)</u>
10.10	<u>Form of Loan and Servicing Agreement, dated as of August 26, 2011 (as amended through the Sixth Amendment dated as of June 1, 2018), by and among the Registrant, as the servicer and the transferor, SUNS SPV LLC, as the borrower, each of the conduit lenders from time to time party thereto, each of the liquidity banks from time to time party thereto, each of the lender agents from time to time party thereto, Citibank, N.A., as the administrative agent and collateral agent, and Wells Fargo Bank, N.A., as the account bank, the backup servicer and the collateral custodian(6)</u>
11.1	<u>Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)</u>
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u>
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u>
32.1	<u>Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u>



32.2 Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.\*

- (1) Previously filed in connection with Solar Senior Capital Ltd. s registration statement on Form N-2 (File No. 333-171330) filed on February 14, 2011.
- (2) Previously filed in connection with Solar Senior Capital Ltd. s report on Form 10-K filed on February 22, 2012.

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- (3) Previously filed in connection with Solar Senior Capital Ltd. s report on Form 8-K filed on August 31, 2011.
- (4) Previously filed in connection with Solar Senior Capital Ltd. s report on Form 10-K filed on February 25, 2014.
- (5) Previously filed in connection with Solar Senior Capital Ltd. s report on Form 10-Q filed on August 2, 2016.
- (6) Previously filed in connection with Solar Senior Capital Ltd. s report on Form 10-Q filed on August 6, 2018.
- \* Filed herewith.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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 on November 5, 2018.

SOLAR SENIOR CAPITAL LTD.

By: /s/ MICHAEL S. GROSS  
**Michael S. Gross**  
**Chief Executive Officer**  
**(Principal Executive Officer)**

By: /s/ RICHARD L. PETEKA  
**Richard L. Peteka**  
**Chief Financial Officer**  
**(Principal Financial and Accounting Officer)**