Solar Senior Capital Ltd.
Form 10-Q
October 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter Ended September 30, 2013

¨ **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	**27-4288022**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
500 Park Avenue New York, N.Y.	**10022**
(Address of principal executive offices)	**(Zip Code)**

(212) 993-1670

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨	Smaller Reporting Company	¨

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

The number of shares of the registrant s Common Stock, $.01 par value, outstanding as of October 29, 2013 was 11,525,616.

SOLAR SENIOR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

TABLE OF CONTENTS

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 the context states otherw

Item 1. Financial Statements

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except shares)

	September 30, 2013 (unaudited)	December 31, 2012
Assets		
Investments, at fair value:		
Companies less than 5% owned (cost: $247,457 and $214,075, respectively)	$ 243,498	$ 212,602
Companies more than 25% owned (cost: $32,839 and $0, respectively)	32,839	
Total investments (cost: $280,296 and $214,075, respectively)	276,337	212,602
Cash	7,243	2,647
Receivable for investments sold	54	282
Interest receivable	1,742	1,294
Prepaid expenses and other assets	195	204
Total assets	$ 285,571	$ 217,029
Liabilities		
Credit facility payable (see note 6 and 7)	$ 34,800	$ 39,100
Dividends payable	1,354	1,116
Payable for investments purchased	41,759	995
Management fee payable (see note 3)	680	581
Performance-based incentive fees payable (see note 3)		84
Interest payable (see note 7)	92	121
Administrative services expense payable (see note 3)	352	431
Other liabilities and accrued expenses	186	498
Total liabilities	$ 79,223	$ 42,926
Net Assets		
Common stock, par value $0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 11,523,315 and 9,500,100 issued and outstanding, respectively	$ 115	$ 95
Paid-in capital in excess of par	215,136	177,728
Distributions in excess of net investment income	(4,680)	(2,247)
Accumulated net realized loss	(264)	
Net unrealized depreciation	(3,959)	(1,473)
Total net assets	$ 206,348	$ 174,103
Net Asset Value Per Share	$ 17.91	$ 18.33

See notes to the consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except per share amounts)

	Three months ended September 30, 2013	Three months ended September 30, 2012	Nine months ended September 30, 2013	Nine months ended September 30, 2012
INVESTMENT INCOME:				
Interest:				
Companies less than 5% owned	$ 4,915	$ 4,890	$ 14,111	$ 14,398
EXPENSES:				
Management fees (see note 3)	$ 680	$ 594	$ 1,872	$ 1,635
Interest expense	303	407	825	1,046
Performance-based incentive fees (see note 3)		244	80	743
Administrative services expense (see note 3)	265	170	759	660
Insurance expense	30	102	130	301
Other general and administrative expenses	349	372	702	892
Total expenses before debt issuance cost	1,627	1,889	4,368	5,277
Debt issuance cost				53
Total expenses after debt issuance cost	1,627	1,889	4,368	5,330
Net investment income	$ 3,288	$ 3,001	$ 9,743	$ 9,068
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:				
Net realized gain (loss):				
Companies less than 5% owned	$ (467)	$ 143	$ (264)	$ 544
Net change in unrealized gain (loss)	(217)	663	(2,486)	3,545
Net realized and unrealized gain (loss)	(684)	806	(2,750)	4,089
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 2,604	$ 3,807	$ 6,993	$ 13,157
EARNINGS PER SHARE (see note 5)	$ 0.23	$ 0.40	$ 0.61	$ 1.38

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Nine months ended September 30, 2013 (unaudited)	Year ended December 31, 2012
Increase in net assets resulting from operations:		
Net investment income	$ 9,743	$ 12,493
Net realized gain (loss)	(264)	618
Net change in unrealized gain (loss)	(2,486)	801
Net increase in net assets resulting from operations	6,993	13,912
Dividends and distributions to stockholders:	(12,176)	(12,255)
Capital share transactions:		
Net proceeds from shares sold	37,200	
Offering costs and other	(206)	11
Reinvestment of dividends	434	
Net increase in net assets from capital share transactions	37,428	11
Total increase in net assets:	32,245	1,668
Net assets at beginning of period	174,103	172,435
Net assets at end of period	$ 206,348	$ 174,103
Capital share activity:		
Shares sold	2,000,000	
Shares issued from reinvestment of dividends	23,215	
Net increase from capital share activity	2,023,215	

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, 2013	Nine months ended September 30, 2012
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 6,993	$ 13,157
Adjustments to reconcile net increase in net assets resulting from operations:		
Net realized (gain) loss on investments	264	(544)
Net change in unrealized (gain) loss on investments	2,486	(3,545)
Debt issuance costs		53
(Increase) decrease in operating assets:		
Purchase of investments	(173,899)	(134,825)
Proceeds from disposition of investments	107,414	81,712
Receivable for investments sold	228	(87)
Deferred offering cost		(89)
Interest receivable	(448)	241
Prepaid expenses and other assets	9	70
Increase (decrease) in operating liabilities:		
Payable for investments purchased	40,764	5,013
Management fee payable	99	(350)
Performance-based incentive fees payable	(84)	331
Administrative services expense	(79)	129
Interest payable	(29)	
Other liabilities and accrued expenses	(312)	(43)
Net Cash Used in Operating Activities	(16,594)	(38,777)
Cash Flows from Financing Activities:		
Proceeds from shares sold	37,200	
Offering costs	(206)	12
Cash dividends paid	(11,504)	(7,785)
Debt issuance costs		(53)
Proceeds from borrowings	123,200	99,583
Repayments of borrowings	(127,500)	(52,283)
Net Cash Provided by Financing Activities	21,190	39,474
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,596	697
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,647	2,934
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 7,243	$ 3,631
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 854	$ 645
Cash paid for income taxes	$ 16	$ 99

Non-cash financing activities consist of the reinvestment of dividends of $434 and $0 for the nine months ended September 30, 2013 and 2012, respectively.

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)

September 30, 2013

(in thousands except units)

Description [1]	Industry	Interest [2]	Basis Point Spread Above Index [5]	Maturity	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Investments 114.6%							
Aderant North America, Inc. [4].	Software	6.25%	L+500	12/20/2018	$ 4,975	$ 4,932	$ 4,975
Advantage Sales and Marketing, Inc.	Professional Services	8.25%	L+725	6/17/2018	8,250	8,250	8,271
ALG B.V [4,6].	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	3,209	3,179	3,209
ALG USA Holdings, LLC [4]	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	4,254	4,214	4,254
AmeriQual Group, LLC	Food Products	6.50%	L+500	3/28/2016	12,193	12,093	11,950
Asurion, LLC	Insurance	4.50%	L+325	5/24/2019	9,737	9,693	9,654
ATI Holdings, Inc. [4].	Health Care Facilities	5.75%	L+450	1/31/2020	4,963	4,917	4,963
Attachmate Corporation [4]	Software	7.25%	L+575	11/22/2017	10,737	10,570	10,828
BJ s Wholesale Club, Inc.	Food & Staples Retailing	9.75%	L+850	3/26/2020	5,000	4,955	5,124
Blue Coat Systems, Inc.	Internet Software & Services	9.50%	L+850	6/28/2020	4,500	4,456	4,534
Catapult Learning LLC [4]	Education Services	7.50%	L+600	4/05/2017	3,595	3,549	3,505
Confie Seguros Holding II Co. [4]	Insurance	6.50%	L+525	11/09/2018	11,821	11,682	11,762
CGSC of Delaware Holdings Corp.	Insurance	8.25%	L+700	10/16/2020	4,000	3,944	3,960
Engineering Solutions & Products, LLC [7]	Aerospace & Defense	8.50%	P+525	4/21/2017	9,941	9,669	4,473
Fulton Holding Corp. [4]	Specialty Retail	8.50%		5/28/2018	15,000	15,105	15,112
Global Tel*Link Corp	Communications Equipment	9.00%	L+775	11/23/2020	3,000	2,942	2,934
Hearthside Food Solutions LLC [4]	Food Products	6.50%	L+525	6/07/2018	9,947	9,904	9,947
Hoffmaster Group, Inc. [4]	Paper & Forest Products	6.50%	L+525	1/03/2018	6,263	6,222	6,169
Hoffmaster Group, Inc. 2nd Lien	Paper & Forest Products	10.25%	L+900	1/03/2019	3,000	2,975	2,940
Insight Pharmaceuticals LLC [4]	Personal Products	6.25%	L+425	8/26/2016	7,554	7,554	7,549
JHCI Acquisition, Inc. [4]	Air Freight & Logistics	7.00%	L+575	7/12/2019	8,978	8,848	8,961
KODA Distribution Group Inc. [4]	Distributors	7.75%	P+450	4/09/2018	5,000	4,988	4,987
Landslide Holdings, Inc. [4]	Software	5.25%	L+425	8/9/2019	4,988	4,939	4,988
Marshall Retail Group, LLC [4]	Specialty Retail	8.00%	L+650	10/19/2016	4,388	4,344	4,388
Miller Heiman, Inc	Professional Services	6.75%	L+575	9/30/2019	7,000	6,930	6,930
National Vision, Inc. [4]	Specialty Retail	7.00%	L+575	8/02/2018	9,875	9,757	9,875
Porex Corporation [4]	Chemicals	6.75%	L+525	3/31/2015	3,856	3,832	3,856
Renaissance Learning, Inc. [4]	Education Services	5.75%	L+450	11/13/2018	3,960	3,925	3,960
Securus Technologies, Inc	Communications Equipment	9.00%	L+775	4/30/2021	10,000	9,906	9,862
Shield Finance Co. SARL [3,4,6]	IT Services	6.50%	L+525	5/10/2019	9,875	9,769	9,875
Shoes for Crews, Inc. [4]	Footwear	5.50%	L+425	3/27/2017	4,583	4,575	4,583
SLT Environmental, Inc. [4]	Chemicals	9.00%	L+750	5/27/2016	4,887	4,845	4,203
The Endurance International Group, Inc.	Internet Software & Services	10.25%	L+900	5/09/2020	5,000	4,954	5,034
Trident USA Health Services [4]	Health Care Services	6.50%	L+525	7/31/2019	10,000	9,903	10,000
TriNet HR Corp.	Professional Services	8.75%	L+775	2/20/2021	5,000	4,901	4,900
WNA Holdings, Inc	Containers & Packaging	8.50%	L+725	12/07/2020	4,000	3,962	3,990
Total Bank Debt/Senior Secured Investments						241,183	236,505

Unsecured Bank Debt/Bonds 3.4%							
Apollo Investment Corporation (6)	Diversified Financial Services	5.75%		1/15/2016	3,650	3,348	3,851
Asurion Holdco	Insurance	11.00%	L+950	3/2/2019	3,000	2,926	3,142
Total Unsecured Bank Debt/Bonds						6,274	6,993
Common Equity 15.9%					**Units**		
Gemino Senior Secured Healthcare Finance (6,8)	Diversified Financial Services				32,839	32,839	32,839
Total Investments (9) 133.9%						**$ 280,296**	**$ 276,337**
Liabilities in Excess of Other Assets (33.9%)							(69,989)
Net Assets 100.0%							**$ 206,348**

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)

September 30, 2013

(in thousands)

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.
(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, 2013.
(3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars.
(4) Indicates an investment that is wholly held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC. 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 the creditors, if any, of Solar Senior Capital Ltd.
(5) 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.
(6) 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. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
(7) Investment is on non-accrual status.
(8) 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, 2013 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2012	Gross Additions	Gross Reductions	Interest/Dividend Income	Fair Value at September 30, 2013
Gemino Senior Secured Healthcare Finance	$	$ 32,839	$	$	$ 32,839

(9) Aggregate net unrealized depreciation for federal income tax purposes is $6,284; aggregate gross unrealized appreciation and depreciation for federal tax purposes is $956 and $7,240, respectively, based on a tax cost of $282,621.

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)

September 30, 2013

Industry Classification	Percentage of Total Investments (at fair value) as of September 30, 2013
Diversified Financial Services	13.3%
Specialty Retail	10.6%
Insurance	10.3%
Food Products	7.9%
Software	7.5%
Professional Services	7.3%
Communications Equipment	4.6%
Health Care Services	3.6%
IT Services	3.6%
Internet Software & Services	3.5%
Paper & Forest Products	3.3%
Air Freight & Logistics	3.2%
Chemicals	2.9%
Personal Products	2.7%
Education Services	2.7%
Hotels, Restaurants & Leisure	2.7%
Food & Staples Retailing	1.9%
Distributors	1.8%
Health Care Facilities	1.8%
Footwear	1.7%
Aerospace & Defense	1.6%
Containers & Packaging	1.5%
Total Investments	100.0%

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2012

(in thousands)

Description [1]	Industry	Interest [2]	Basis Point Spread Above Index[5]	Maturity	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Investments 118.1%							
ABB/Concise Optical LLC [4]	Health Care Providers & Services	6.50%	L+525	10/24/2018	$ 4,000	$ 3,961	$ 4,000
Aderant North America, Inc.	Software	7.25%	P+400	12/20/2018	5,000	4,950	4,950
AmeriQual Group, LLC	Food Products	6.50%	L+500	3/28/2016	12,522	12,391	12,522
Amwins Group, LLC	Insurance	9.25%	L+800	12/6/2019	2,500	2,453	2,525
Asurion, LLC	Insurance	9.00%	L+750	5/24/2019	4,793	4,759	4,947
Attachmate Corporation [4]	Software	7.25%	L+575	11/22/2017	11,550	11,344	11,677
Bellisio Foods, Inc. [4]	Food Products	7.00%	L+550	12/16/2017	4,650	4,611	4,650
BJ s Wholesale Club, Inc.	Food & Staples Retailing	9.75%	L+850	3/26/2020	5,000	4,951	5,150
Catapult Learning LLC [4]	Education Services	7.50%	L+600	4/5/2017	3,900	3,841	3,763
Citadel Plastics Holdings, Inc. [4]	Chemicals, Plastics & Rubber	6.75%	L+525	2/28/2018	4,814	4,772	4,814
Confie Seguros Holding II Co. [4]	Insurance	6.50%	L+525	11/9/2018	10,000	9,853	9,850
Engineering Solutions & Products, LLC	Aerospace & Defense	8.50%	P+525	4/21/2017	9,941	9,669	5,468
Hearthside Food Solutions LLC [4]	Food Products	6.50%	L+525	6/7/2018	10,000	9,950	9,950
Hoffmaster Group, Inc. [4]	Paper & Forest Products	6.50%	L+525	1/3/2018	4,863	4,841	4,838
Hoffmaster Group, Inc. 2nd Lien	Paper & Forest Products	10.25%	L+900	1/3/2019	3,000	2,972	2,970
Insight Pharmaceuticals LLC [4]	Personal & Nondurable Consumer Products	6.25%	L+500	8/26/2016	7,900	7,900	7,900
KIK Custom Products, Inc.	Diversified / Conglomerate Service	8.50%	L+700	5/31/2014	14,725	14,504	14,725
Landslide Holdings, Inc. [4]	Software	7.00%	L+575	6/19/2018	4,875	4,787	4,875
Marshall Retail Group, LLC [4]	Specialty Retail	8.00%	L+650	10/19/2016	4,750	4,694	4,750
National Vision, Inc. [4]	Specialty Retail	7.00%	L+575	8/2/2018	9,925	9,787	9,925
Porex Corporation [4]	Chemicals, Plastics & Rubber	6.75%	L+525	3/31/2015	4,284	4,244	4,284
Renaissance Learning, Inc. [4]	Education Services	5.75%	L+450	11/13/2018	3,990	3,951	3,990
Shield Finance Co. SARL [3,4,6]	IT Services	6.50%	L+525	5/10/2019	9,950	9,817	9,950
Shoes for Crews, Inc. [4]	Textiles & Leather	6.50%	L+500	3/27/2017	4,803	4,793	4,803
SLT Environmental, Inc. [4]	Chemicals, Plastics & Rubber	7.00%	L+550	5/27/2016	9,924	9,819	9,825
Smart Balance, Inc. [4]	Food Products	7.00%	L+575	7/2/2018	3,880	3,808	3,919
Sotera Defense Solutions, Inc.	Aerospace & Defense	7.50%	L+600	4/22/2017	7,415	7,359	7,341
The Endurance International Group, Inc.	Internet Software & Services	10.25%	L+900	5/9/2020	5,000	4,951	5,000
Things Remembered, Inc. [4]	Specialty Retail	8.00%	L+650	5/24/2018	8,978	8,814	8,888
TriNet HR Corp. [4]	Professional Services	6.50%	L+525	10/24/2018	10,000	9,951	9,950
Water Pik, Inc [4]		6.75%	L+525	8/10/2017	3,425	3,398	3,425

	Personal & Nondurable Consumer Products						
Total Bank Debt/Senior Secured Investments						207,895	205,624
Unsecured Bank Debt/Bonds 4.0%							
Apollo Investment Corporation (6)	Finance	5.75%		1/15/2016	3,650	3,262	3,778
Asurion Holdco	Insurance	11.00%	L+950	3/2/2019	3,000	2,918	3,200
Total Unsecured Bank Debt/Bonds						6,180	6,978
Total Investments (7) 122.1%						**$ 214,075**	**$ 212,602**
Liabilities in Excess of Other Assets (22.1%)							(38,499)
Net Assets- 100.0%							**$ 174,103**

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2012

(in thousands)

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.

(2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offer 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, 2012. As of December 31, 2012 all investments are paying cash interest.

(3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars. All other investments are domiciled in the United States.

(4) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC. 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 the creditors, if any, of Solar Senior Capital Ltd. The respective par amounts held through SUNS SPV LLC are: ABB/Concise Optical Group $4,000; Attachmate Corporation $9,625; Bellisio Foods, Inc. $3,720; Catapult Learning, LLC $3,900; Citadel Plastics Holdings, Inc. $3,851; Confie Seguros Holdings II Co. $5,000; Hearthside Food Solutions, LLC $9,000; Hoffmaster Group, Inc. $3,890; Insight Pharmaceuticals LLC $5,445; Landslide Holdings, Inc. $1,950; Marshall Retail $4,750; National Vision, Inc. $9,925; Porex Corporation $4,284; Renaissance Learning, Inc. $3,990; Shield Finance Co. SARL $9,950; Shoes for Crews, Inc. $4,803; SLT Environmental, Inc. $9,924; Smart Balance, Inc. $1,940; Things Remembered, Inc. $ 8,978; TriNet HR Corporation $10,000; and WaterPik, Inc. $3,425. Par balances in excess of these stated amounts are held directly by Solar Senior Capital Ltd.

(5) 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.

(6) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.

(7) Aggregate net unrealized depreciation for federal income tax purposes is $3,918; aggregate gross unrealized appreciation and depreciation for federal tax purposes is $1,309 and $5,227, respectively, based on a tax cost of $216,520.

See notes to consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2012

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2012
Food Products	14.5%
Specialty Retail	11.1%
Software	10.1%
Insurance	9.7%
Chemicals, Plastics & Rubber	8.9%
Diversified/Conglomerate Service	6.9%
Aerospace & Defense	6.0%
Personal & Nondurable Consumer Products	5.3%
IT Services	4.7%
Professional Services	4.7%
Paper & Forest Products	3.7%
Education Services	3.6%
Food & Staples Retailing	2.4%
Internet Software & Services	2.4%
Textiles & Leather	2.3%
Health Care Providers & Services	1.9%
Finance	1.8%
Total Investments	100.0%

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

September 30, 2013

(in thousands, except share and per share amounts)

Note 1. Organization

Solar Senior Capital Ltd. (Solar Senior , the Company , SUNS , we , us , or our), a Maryland corporation formed on December 16, 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940 (the 1940 Act). In addition, for tax purposes we have elected to be treated as a regulated investment company (RIC), under the Internal Revenue Code of 1986, as amended (the Code).

On January 28, 2011, Solar Senior was capitalized and commenced operations. On February 24, 2011, Solar Senior priced its initial public offering, selling 9.0 million shares, including the underwriters over-allotment, at a price of $20.00 per share. Concurrent with this offering, management purchased an additional 500,000 shares through a private placement, also at $20.00 per share.

The Company s investment objective is to seek to maximize current income consistent with the preservation of capital. We will seek to achieve our investment objective by investing primarily in senior secured loans, including first lien, uni-tranche and second lien debt instruments, made primarily to private middle-market companies whose debt is rated below investment grade, which the Company refers to collectively as senior loans. The Company may also invest in debt of public companies that are thinly traded. Under normal market conditions, at least 80% of the value of the Company s net assets 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 accounting principles generally accepted in the United States of America (GAAP), and include the accounts of the Company and its wholly-owned financing subsidiary, SUNS SPV LLC (the SUNS SPV), a Delaware limited liability company formed in August 2011. 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 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 do not include all of the information and notes required by GAAP for annual financial statements. GAAP also 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, 2013.

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;

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per 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 remaining maturities of 60 days or less shall each be valued at cost with interest accrued or discount amortized to the date of maturity, 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, 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; (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 of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. 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 techniques 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,

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

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, 2013, there has been no change to the Company s valuation techniques and the nature of the related inputs considered in the valuation process.

Accounting Standards Codification (ASC) 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.

(c) Gains or losses on investments are calculated by using the specific identification method.

(d) The Company records 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 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. The Company records prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring and other fees for services rendered are recorded as income when earned.

(e) The Company intends to comply with the applicable provisions of the Internal Revenue Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all 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 dividends and 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) Dividends and distributions to common stockholders are recorded as of the record date. The amount to be paid out as a dividend 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 Article 6.03 and ASC 810 *Consolidation*, the Company generally will not consolidate its interest in any operating company other than in investment company

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

subsidiaries, certain financing subsidiaries, and controlled operating companies substantially all of whose business consists of providing services to the Company.

(i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars 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 realized and 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 US dollars and therefore the earnings of the Company.

(j) The Company has 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 and uses an independent third-party valuation firm to measure its fair value.

(k) The Company records expenses related to shelf filings and applicable equity offering costs as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with ASC 946-20-25.

(l) 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 interest obligations. Cash interest payments received on non-accrual designated investments may be recognized as income or applied to principal depending on management s judgment.

(m) 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 from the date of issue would qualify, with limited exceptions. The Company deems that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

Note 3. Agreements

Solar Senior has an Investment Advisory and Management 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 an incentive fee. The base management fee is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Investment Advisory and Management 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.

The 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-

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

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 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, computed net of all realized capital losses or unrealized capital 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 an incentive fee with respect to pre-incentive fee net investment income for each calendar quarter as follows:

no 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.

For the three and nine months ended September 30, 2013, the Company recognized $680 and $1,872, respectively, in base management fees and $0 and $80, respectively, in performance-based incentive fees. For the three and nine months ended September 30, 2012, the Company recognized $594 and $1,635, respectively, in base management fees and $244 and $743, respectively, in performance-based incentive fees.

The second part of the 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 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 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, 2013. For the three and nine months ended September 30, 2012, of the $244 and $743, respectively, the Company recognized in performance-based incentive fees, $160 and $247 was accrued for the capital gains based incentive fee.

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.

For the three and nine months ended September 30, 2013, the Company recognized expenses under the Administration Agreement of $265 and $759, respectively. For the three and nine months ended September 30, 2012, the Company recognized expenses under the Administration Agreement of $170 and $660, respectively.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

Note 4. Net Asset Value Per Share

At September 30, 2013, the Company s total net assets and net asset value per share were $206,348 and $17.91, respectively. This compares to total net assets and net asset value per share at December 31, 2012 of $174,103 and $18.33, respectively.

Note 5. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10, for the three and nine months ended September 30, 2013 and September 30, 2012:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Earnings per share (basic & diluted)				
Numerator net increase in net assets resulting from operations:	$ 2,604	$ 3,807	$ 6,993	$ 13,157
Denominator weighted average shares:	11,521,038	9,500,100	11,389,066	9,500,100
Earnings per share:	$ 0.23	$ 0.40	$ 0.61	$ 1.38

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 own assumptions about the assumptions a market participant would use in pricing the asset or liability.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

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). Therefore gains and losses for such 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. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning 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, 2013 and December 31, 2012:

Fair Value Measurements

As of September 30, 2013

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Investments	$	$ 37,974	$ 198,531	$ 236,505
Unsecured Bank Debt/Bonds		6,993		6,993
Common Equity			32,839	32,839
Total Investments		44,967	231,370	276,337
Credit Facility			$ 34,800	$ 34,800

Fair Value Measurements

As of December 31, 2012

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Investments	$	$ 21,744	$ 183,850	$ 205,624
Unsecured Bank Debt/Bonds		6,978		6,978
Total Investments		28,752	183,850	212,602
Credit Facility			$ 39,100	$ 39,100

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

The following table provides a summary of the changes in fair value of Level 3 assets for the nine months ended September 30, 2013 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, 2013:

Fair Value Measurements Using Level 3 Inputs

As of September 30, 2013

		Bank Debt/Senior Secured Loans
Fair value, December 31, 2012	$	183,850
Total gains or losses included in earnings:		
Net realized loss		(243)
Net change in unrealized gain (loss)		(1,474)
Purchase of investment securities		146,722
Proceeds from dispositions of investment securities		(97,485)
Transfers in/out of Level 3		
Fair value, September 30, 2013	$	231,370
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)	$	(1,579)

During the nine months ended September 30, 2013, there were no transfers in and out of Levels 1, 2, or 3. The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the period.

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, 2013:

Credit Facility	**Fair Value**
Fair value, December 31, 2012	$ 39,100
Net realized (gain) loss	
Net change in unrealized (gain) loss	
Borrowings	123,200
Repayments	(127,500)
Transfers in/out of Level 3	
Fair value, September 30, 2013	$ 34,800

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 September 30, 2013, there were borrowings of $34,800 on the Credit Facility. The Company uses an independent third-party valuation firm to measure the fair value of the Credit Facility.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

The following table provides a summary of the changes in fair value of Level 3 assets for the year ended December 31, 2012 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, 2012:

Fair Value Measurements Using Level 3 Inputs

As of December 31, 2012

		Bank Debt/Senior Secured Loans
Fair value, December 31, 2011	$	160,976
Total gains or losses included in earnings:		
Net realized gain		28
Net change in unrealized gain (loss)		(812)
Purchase of investment securities		167,834
Proceeds from dispositions of investment securities		(144,176)
Transfers in/out of Level 3		
Fair value, December 31, 2012	$	183,850
Unrealized gains (losses) for the year relating to those Level 3 assets that were still held by the Company at the end of the year:		
Net change in unrealized gain (loss)	$	(652)

During the year ended December 31, 2012, there were no transfers in and out of Levels 1, 2, or 3. The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the year.

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, 2012:

Credit Facility		**Fair Value**
Fair value, December 31, 2011	$	8,600
Net realized (gain) loss		
Net change in unrealized (gain) loss		
Borrowings		130,383
Repayments		(99,883)
Transfers in/out of Level 3		
Fair value, December 31, 2012	$	39,100

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, 2012, there were borrowings of $39,100 on the Credit Facility. The Company uses an independent third-party valuation firm to measure the fair value of our Credit Facility.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

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 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, 2013 is summarized in the table below:

	Asset or Liability	Fair Value at September 30, 2013	Valuation Techniques/ Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Investments	Asset	$ 198,531	Yield Analysis/Market Approach/Broker Quoted	Market Yields / Bid-Ask Spreads/ EBITDA Multiples	5.3% 10.9% (7.4%)
			Enterprise Value		7.1x 9.6x (8.3x)
Common Equity	Asset	$ 32,839	Price/Book Value	Multiple of BV	1.0x 1.6x (1.1x)
			Yield Analysis/Market Approach	Market Yields	0.3% 10.9% (10.7%)
Credit Facility	Liability	$ 34,800	Yield Analysis/Market Approach	Market Yields	L+0.5% L+5.5% (L+2.7%)

Quantitative information about the Company s Level 3 asset and liability fair value measurements as of December 31, 2012 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2012	Valuation Techniques/	Unobservable Input	Range (Weighted Average)

				Methodology		
Bank Debt / Senior Secured Investments	Asset	$	183,850	Yield Analysis/Market Approach/Broker Quoted Enterprise Value	Market Yields / Bid-Ask Spreads/ EBITDA Multiples	5.8% 10.6% (7.8%) 3.6x 7.3x (5.8x)
Credit Facility	Liability	$	39,100	Yield Analysis/Market Approach	Market Yields	L+0.5% L+5.5% (L+2.7%)

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

22

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

Note 7. Debt

Senior Secured Revolving Credit Facility On August 26, 2011, the Company established the SUNS SPV which entered into a $200,000 senior secured revolving credit facility (the Credit Facility) with Citigroup Global Markets Inc. acting as administrative agent. The Credit Facility was scheduled to mature on August 26, 2016 and generally bore interest at a rate of LIBOR plus 2.25%. The Credit Facility has $150,000 immediately available with an additional $50,000 available under a delayed draw feature. The Credit Facility can also be expanded up to $600,000 and is secured by all of the assets held by the SUNS SPV. Under the terms of the Credit Facility, Solar Senior and the 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.

On November 7, 2012, the Company amended the Credit Facility. As a result of the amendment, the stated interest rate on the Credit Facility was reduced to LIBOR plus 2.00% from LIBOR plus 2.25%, and the Credit Facility continues to have no LIBOR floor requirement. In addition, the amendment reduced certain non-usage fees. The amendment also provided us greater flexibility and extended the final maturity date to November 6, 2017.

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. Accounting for the Credit Facility at fair value will better align 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 Credit Facility are reported in the Consolidated Statement of Operations. As a result of this election, approximately $2,800 of costs related to the establishment of the original Credit Facility was expensed during the period January 28, 2011 (commencement of operations) to December 31, 2011, and approximately $1,000 was expensed during the year ended December 31, 2012 related to the amendment, rather than being deferred and amortized over the life of the Credit Facility.

The average annualized interest cost for all borrowings for the nine months ended September 30, 2013 and the year ended December 31, 2012 was 2.21% and 2.48%, respectively. These costs are exclusive of commitment fees and other prepaid expenses, if any, related to establishing or amending the Credit Facility. This average annualized interest cost reflects the average interest cost for all outstanding borrowings. The maximum amount borrowed on the Credit Facility during the nine months ended September 30, 2013 and the year ended December 31, 2012, was $58,000 and $74,500, respectively.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

Note 8. Financial Highlights and Senior Securities Table

The following is a schedule of financial highlights for the nine months ended September 30, 2013 and for the year ended December 31, 2012:

	Nine months ended September 30, 2013 (unaudited)	Year ended December 31, 2012
Per Share Data [1]:		
Net asset value, beginning of period	$ 18.33	$ 18.15
Net investment income	0.86	1.31
Net realized and unrealized gain (loss)	(0.24)	0.15
Net increase in net assets resulting from operations	0.62	1.46
Anti-dilution from issuance of common stock	0.05	
Offering costs and other	(0.02)	0.01
Dividends and distributions to shareholders	(1.07)	(1.29)
Net asset value, end of period	$ 17.91	$ 18.33
Total Return [2,3]	2.56%	27.65%
Net assets, end of period	$ 206,348	$ 174,103
Per share market value, end of period	$ 18.08	$ 18.66
Shares outstanding, end of period	11,523,315	9,500,100
Ratio to average net assets [3]:		
Net investment income	4.70%	7.14%
Operating expenses	1.71%	3.20%
Interest and related expenses	0.40%	1.40%
Total Expenses	2.11%	4.60%
Average debt outstanding	$ 32,506	$ 41,439

Portfolio turnover ratio	42.8%	74.5%

(1) Calculated using the average shares outstanding method.
(2) Total return is based on the change in market price per share during the period and takes into account any dividends, if any, reinvested in accordance with the dividend reinvestment plan.
(3) Not annualized for periods less than one year.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

Information about the Company s 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.

Class and Year	Total Amount Outstanding (1)	Asset Coverage Per Unit (2)	Involuntary Liquidating Preference Per Unit (3)	Average Market Value Per Unit (4)
Credit Facility				
Fiscal 2013 (through September 30, 2013)	$ 34,800	$ 6,930	$	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 would be divided based on the amount outstanding at the end of the period for each.
(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 Senior Secured Healthcare Finance

Pursuant to a definitive agreement, dated September 30, 2013, we acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) (Gemino Senior Secured Healthcare Finance) from affiliates of EDG Partners, D. E. Shaw AQ-SP Series 5-01, L.L.C. and other members of Gemino Healthcare Finance, LLC. Gemino Senior Secured Healthcare Finance 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 Senior Secured Healthcare Finance of $32,839 was funded from our existing credit facility. We have an additional $5,000 commitment to purchase equity in Gemino Senior Secured Healthcare Finance, conditional upon approval of the Gemino Senior Secured Healthcare Finance board of directors, among other conditions. The current management team of Gemino Senior Secured Healthcare Finance has committed to lead Gemino Senior Secured Healthcare Finance going forward and co-invested in the transaction.

Concurrent with the closing of the transaction, Gemino Senior Secured Healthcare Finance entered into a new, four-year $100,000 credit facility, which is expandable to $150,000 under its accordion feature. Pro forma for this transaction, Gemino Senior Secured Healthcare Finance had $83,000 outstanding on this credit facility, which is non-recourse to us.

We expect Gemino Senior Secured Healthcare Finance to be treated as a pass-through entity for tax purposes and is expected to distribute a substantial portion of its current cash earnings to us on a recurring basis.

Gemino Senior Secured Healthcare Finance currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2013, the portfolio totaled

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2013

(in thousands, except share and per share amounts)

approximately $162,000 of commitments, of which $106,000 were funded. The portfolio consisted of 33 issuers with an average balance outstanding of approximately $3,200. All of the commitments in Gemino Senior Secured Healthcare Finance s portfolio are floating-rate, senior-secured, cash-pay loans. None of these loans were on non-accrual status as of September 30, 2013. For the three months ended September 30, 2013, Gemino Senior Secured Healthcare Finance had a net loss of $1,676 on gross income of $3,287. For the nine months ended September 30, 2013, Gemino Senior Secured Healthcare Finance had net income of $328 on gross income of $9,287. These results include non-recurring costs related to the acquisition of $3,012 and $3,222 for the three and nine months ended September 30, 2013, respectively. Due to the timing of non-cash items, there may be material differences between GAAP net income and distributions to shareholders.

Note 10. 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.

On October 1, 2013, our investment in Gemino Senior Secured Healthcare Finance was funded.

On October 8, 2013, the Board declared a monthly dividend of $0.1175 per share payable on November 1, 2013 to holders of record as of October 24, 2013.

On October 30, 2013, the Board declared a monthly dividend of $0.1175 per share payable on December 3, 2013 to holders of record as of November 21, 2013.

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Senior Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd. (the Company) as of September 30, 2013, and the consolidated statements of operations for the three and nine month periods ended September 30, 2013 and 2012, the consolidated statement of changes in net assets for the nine month period ended September 30, 2013, and the statements of cash flows for the nine month periods ended September 30, 2013 and 2012. These consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of 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 Public Company Accounting Oversight Board (United States), 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.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them 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), the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd., as of December 31, 2012 and the related consolidated statement of changes in net assets for the year ended December 31, 2012, and we expressed an unqualified opinion on them in our report dated February 25, 2013.

/s/ KPMG LLP

New York, New York

October 30, 2013

Table of Contents

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 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 actu 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 , or we), a Maryland corporation formed in December 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for tax purposes the Company has elected to be treated 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, at a price of $20.00 per share. Concurrent with this offering, management purchased an additional 500,000 shares through a concurrent private placement, also at $20.00 per share.

On August 26, 2011, the Company established the SUNS SPV which entered into a $200 million senior secured revolving credit facility (the Credit Facility) with Citigroup Global Markets Inc. acting as administrative agent. The Credit Facility was scheduled to mature on August 26, 2016 and generally bore interest at the London Interbank Offered Rate (LIBOR) plus 2.25%. The Credit Facility has $150 million immediately

28

Table of Contents

available with an additional $50 million available under a delayed draw feature. The Credit Facility can also be expanded up to $600 million and is secured by all of the assets held by the SUNS SPV. Under the terms of the Credit Facility, Solar Senior and the 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.

On November 7, 2012, we amended our Credit Facility. As a result of the amendment, the stated interest rate on the Credit Facility was reduced to LIBOR plus 2.00% from LIBOR plus 2.25%, and the Credit Facility continues to have no LIBOR floor requirement. In addition, the amendment reduced certain non-usage fees. The amendment also provided us greater flexibility and extended the final maturity date to November 6, 2017.

We invest primarily in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. Our investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by investing primarily in senior loans, including first lien, uni-tranche, 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. 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 expect to 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 or high yield securities, and may be considered high risk compared to debt instruments that are rated investment grade.

We expect to invest in senior loans made primarily to private, leveraged middle-market companies with approximately $20 million to $60 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. We expect that our investments will generally range between $3 million and $35 million each, although we expect that this investment size will vary proportionately with the size of our capital base. 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 senior loans issued by non-U.S. issuers, subject to compliance with our regulatory obligations as a BDC under the 1940 Act.

As of September 30, 2013, our adviser Solar Capital Partners has invested approximately $3.8 billion in more than 135 different portfolio companies since it was founded in 2006. Over the same period, Solar Capital Partners completed transactions with more than 95 different financial sponsors.

Recent Developments

Pursuant to a definitive agreement, dated September 30, 2013, we acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) (Gemino Senior Secured Healthcare Finance) from affiliates of EDG Partners, D. E. Shaw AQ-SP Series 5-01, L.L.C. and other members of Gemino Healthcare Finance, LLC. Gemino Senior Secured Healthcare Finance 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 Senior Secured Healthcare Finance of $32.8 million was funded from our existing credit facility. We have an additional $5.0 million commitment to purchase equity in Gemino Senior Secured Healthcare Finance, conditional upon approval of the Gemino Senior Secured Healthcare Finance board of directors, among other conditions. The current management team of Gemino Senior Secured Healthcare Finance has committed to lead Gemino Senior Secured Healthcare Finance going forward and co-invested in the transaction.

Concurrent with the closing of the transaction, Gemino Senior Secured Healthcare Finance entered into a new, four-year $100 million credit facility, which is expandable to $150 million under its accordion feature. Pro forma for this transaction, Gemino Senior Secured Healthcare Finance had $83 million outstanding on this credit facility, which is non-recourse to us.

We expect Gemino Senior Secured Healthcare Finance to be treated as a pass-through entity for tax purposes and is expected to distribute a substantial portion of its current cash earnings to us on a recurring basis.

Gemino Senior Secured Healthcare Finance currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of September 30, 2013, the portfolio totaled approximately $162 million of commitments, of which $106 million were funded. The portfolio consisted of 33 issuers with an average balance outstanding of $3.2 million. All of the commitments in Gemino Senior Secured Healthcare Finance s portfolio are floating-rate, senior-secured, cash-pay loans. None of these loans were on non-accrual status as of September 30, 2013. For the three months ended September 30, 2013, Gemino Senior Secured Healthcare Finance had a net loss of $1.7 million on gross income of $3.3 million. For the nine months ended September 30, 2013, Gemino Senior Secured Healthcare Finance had net income of $0.3 million on gross income of $9.3 million. These results include non-recurring costs related to the acquisition of $3.0 million and $3.2 million for the three and nine months ended September 30, 2013, respectively. Due to the timing of non-cash items, there may be material differences between GAAP net income and distributions to shareholders.

On October 1, 2013, our investment in Gemino Senior Secured Healthcare Finance was funded.

On October 8, 2013, the Board declared a monthly dividend of $0.1175 per share payable on November 1, 2013 to holders of record as of October 24, 2013.

On October 30, 2013, the Board declared a monthly dividend of $0.1175 per share payable on December 3, 2013 to holders of record as of November 21, 2013.

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 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 LIBOR, commercial paper rate, or the prime rate. Interest on our debt investments is generally payable quarterly but may

Table of Contents

be 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 Solar Capital Partners, LLC (the Investment Adviser) and their staff, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses of that personnel which is allocable to those services are provided and paid for by Solar Capital Partners. We bear all other costs and expenses of our operations and transactions, including those relating to:

- investment advisory and management fees;
- expenses incurred by Solar Capital Partners payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- calculation of our net asset value (including the cost and expenses of any independent valuation firm utilized);
- direct costs and expenses of administration, including independent registered public accounting and legal costs;
- costs of preparing and filing reports or other documents with the SEC;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- registration and listing fees;
- fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;
- taxes;
- independent directors fees and expenses;

marketing and distribution-related expenses;

the costs of any reports, proxy statements or other notices to stockholders, including printing and postage costs;

our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;

organizational costs; and

all other expenses incurred by us or the Administrator in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

Table of Contents

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, 2013, we invested $76.8 million across 9 portfolio companies. This compares to investing $27.5 million in 5 portfolio companies for the three months ended September 30, 2012. Investment sales and prepayments during the three months ended September 30, 2013 totaled $50.5 million versus $15.4 million for the three months ended September 30, 2012.

At September 30, 2013, our portfolio consisted of 36 portfolio companies and was invested 86% in senior secured loans, 2% in unsecured loans and 12% in common equity measured at fair value versus 31 portfolio companies invested 97% in senior secured loans and 3% in unsecured loans at September 30, 2012.

The weighted average yields on our income producing portfolio of investments were 7.4% and 8.1%, respectively, at September 30, 2013 and September 30, 2012 measured at fair value.

At September 30, 2013, 93.0% or $252.9 million of our income producing portfolio* is floating rate and 7.0% or $19.0 million is fixed rate measured at fair value. At September 30, 2012, 96.9% or $227.7 million of our income producing portfolio was floating rate and 3.1% or $7.3 million was fixed rate measured at fair value.

Since the initial public offering of Solar Senior Capital Ltd. on February 24, 2011 and through September 30, 2013, invested capital totaled approximately $580 million in 55 portfolio companies. Over the same period, Solar Senior Capital Ltd. completed transactions with more than 40 different financial sponsors.

* We have included Gemino Senior Secured Healthcare Finance as 100% floating rate at September 30, 2013.

Critical Accounting Policies

The preparation of consolidated financial statements and related disclosures in conformity with U.S. 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.

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

Table of Contents

Company uses the quote obtained. Debt investments with remaining maturities of 60 days or less shall each be valued at cost with interest accrued or discount amortized to the date of maturity, 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; (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 of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. 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 techniques 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, 2013, there has been no change to the Company s valuation techniques and the nature of the related inputs considered in the valuation process.