

Solar Senior Capital Ltd.
Form 10-Q
August 02, 2016
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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 June 30, 2016

.. **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)

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Maryland
(State of Incorporation)

27-4288022
(I.R.S. Employer

500 Park Avenue

Identification No.)

New York, N.Y.
(Address of principal executive offices)

10022
(Zip Code)

(212) 993-1670

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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

Non-accelerated filer Smaller Reporting Company

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of August 1, 2016 was 11,533,315.

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SOLAR SENIOR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2016

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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 the context states otherwise.

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

(in thousands, except share amounts)

	June 30, 2016 (unaudited)	December 31, 2015
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: \$267,550 and \$253,373, respectively)	\$ 260,505	\$ 242,502
Companies 5% to 25% owned (cost: \$3,932 and \$3,816, respectively)	2,445	2,423
Companies more than 25% owned (cost: \$62,423 and \$62,423, respectively)	62,787	61,593
Total investments (cost: \$333,905 and \$319,612, respectively)	325,737	306,518
Cash	4,650	3,070
Cash equivalents (cost: \$32,997 and \$49,997, respectively)	32,997	49,997
Receivable for investments sold	9,318	45
Dividends receivable	1,327	526
Interest receivable	1,315	2,040
Prepaid expenses and other assets	475	381
Total assets	\$ 375,819	\$ 362,577
Liabilities		
Credit facility payable (see note 6 and 7)	\$ 141,600	\$ 116,200
Payable for investments and cash equivalents purchased	37,578	54,897
Distributions payable	1,355	1,355
Management fee payable (see note 3)	834	831
Performance-based incentive fee payable (see note 3)	237	
Interest payable (see note 7)	307	262
Administrative services expense payable (see note 3)	349	534
Other liabilities and accrued expenses	298	194
Total liabilities	\$ 182,558	\$ 174,273
Commitments and contingencies (see note 10 and 11)		
Net Assets		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 11,533,315 and 11,533,315 issued and outstanding, respectively	\$ 115	\$ 115
Paid-in capital in excess of par	211,486	211,486
Distributions in excess of net investment income	(5,185)	(5,185)
Accumulated net realized loss	(4,987)	(5,018)
Net unrealized depreciation	(8,168)	(13,094)

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Total net assets	\$ 193,261	\$ 188,304
Net Asset Value Per Share	\$ 16.76	\$ 16.33

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

	Three months ended		Six months ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
INVESTMENT INCOME:				
Interest:				
Companies less than 5% owned	\$ 4,867	\$ 5,198	\$ 9,291	\$ 10,317
Companies 5% to 25% owned	52	54	102	107
Dividends:				
Companies more than 25% owned	1,703	1,307	3,511	2,276
Other income:				
Companies less than 5% owned	43	89	96	89
Companies more than 25% owned	16	7	30	9
Total investment income	6,681	6,655	13,030	12,798
EXPENSES:				
Management fees (see note 3)	\$ 834	\$ 879	\$ 1,631	\$ 1,745
Performance-based incentive fees (see note 3)	465		850	157
Interest and other credit facility expenses (see note 7)	913	1,660	1,764	2,492
Administrative services expense (see note 3)	299	282	594	536
Other general and administrative expenses	332	488	673	803
Total expenses	2,843	3,309	5,512	5,733
Performance-based incentive fees waived (see note 3)	(228)		(613)	(157)
Net expenses	2,615	3,309	4,899	5,576
Net investment income	\$ 4,066	\$ 3,346	\$ 8,131	\$ 7,222
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CASH EQUIVALENTS:				
Net realized gain on investments and cash equivalents (companies less than 5% owned)	22	40	31	49
Net change in unrealized gain (loss) on investments and cash equivalents	586	(490)	4,926	(289)
Net realized and unrealized gain (loss) on investments and cash equivalents	608	(450)	4,957	(240)
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 4,674	\$ 2,896	\$ 13,088	\$ 6,982
EARNINGS PER SHARE (see note 5)	\$ 0.41	\$ 0.25	\$ 1.13	\$ 0.61

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

	Six months ended June 30, 2016 (unaudited)	Year ended December 31, 2015
Increase in net assets resulting from operations:		
Net investment income	\$ 8,131	\$ 15,373
Net realized gain	31	18
Net change in unrealized gain (loss)	4,926	(14,344)
Net increase in net assets resulting from operations	13,088	1,047
Distributions to stockholders:		
From net investment income	(8,131)	(16,262)
Capital transactions:		
Net increase in net assets resulting from capital transactions		
Total increase (decrease) in net assets	4,957	(15,215)
Net assets at beginning of period	188,304	203,519
Net assets at end of period ⁽¹⁾	\$ 193,261	\$ 188,304
Capital share activity:		
Net increase from capital share activity		

(1) Includes overdistributed net investment income of (\$5,185) and (\$5,185), respectively.
See notes to consolidated financial statements.

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

(in thousands)

	Six months ended	
	June 30, 2016	June 30, 2015
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 13,088	\$ 6,982
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized gain on investments and cash equivalents	(31)	(49)
Net change in unrealized (gain) loss on investments and cash equivalents	(4,926)	289
(Increase) decrease in operating assets:		
Purchase of investments	(53,074)	(65,251)
Proceeds from disposition of investments	38,812	58,166
Capitalization of payment-in-kind interest		(51)
Receivable for investments sold	(9,273)	
Interest receivable	725	94
Dividends receivable	(801)	(494)
Prepaid expenses and other assets	(94)	(70)
Increase (decrease) in operating liabilities:		
Payable for investments and cash equivalents purchased	(17,319)	4,179
Management fee payable	3	81
Performance-based incentive fee payable	237	
Administrative services expense payable	(185)	(212)
Interest payable	45	54
Other liabilities and accrued expenses	104	106
Net Cash Provided by (Used in) Operating Activities	(32,689)	3,824
Cash Flows from Financing Activities:		
Cash distributions paid	(8,131)	(8,131)
Proceeds from borrowings	55,800	23,500
Repayments of borrowings	(30,400)	(23,300)
Net Cash Provided by (Used in) Financing Activities	17,269	(7,931)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(15,420)	(4,107)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	53,067	42,471
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 37,647	\$ 38,364
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 1,719	\$ 2,438

Non-cash financing activities: During the six months ended June 30, 2015, \$29,584 of investments were transferred from the Company to First Lien Loan Program LLC (see note 11).

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****June 30, 2016****(in thousands, except share/unit amounts)**

Description	Industry	Spread			Acquisition Date	Maturity Date	Par		Fair Value
		above Index ⁽³⁾	Libor Floor	Interest Rate ⁽¹⁾			Amount	Cost	
Bank Debt/Senior Secured Loans 136.0%									
ABB/Con-Cise Optical Group LLC ⁽²⁾	Health Care Supplies	L+500	1.00%	6.00%	6/14/2016	6/15/2023	\$ 3,000	\$ 2,970	\$ 3,015
Acrisure, LLC ⁽²⁾	Insurance	L+550	1.00%	6.50%	5/14/2015	5/19/2022	4,950	4,907	4,927
Advantage Sales and Marketing, Inc	Professional Services	L+650	1.00%	7.50%	2/14/2013	7/21/2022	8,000	7,951	7,500
Aegis Toxicology Sciences Corporation	Health Care Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021	4,000	3,954	3,520
ALG B.V. (Apple Leisure) ⁽²⁾⁽⁴⁾	Hotels, Restaurants & Leisure	L+575	1.25%	7.00%	2/28/2013	2/28/2019	2,692	2,678	2,692
ALG USA Holdings, LLC (Apple Leisure) ⁽²⁾	Hotels, Restaurants & Leisure	L+575	1.25%	7.00%	2/28/2013	2/28/2019	3,568	3,550	3,568
American Seafoods Group LLC ⁽²⁾	Food Products	L+500	1.00%	6.00%	8/10/2015	8/19/2021	4,891	4,870	4,842
American Teleconferencing Services, Ltd. (PGI) ⁽²⁾	Communications Equipment	L+650	1.00%	7.50%	5/5/2016	12/8/2021	8,887	8,013	7,998
Aperture Group, LLC (Trade Monster) ⁽²⁾	Capital Markets	L+625	1.00%	7.25%	9/2/2014	8/29/2019	3,753	3,740	3,734
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021	3,300	3,213	3,191
Athletico Management, LLC and Accelerated Holdings, LLC ⁽²⁾	Health Care Facilities	L+550	0.75%	6.25%	12/1/2014	12/2/2020	9,219	9,148	9,219
Capstone Logistics Acquisition, Inc. ⁽²⁾	Professional Services	L+450	1.00%	5.50%	10/3/2014	10/7/2021	8,278	8,213	8,113
Castle Management Borrower LLC (Highgate Hotels) ⁽²⁾	Real Estate Management & Development	L+450	1.00%	5.50%	10/10/2014	9/18/2020	7,641	7,584	7,488
CIBT Holdings, Inc	Professional Services	L+525	1.00%	6.25%	6/28/2016	6/28/2022	2,627	2,601	2,601
Confie Seguros Holding II Co. ⁽²⁾	Insurance	L+450	1.25%	5.75%	11/9/2012	11/9/2018	10,202	10,153	10,125
ConvergeOne Holdings Corp. ⁽²⁾	Communications Equipment	L+500	1.00%	6.00%	6/16/2014	6/17/2020	6,860	6,812	6,671
CT Technologies Intermediate Holdings ⁽²⁾	Health Care Technology	L+425	1.00%	5.25%	12/1/2014	12/1/2021	3,410	3,392	3,359
Engineering Solutions & Products, LLC ⁽⁶⁾	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	5/4/2018	222	222	222
Engineering Solutions & Products, LLC ⁽⁶⁾	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	11/5/2018	2,343	2,343	2,155
Epic Health Services, Inc. ⁽²⁾	Health Care Services	L+475	1.00%	5.75%	2/20/2015	2/17/2021	4,808	4,776	4,760
Filtration Group Corp.	Industrial Conglomerates	L+725	1.00%	8.25%	11/15/2013	11/21/2021	524	520	517
GenMark Diagnostics, Inc ⁽²⁾⁽⁴⁾	Health Care Services			6.90%	4/22/2016	1/12/2019	9,643	9,397	9,643
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	3,446	3,058	3,121
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	3,000	2,960	2,498
Global Tel*Link Corporation	Health Care Services	L+500	1.00%	6.00%	3/25/2015	4/7/2022	4,963	4,941	4,981

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HC Group Holdings III, Inc.
(Walgreens)⁽²⁾

Hostway Corporation ⁽²⁾	Internet Software & Services	L+475	1.25%	6.00%	6/27/2014	12/13/2019	9,026	8,999	7,763
Innovative Xcessories & Services, LLC ⁽²⁾	Automotive Retail	L+400	1.00%	5.00%	8/21/2014	2/21/2020	4,503	4,472	4,458
Kellermeyer Bergensons Services, LLC (KBS) ⁽²⁾	Commercial Services & Supplies	L+500	1.00%	6.00%	10/31/2014	10/29/2021	4,875	4,836	4,729
Landslide Holdings, Inc	Software	L+725	1.00%	8.25%	2/25/2014	2/25/2021	3,310	3,306	3,219
LegalZoom.com, Inc. ⁽²⁾	Internet Software & Services	L+700	1.00%	8.00%	5/13/2015	5/13/2020	9,875	9,695	9,875
Lumeris Solutions Company, LLC ⁽²⁾	Health Care Technology			9.42%	4/22/2016	12/27/2017	2,917	2,858	2,917
Material Handling Services, LLC (TFS) ⁽²⁾	Air Freight & Logistics	L+475	1.00%	5.75%	3/3/2014	3/26/2020	11,236	11,160	11,011
Metamorph US 3, LLC (Metalogix) ⁽²⁾	Software	L+650	1.00%	7.50%	12/1/2014	12/1/2020	8,125	7,968	6,906
MYI Acquiror Corp. (McLarens Young) ⁽²⁾	Insurance	L+450	1.25%	5.75%	5/21/2014	5/28/2019	3,439	3,418	3,370
MYI Acquiror Ltd. (McLarens Young) ⁽²⁾⁽⁴⁾	Insurance	L+450	1.25%	5.75%	5/21/2014	5/28/2019	4,338	4,311	4,251
Novavax, Inc. ⁽²⁾⁽⁴⁾	Pharmaceuticals			12.10%	4/22/2016	12/1/2016	149	143	149
Pearl Merger Sub LLC (PetVet) ⁽²⁾	Health Care Facilities	L+475	1.00%	5.75%	1/29/2015	12/17/2020	4,433	4,362	4,399
Precyse Acquisition Corp. ⁽²⁾	Health Care Services	L+550	1.00%	6.50%	4/19/2016	10/20/2022	3,000	2,956	2,991
PSP Group, LLC (Pet Supplies Plus) ⁽²⁾⁽⁷⁾	Specialty Retail	L+475	1.00%	5.75%	4/2/2015	4/6/2021	489	485	487
QBS Holding Company, Inc. (Quorum) ⁽²⁾	Software	L+475	1.00%	5.75%	8/1/2014	8/7/2021	6,403	6,353	6,274
Richelieu Foods, Inc. ⁽²⁾	Food Products	L+475	1.00%	5.75%	11/21/2014	5/21/2020	6,650	6,576	6,650
Salient Partners, L.P. ⁽²⁾	Asset Management Communications	L+850	1.00%	9.50%	6/10/2015	6/9/2021	4,393	4,317	4,228
Securus Technologies, Inc	Equipment	L+775	1.25%	9.00%	4/17/2013	4/30/2021	10,000	9,940	9,017
SHO Holding I Corporation (Shoes for Crews) ⁽²⁾	Footwear	L+500	1.00%	6.00%	11/20/2015	10/27/2022	5,970	5,915	5,970
SkinnyPop Popcorn, LLC ⁽²⁾	Food Products	L+450	1.00%	5.50%	7/17/2014	7/17/2019	4,570	4,540	4,570
SolarWinds Holdings, Inc. ⁽²⁾	Internet Software & Services	L+550	1.00%	6.50%	2/1/2016	2/6/2023	5,000	4,761	4,991
Strategic Partners Acquisition Corp.	Textiles, Apparel & Luxury Goods	L+525	1.00%	6.25%	6/24/2016	6/30/2023	2,000	1,980	2,000
Stratose Intermediate Holdings II, LLC ⁽²⁾	Health Care Services	L+500	1.00%	6.00%	1/25/2016	1/26/2022	4,975	4,928	4,975
The Edelman Financial Center, LLC ⁽²⁾	Diversified Financial Services	L+550	1.00%	6.50%	12/16/2015	12/18/2022	4,975	4,881	4,938
The Hilb Group, LLC & Gencorp Insurance Group, Inc. ⁽²⁾	Insurance	L+500	1.00%	6.00%	3/16/2016	6/24/2021	3,841	3,767	3,783
Trident USA Health Services ⁽²⁾	Health Care Services	L+525	1.25%	6.50%	7/29/2013	7/31/2019	8,843	8,797	7,560
TwentyEighty, Inc. (fka Miller Heiman) ⁽²⁾	Professional Services	L+600	1.00%	7.00%	9/30/2013	9/30/2019	7,038	6,994	5,454
Vizient, Inc. ⁽²⁾	Health Care Services	L+525	1.00%	6.25%	2/9/2016	2/13/2023	998	969	1,006
VT Buyer Acquisition Corp. (Veritext) ⁽²⁾	Professional Services	L+500	1.00%	6.00%	1/29/2016	1/29/2022	4,503	4,462	4,481

Total Bank Debt/Senior Secured Loans

\$ 270,115 \$ 262,882

Common Equity/Equity

Interests 32.5%

Shares/Units

Engineering Solutions & Products, LLC ⁽⁶⁾⁽⁸⁾	Aerospace & Defense				11/5/2013		133,668	\$ 1,367	\$ 68
First Lien Loan Program LLC ⁽⁴⁾⁽⁵⁾	Asset Management				2/13/2015			29,584	28,037
Gemino Healthcare Finance, LLC ⁽⁴⁾⁽⁵⁾⁽⁹⁾	Diversified Financial Services				9/30/2013		32,839	32,839	34,750

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Total Common Equity/Equity Interests					\$ 63,790	\$ 62,855
Total Investments⁽¹⁰⁾ 168.5%					\$ 333,905	\$ 325,737
Cash Equivalents 17.1%					Par Amount	
U.S. Treasury Bill	Government	6/29/2016	7/21/2016	33,000	\$ 32,997	\$ 32,997
Total Investments & Cash Equivalents 185.6%					\$ 366,902	\$ 358,734
Liabilities in Excess of Other Assets (85.6%)						(165,473)
Net Assets 100.0%					\$ 193,261	

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2016****(in thousands)**

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of June 30, 2016.
- (2) 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 creditors, if any, of Solar Senior Capital Ltd. The respective par amount for the investment that is partially held through SUNS SPV LLC is Genmark Diagnostics, Inc. \$4,821. The par balance in excess of this stated amount is held directly by Solar Senior Capital Ltd.
- (3) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (4) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of June 30, 2016, on a fair value basis, non-qualifying assets in the portfolio represented 21.2% of the total assets of the Company.
- (5) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the six months ended June 30, 2016 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Dividend/Other Income	Fair Value at June 30, 2016
First Lien Loan Program LLC	\$ 27,593	\$	\$	\$	\$ 1,510	\$ 28,037
Gemino Healthcare Finance, LLC	34,000				2,031	34,750
	\$ 61,593	\$	\$	\$	\$ 3,541	\$ 62,787

- (6) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the six months ended June 30, 2016 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest Income	Fair Value at June 30, 2016
Engineering Solutions & Products, LLC (1st lien)	\$ 106	\$ 174	\$ 58	\$	\$ 7	\$ 222
Engineering Solutions & Products, LLC (2nd lien)	2,249				95	2,155
Engineering Solutions & Products, LLC (equity interests)	68					68
	\$ 2,423	\$ 174	\$ 58	\$	\$ 102	\$ 2,445

- (7) PSP Group, LLC, PSP Service Newco, Inc., PSP Subco, LLC, PSP Stores, LLC, and PSP Distribution, LLC are co-borrowers.
- (8) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corp., a taxable consolidated subsidiary.
- (9) Investment represents the operating company after consolidation of the holding company Gemino Senior Secured Healthcare LLC.

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- (10) Aggregate net unrealized depreciation for federal income tax purposes is \$11,318; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$2,381 and \$13,699, respectively, based on a tax cost of \$337,055.
Non-income producing security.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2016**

Industry Classification	Percentage of Total Investments (at fair value) as of June 30, 2016
Diversified Financial Services	12.2%
Health Care Services	12.1%
Asset Management	9.9%
Insurance	9.1%
Communications Equipment	9.0%
Professional Services	8.6%
Internet Software & Services	7.0%
Software	5.0%
Food Products	4.9%
Health Care Facilities	4.2%
Air Freight & Logistics	3.4%
Real Estate Management & Development	2.3%
Health Care Technology	1.9%
Hotels, Restaurants & Leisure	1.9%
Footwear	1.8%
Commercial Services & Supplies	1.5%
Automotive Retail	1.4%
Capital Markets	1.1%
Health Care Supplies	0.9%
Aerospace & Defense	0.8%
Textile, Apparel & Luxury Goods	0.6%
Industrial Conglomerates	0.2%
Specialty Retail	0.2%
Pharmaceuticals	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, 2015****(in thousands, except share/unit amounts)**

Description	Industry	Spread			Acquisition Date	Maturity Date	Par		Fair Value
		above Index ⁽³⁾	Libor Floor	Interest Rate ⁽¹⁾			Amount	Cost	
Bank Debt/Senior Secured Loans 128.1%									
Acrisure, LLC ⁽²⁾	Insurance	L+550	1.00%	6.50%	5/14/2015	5/19/2022	\$ 4,975	\$ 4,929	\$ 4,782
Advantage Sales and Marketing, Inc	Professional Services	L+650	1.00%	7.50%	2/14/2013	7/21/2022	8,000	7,948	7,217
Aegis Toxicology Sciences Corporation	Health Care Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021	4,000	3,951	3,600
ALG B.V. (Apple Leisure) ⁽²⁾⁽⁴⁾	Hotels, Restaurants & Leisure	L+575	1.25%	7.00%	2/28/2013	2/28/2019	2,708	2,692	2,681
ALG USA Holdings, LLC (Apple Leisure) ⁽²⁾	Hotels, Restaurants & Leisure	L+575	1.25%	7.00%	2/28/2013	2/28/2019	3,589	3,568	3,553
American Seafoods Group LLC ⁽²⁾	Food Products	L+500	1.00%	6.00%	8/10/2015	8/19/2021	4,988	4,964	4,888
Aperture Group, LLC (Trade Monster) ⁽²⁾	Capital Markets	L+625	1.00%	7.25%	9/2/2014	8/29/2019	3,950	3,935	3,911
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021	3,300	3,206	2,840
Athletico Management, LLC and Accelerated Holdings, LLC ⁽²⁾	Health Care Facilities	L+550	0.75%	6.25%	12/1/2014	12/2/2020	9,448	9,368	9,306
Blue Ribbon, LLC (Pabst) ⁽²⁾	Beverages	L+450	1.00%	5.50%	11/5/2014	11/13/2021	1,367	1,356	1,367
Capstone Logistics Acquisition, Inc. ⁽²⁾	Professional Services	L+450	1.00%	5.50%	10/3/2014	10/7/2021	8,394	8,322	8,331
Castle Management Borrower LLC (Highgate Hotels) ⁽²⁾	Real Estate Management & Development	L+450	1.00%	5.50%	10/10/2014	9/18/2020	7,900	7,835	7,624
CGSC of Delaware Holdings Corp. (Cooper Gay)	Insurance	L+700	1.25%	8.25%	4/5/2013	10/16/2020	4,000	3,962	3,600
Confie Seguros Holding II Co. ⁽²⁾	Insurance	L+450	1.25%	5.75%	11/9/2012	11/9/2018	10,255	10,196	10,127
ConvergeOne Holdings Corp. ⁽²⁾	Communications Equipment	L+500	1.00%	6.00%	6/16/2014	6/17/2020	6,895	6,841	6,809
CT Technologies Intermediate Holdings ⁽²⁾	Health Care Technology	L+425	1.00%	5.25%	12/1/2014	12/1/2021	7,438	7,383	7,205
Engineering Solutions & Products, LLC ⁽⁶⁾	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	5/4/2018	106	106	106
Engineering Solutions & Products, LLC ⁽⁶⁾	Aerospace & Defense	L+600	2.00%	8.00%	11/5/2013	11/5/2018	2,343	2,343	2,249
Epic Health Services, Inc. ⁽²⁾	Health Care Services	L+475	1.00%	5.75%	2/20/2015	2/17/2021	4,818	4,783	4,721
Filtration Group Corp.	Industrial Conglomerates	L+725	1.00%	8.25%	11/15/2013	11/21/2021	524	519	511
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	1,089	850	801
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	3,000	2,956	2,115
HC Group Holdings III, Inc. (Walgreens) ⁽²⁾	Health Care Services	L+500	1.00%	6.00%	3/25/2015	4/7/2022	4,988	4,964	4,969
Hostway Corporation ⁽²⁾	Internet Software & Services	L+475	1.25%	6.00%	6/27/2014	12/13/2019	9,276	9,244	8,720
Innovative Xcessories & Services, LLC ⁽²⁾	Automotive Retail	L+425	1.00%	5.25%	8/21/2014	2/21/2020	4,625	4,589	4,556
Kellermeyer Bergensons Services, LLC (KBS) ⁽²⁾	Commercial Services & Supplies	L+500	1.00%	6.00%	10/31/2014	10/29/2021	4,950	4,907	4,727
Landslide Holdings, Inc	Software	L+725	1.00%	8.25%	2/25/2014	2/25/2021	3,310	3,306	3,111

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LegalZoom.com, Inc. ⁽²⁾	Internet Software & Services	L+700	1.00%	8.00%	5/13/2015	5/13/2020	9,925	9,725	9,677
Material Handling Services, LLC (TFS) ⁽²⁾	Air Freight & Logistics	L+475	1.00%	5.75%	3/3/2014	3/26/2020	11,416	11,329	11,244
Metamorph US 3, LLC (Metalogix) ⁽²⁾	Software	L+550	1.00%	6.50%	12/1/2014	12/1/2020	9,750	9,543	8,970
MYI Acquiror Corp. (McLarens Young) ⁽²⁾	Insurance	L+450	1.25%	5.75%	5/21/2014	5/28/2019	3,456	3,432	3,387
MYI Acquiror Ltd. (McLarens Young) ⁽²⁾⁽⁴⁾	Insurance	L+450	1.25%	5.75%	5/21/2014	5/28/2019	4,338	4,307	4,251
Pearl Merger Sub LLC (PetVet) ⁽²⁾	Health Care Facilities	L+450	1.00%	5.50%	1/29/2015	12/17/2020	4,455	4,378	4,366
PSP Group, LLC (Pet Supplies Plus) ⁽²⁾⁽⁷⁾	Specialty Retail	L+475	1.00%	5.75%	4/2/2015	4/6/2021	496	492	486
QBS Holding Company, Inc. (Quorum) ⁽²⁾	Software	L+475	1.00%	5.75%	8/1/2014	8/7/2021	6,435	6,381	6,242
RCPSI Corporation (Pet Supermarket) ⁽²⁾	Specialty Retail	L+575	1.00%	6.75%	4/22/2015	4/16/2021	9,453	9,367	9,263
Richelieu Foods, Inc. ⁽²⁾	Food Products	L+475	1.00%	5.75%	11/21/2014	5/21/2020	6,720	6,637	6,552
Salient Partners, L.P. ⁽²⁾	Asset Management	L+650	1.00%	7.50%	6/10/2015	6/9/2021	4,433	4,350	4,277
Securus Technologies, Inc	Communications Equipment	L+775	1.25%	9.00%	4/17/2013	4/30/2021	10,000	9,934	5,660
SHO Holding I Corporation (Shoes for Crews) ⁽²⁾	Footwear	L+500	1.00%	6.00%	11/20/2015	10/27/2022	6,000	5,941	5,940
SkinnyPop Popcorn, LLC ⁽²⁾	Food Products	L+450	1.00%	5.50%	7/17/2014	7/17/2019	4,752	4,717	4,705
Stratose Intermediate Holdings II, LLC ⁽²⁾	Health Care Services	L+450	1.00%	5.50%	6/2/2015	6/30/2021	6,965	6,900	6,965
The Edelman Financial Center, LLC ⁽²⁾	Diversified Financial Services	L+550	1.00%	6.50%	12/16/2015	12/18/2022	5,000	4,900	4,900
Trident USA Health Services ⁽²⁾	Health Care Services	L+525	1.25%	6.50%	7/29/2013	7/31/2019	8,893	8,839	8,537
TwentyEighty, Inc. (fka Miller Heiman) ⁽²⁾	Professional Services	L+575	1.00%	6.75%	9/30/2013	9/30/2019	7,131	7,081	6,454
Varsity Brands Holdings Co., Inc. ⁽²⁾	Diversified Consumer Services	L+400	1.00%	5.00%	12/10/2014	12/11/2021	4,941	4,902	4,904

Total Bank Debt/Senior Secured Loans **\$ 252,178** **\$ 241,207**

Unsecured Notes 1.9%

Apollo Investment Corporation ⁽⁴⁾	Diversified Financial Services			5.75%	11/10/2011	1/15/2016	\$3,650	\$ 3,644	\$ 3,650
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Common Equity/Equity

						<u>Shares/Units</u>			
Interests 32.8%									
Engineering Solutions & Products, LLC ⁽⁶⁾⁽⁸⁾	Aerospace & Defense				11/5/2013		133,668	\$ 1,367	\$ 68
First Lien Loan Program LLC ⁽⁴⁾⁽⁵⁾	Asset Management				2/13/2015			29,584	27,593
Gemino Healthcare Finance, LLC ⁽⁴⁾⁽⁵⁾⁽⁹⁾	Diversified Financial Services				9/30/2013		32,839	32,839	34,000

Total Common Equity/Equity Interests **\$ 63,790** **\$ 61,661**

Total Investments⁽¹⁰⁾ 162.8% **\$ 319,612** **\$ 306,518**

Cash Equivalents 26.5% **Par Amount**

U.S. Treasury Bill	Government				12/28/2015	1/21/2016	50,000	\$ 49,997	\$ 49,997
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Total Investments & Cash Equivalents 189.3% **\$ 369,609** **\$ 356,515**

Liabilities in Excess of Other Assets (89.3%) (168,211)

Net Assets 100.0% **\$ 188,304**

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2015****(in thousands)**

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2015.
- (2) 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 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 December 31, 2015, on a fair value basis, non-qualifying assets in the portfolio represented 19.9% 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 year ended December 31, 2015 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2014	Gross Additions	Gross Reductions	Realized Gain (Loss)	Dividend/Other Income	Fair Value at December 31, 2015
First Lien Loan Program LLC	\$	\$ 29,584	\$	\$	\$ 1,794	\$ 27,593
Gemino Healthcare Finance, LLC	34,421				3,510	34,000
	\$ 34,421	\$ 29,584	\$	\$	\$ 5,304	\$ 61,593

- (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, 2015 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2014	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest Income	Fair Value at December 31, 2015
Engineering Solutions & Products, LLC (1st lien)	\$ 324	\$	\$ 218	\$	\$ 24	\$ 106
Engineering Solutions & Products, LLC (2nd lien)	2,343				190	2,249
Engineering Solutions & Products, LLC (equity interests)	956					68
	\$ 3,623	\$	\$ 218	\$	\$ 214	\$ 2,423

- (7) PSP Group, LLC, PSP Service Newco, Inc., PSP Subco, LLC, PSP Stores, LLC, and PSP Distribution, LLC are co-borrowers.
- (8) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corp., a taxable subsidiary.
- (9) Investment represents the operating company after consolidation of the holding company Gemino Senior Secured Healthcare LLC.

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- (10) Aggregate net unrealized depreciation for federal income tax purposes is \$15,316; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$1,172 and \$16,488, respectively, based on a tax cost of \$321,834.
Non-income producing security.

See notes to consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2015**

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2015
Diversified Financial Services	13.9%
Asset Management	10.4%
Insurance	9.5%
Health Care Services	9.3%
Professional Services	7.2%
Internet Software & Services	6.0%
Software	6.0%
Food Products	5.3%
Communications Equipment	5.0%
Health Care Facilities	4.5%
Air Freight & Logistics	3.7%
Specialty Retail	3.2%
Real Estate Management & Development	2.5%
Health Care Technology	2.3%
Hotels, Restaurants & Leisure	2.0%
Footwear	1.9%
Diversified Consumer Services	1.6%
Commercial Services & Supplies	1.5%
Automotive Retail	1.5%
Capital Markets	1.3%
Aerospace & Defense	0.8%
Beverages	0.4%
Industrial Conglomerates	0.2%
Total Investments	100.0%

See notes to consolidated financial statements.

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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

June 30, 2016

(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 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). 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 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 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, at a price of \$20.00 per share. Concurrent with this offering, our senior management team 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 seek to achieve our investment objective by directly or indirectly investing primarily in senior secured loans, including first lien and second lien debt instruments, made primarily to leveraged private middle-market companies whose debt is rated below investment grade, which the Company refers to collectively as senior loans. From time to time, we may also invest in public companies that are thinly traded. Under normal market conditions, at least 80% of the value of the Company's net assets (including the amount of any borrowings for investment purposes) will be invested in senior loans.

Note 2. Significant Accounting Policies

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), and include the accounts of the Company and its wholly-owned subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts may have been reclassified to conform to current period presentation.

Interim consolidated financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X, as appropriate. Accordingly, they may not include all of the information and notes required by GAAP for annual consolidated financial statements. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2016.

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)

June 30, 2016

(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; (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 as 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 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,

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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2016

(in thousands, except 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. Escrow receivables, if any, included in the receivables for investments sold in the Consolidated Statements of Assets and Liabilities are reviewed quarterly and the value of the receivable is adjusted as necessary. For the six months ended June 30, 2016, there has been no change to the Company's valuation 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 Internal Revenue 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.

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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2016

(in thousands, except share amounts)

- (h) In accordance with Regulation S-X and ASC Topic 810 *Consolidation*, the Company consolidates its interest in investment company subsidiaries, financing subsidiaries and certain wholly-owned holding companies that serve to facilitate investment in portfolio companies. In addition, the Company may also consolidate any controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against the U.S. dollar on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments in terms of U.S. dollars and therefore the earnings of the Company.
- (j) 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. The Company uses an independent third-party valuation firm to assist in measuring its fair value.
- (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.

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Recent Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update (ASU) 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis. The update changes the analysis that a

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

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reporting entity must perform to determine whether it should consolidate certain types of legal entities. Public companies are required to apply ASU 2015-02 for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-02 on its consolidated financial statements and determined that the adoption of ASU 2015-02 has not had a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Public companies are required to apply ASU 2015-03 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-03 on its consolidated financial statements and determined that the adoption of ASU 2015-03 has not had a material impact on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The update eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB's fair value measurement guidance. Public companies are required to apply ASU 2015-07 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-07 on its consolidated financial statements and determined that the adoption of ASU 2015-07 has not had a material impact on our consolidated financial statements.

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 an incentive fee. The base management fee is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. Base management fees for any partial month or quarter will be appropriately pro-rated. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The 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 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%

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

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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.

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 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 incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the three and six months ended June 30, 2016 and 2015.

For the three and six months ended June 30, 2016, the Company recognized \$834 and \$1,631, respectively, in base management fees and \$465 and \$850, respectively, in performance-based incentive fees. For the three and six months ended June 30, 2016, \$228 and \$613, respectively, of such performance-based incentive fees were waived. For the three and six months ended June 30, 2015, the Company recognized \$879 and \$1,745, respectively, in base management fees and \$0 and \$157, respectively, in performance-based incentive fees. For the three and six months ended June 30, 2015, \$0 and \$157, respectively, of such performance-based incentive fees were waived. The voluntary fee waiver for the three and six months ended June 30, 2016 was made at the Investment Adviser's discretion and is subject to recapture by the Investment Adviser and reimbursement by the Company should net investment income during and/or for fiscal 2016 equal or exceed distributions declared in fiscal 2016. The voluntary fee waiver for the three and six months ended June 30, 2015 was made at the Investment Adviser's discretion and is not subject to recapture by the Investment Adviser or reimbursement by the Company.

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 six months ended June 30, 2016, the Company recognized expenses under the Administration Agreement of \$299 and \$594, respectively. For the three and six months ended June 30, 2015, the Company recognized expenses under the Administration Agreement of \$282 and \$536, respectively. No managerial assistance fees were accrued or collected for the three and six months ended June 30, 2016 and 2015.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)****Note 4. Net Asset Value Per Share**

At June 30, 2016, the Company's total net assets and net asset value per share were \$193,261 and \$16.76, respectively. This compares to total net assets and net asset value per share at December 31, 2015 of \$188,304 and \$16.33, respectively.

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 six months ended June 30, 2016 and 2015:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Earnings per share (basic & diluted)				
Numerator net increase in net assets resulting from operations:	\$ 4,674	\$ 2,896	\$ 13,088	\$ 6,982
Denominator weighted average shares:	11,533,315	11,533,315	11,533,315	11,533,315
Earnings per share:	\$ 0.41	\$ 0.25	\$ 1.13	\$ 0.61

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

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- 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.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except 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).

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 June 30, 2016 and December 31, 2015:

Fair Value Measurements**As of June 30, 2016**

	Level 1	Level 2	Level 3	Measured at Net Asset Value*	Total
Assets:					
Bank Debt/Senior Secured Loans	\$	\$ 50,099	\$ 212,783	\$	\$ 262,882
Common Equity/Equity Interests			34,818	28,037	62,855
Total Investments	\$	\$ 50,099	\$ 247,601	\$ 28,037	\$ 325,737
Liabilities:					
Credit Facility	\$	\$	\$ 141,600	\$	\$ 141,600

* 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 as 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.

Fair Value Measurements**As of December 31, 2015**

	Level 1	Level 2	Level 3	Measured at Net Asset Value*	Total
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Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 42,371	\$ 198,836	\$ 241,207
Unsecured Notes			3,650	3,650
Common Equity/Equity Interests			34,068	27,593
				61,661
Total Investments	\$	\$ 42,371	\$ 236,554	\$ 27,593
				\$ 306,518
Liabilities:				
Credit Facility	\$	\$	\$ 116,200	\$ 116,200

* 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 as fair value have not been classified in the fair value hierarchy.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)**

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 following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the six months ended June 30, 2016, 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 June 30, 2016:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/Senior Secured Loans	Unsecured Notes	Common Equity/Equity Interests
Fair value, December 31, 2015	\$ 198,836	\$ 3,650	\$ 34,068
Total gains or losses included in earnings:			
Net realized gain (loss)			
Net change in unrealized gain (loss)	(1,389)	(6)	750
Purchase of investment securities	40,135		
Proceeds from dispositions of investment securities	(24,799)	(3,644)	
Transfers in/out of Level 3			
Fair value, June 30, 2016	\$ 212,783	\$	\$ 34,818
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):	\$ (1,847)	\$	\$ 750

During the six months ended June 30, 2016, there were no transfers in and out of Levels 1 and 2.

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 six months ended June 30, 2016:

Beginning fair value at December 31, 2015	\$ 116,200
Borrowings	55,800
Repayments	(30,400)
Transfers in/out of Level 3	
Ending fair value at June 30, 2016	\$ 141,600

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 June 30, 2016, there were borrowings of \$141,600 on the Credit Facility. For the six months ended June 30, 2016, the Credit Facility had no net change in unrealized (appreciation) depreciation. The Company used an independent third-party valuation firm to assist in measuring

the fair value of the Credit Facility.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)**

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2015, 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, 2015:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/Senior Secured Loans	Unsecured Notes	Common Equity/Equity Interests
Fair value, December 31, 2014	\$ 251,823	\$	\$ 35,377
Total gains or losses included in earnings:			
Net realized gain (loss)	39		
Net change in unrealized gain (loss)	(4,272)		(1,309)
Purchase of investment securities	70,682		
Proceeds from dispositions of investment securities	(114,486)		
Transfers in/out of Level 3	(4,950)	3,650	
Fair value, December 31, 2015	\$ 198,836	\$ 3,650	\$ 34,068
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):	\$ (4,400)	\$ (228)	\$ (1,309)

During the fiscal year ended December 31, 2015, our investment in CT Technologies Intermediate Holdings was transferred from Level 3 to Level 2. The transfer was a result of changes in the quantity and quality of information used as valuation inputs by the Investment Adviser. Our investment in Apollo Investment Corporation was transferred from Level 2 to Level 3 during the fiscal year ended December 31, 2015 as the quote was deemed to be not representative of fair value given the impending maturity. There were no other transfers between levels.

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, 2015:

Beginning fair value at December 31, 2014	\$ 143,200
Borrowings	47,700
Repayments	(74,700)
Transfers in/out of Level 3	
Ending fair value at December 31, 2015	\$ 116,200

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, 2015, there were borrowings of \$116,200 on the Credit Facility. For the year ended December 31, 2015, the Credit Facility had no net change in unrealized (appreciation) depreciation. The Company used an independent third-party valuation firm to assist in

measuring the fair value of the Credit Facility.

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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 June 30, 2016 is summarized in the table below:

	Asset or Liability	Fair Value at June 30, 2016	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 212,783	Yield Analysis	Market Yield	5.6% - 16.4% (7.9%)
Common Equity/Equity Interests	Asset	\$ 68	Enterprise Value	EBITDA Multiple	7.6x - 21.4x (21.4x)
		\$ 34,750	Enterprise Value	Return on Equity	6.5% - 14.2% (14.2%)
Credit Facility	Liability	\$ 141,600	Yield Analysis	Market Yield	L+1.5% - L+4.8%
					(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.

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2015 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2015	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans / Unsecured Notes	Asset	\$ 202,486	Yield Analysis	Market Yield	5.6% - 12.0% (7.2%)
Common Equity/Equity Interests	Asset	\$ 68	Enterprise Value	EBITDA Multiple	9.1x - 16.9x (16.9x)
		\$ 34,000	Enterprise Value	Return on Equity	7.0% - 13.3% (13.3%)
Credit Facility	Liability	\$ 116,200	Yield Analysis	Market Yield	L+0.5% - L+4.8%

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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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2016

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Note 7. Debt

Senior Secured Revolving Credit Facility On August 26, 2011, the Company established SUNS SPV, LLC (SUNS SPV) which entered into the \$200,000 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 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. The amendment also provided us greater investment flexibility and extended the final maturity date to November 6, 2017. On February 26, 2014, the Company utilized the Credit Facility's delayed draw feature, expanding immediately available capital from \$150,000 to \$200,000, subject to borrowing base limitations. On June 30, 2014, the Company again amended the Credit Facility. As a result of this amendment, commitments under the Credit Facility were reduced by \$25,000 to \$175,000 and may be expanded up to \$600,000 under its accordion feature. This amendment to the Credit Facility also added greater investment flexibility and extended the final maturity date to June 28, 2019. The stated interest rate remains LIBOR plus 2.00% with no LIBOR floor requirement. On May 29, 2015, the Company entered into another amendment to the Credit Facility. This amendment added greater investment flexibility and extended the final maturity date to June 30, 2020.

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. We believe accounting for the Credit 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 Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in the Consolidated Statements of Operations.

The average annualized interest cost for all borrowings for the six months ended June 30, 2016 and the year ended December 31, 2015 was 2.54% and 2.25%, respectively. These costs are exclusive of other credit facility expenses such as unused fees and fees paid to the back-up servicer, if any. During the six months ended June 30, 2016 and the year ended December 31, 2015, the Company expensed \$0 and \$829 in conjunction with amendments to the Credit Facility. The maximum amount borrowed on the Credit Facility during the six months ended June 30, 2016 and the year ended December 31, 2015, was \$141,600 and \$148,600, respectively.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)****Note 8. Financial Highlights and Senior Securities Table**

The following is a schedule of financial highlights for the six months ended June 30, 2016 and for the year ended December 31, 2015:

	Six months ended June 30, 2016 (unaudited)	Year ended December 31, 2015
Per Share Data:^(a)		
Net asset value, beginning of year	\$ 16.33	\$ 17.65
Net investment income	0.71	1.33
Net realized and unrealized gain (loss)	0.42	(1.24)
Net increase in net assets resulting from operations	1.13	0.09
Distributions to stockholders:		
From net investment income	(0.70)	(1.41)
Net asset value, end of period	\$ 16.76	\$ 16.33
Per share market value, end of period	\$ 16.11	\$ 14.90
Total Return ^(b)	13.35%	8.90%
Net assets, end of period	\$ 193,261	\$ 188,304
Shares outstanding, end of period	11,533,315	11,533,315
Ratios to average net assets^(c):		
Net investment income	4.27%	7.63%
Operating expenses	1.65%*	2.92%*
Interest and other credit facility expenses	0.92%	2.08%
Total expenses	2.57%*	5.00%*
Average debt outstanding	\$ 126,086	\$ 136,900
Portfolio turnover ratio	12.5%	34.0%

(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 a voluntary incentive fee waiver (see note 3).

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For the six months ended June 30, 2016, the ratios of operating expenses to average net assets and total expenses to average net assets would be 1.97% and 2.89%, respectively, without the voluntary incentive fee waiver. For the year ended December 31, 2015, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.29% and 5.37%, respectively, without the voluntary incentive fee waiver.

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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 \square 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⁾
Revolving Credit Facility				
Fiscal 2016 (through June 30, 2016)	\$ 141,600	\$ 2,365	\$	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 June 30, 2016, asset coverage was 236.5%.
- (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 industry. Our initial investment in Gemino was \$32,839. The management team of Gemino co-invested in the transaction and continues to lead Gemino.

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 and most recently to \$125,000 on May 27, 2016. Also on May 27, 2016, the accordion feature was increased to \$200,000.

On December 31, 2013, we contributed our 32,839 units in Gemino to Gemino Senior Secured Healthcare LLC (Gemino Senior Secured Healthcare). In exchange for this contribution, we received 19,839 units of equity interests and \$13,000 in floating rate secured notes of Gemino Senior Secured Healthcare bearing interest at LIBOR plus 7.50%, maturing on December 31, 2018. However, our financial statements, including our schedule of investments, reflect our investments in Gemino Senior Secured Healthcare on a consolidated basis. Gemino's management team currently owns approximately 6% of the equity in Gemino. Gemino Senior Secured Healthcare owns approximately 94% of the equity in

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Gemino and Solar Senior owns 100% of the equity in Gemino Senior Secured Healthcare. Gemino and Gemino Senior Secured Healthcare are treated as pass-through entities for tax purposes.

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Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of June 30, 2016, the portfolio totaled approximately \$207,381 of commitments, of which \$131,359 were funded, on total assets of \$132,412. As of December 31, 2015, the portfolio totaled approximately \$188,254 of commitments, of which \$130,618 were funded, on total assets of \$133,678. At June 30, 2016, the portfolio consisted of 38 issuers with an average balance of approximately \$3,457 versus 36 issuers with an average balance of approximately \$3,628 at December 31, 2015. 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 \$97,000 and \$98,500 of borrowings outstanding at June 30, 2016 and December 31, 2015, respectively. For the three and six months ended June 30, 2016, Gemino had net income of \$963 and \$2,388, respectively, on gross income of \$3,313 and \$7,132, respectively. For the three and six months ended June 30, 2015, Gemino had net income of \$923 and \$2,078, respectively, on gross income of \$2,976 and \$6,274, 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 delayed draw and revolving loans, as well as to Gemino. The total amount of these unfunded commitments as of June 30, 2016 and December 31, 2015 is \$10,715 and \$6,736, respectively, comprised of the following:

	June 30, 2016	December 31, 2015
Gemino Healthcare Finance, LLC	\$ 5,000	\$ 5,000
Genmark Diagnostics, Inc.	3,125	
Engineering Solutions & Products, LLC	1,620	1,736
CIBT Holdings, Inc	484	
VT Buyer Acquisition Corp. (Veritext)	486	
Total Commitments*	\$ 10,715	\$ 6,736

* The Company controls the funding of the Gemino Healthcare Finance, LLC commitment and may cancel it at its discretion. As of June 30, 2016 and December 31, 2015, the Company had sufficient cash available and/or liquid securities available to fund its commitments as well as the commitment to FLLP disclosed in Note 11.

Note 11. First Lien Loan Program LLC

On September 10, 2014, the Company entered into a limited liability company agreement to create a First Lien Loan Program (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

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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2016

(in thousands, except share amounts)

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 is 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. There were \$63,983 of borrowings outstanding as of June 30, 2016. As of June 30, 2016 and December 31, 2015, Solar Senior and Voya contributed combined equity capital in the amount of \$33,810 and \$33,810, respectively. Of the \$33,810 of contributed equity capital, the Company contributed \$29,584 in the form of investments and Voya contributed \$4,226 in the form of cash. As of June 30, 2016, Solar Senior and Voya s remaining commitments totaled \$21,166 and \$3,024, respectively. The Company, along with Voya, controls the funding of FLLP and FLLP may not call the unfunded commitments without approval of both the Company and Voya.

As of June 30, 2016 and December 31, 2015, FLLP had total assets of \$104,648 and \$76,788, respectively. For the same periods, FLLP s portfolio consisted of first lien floating rate senior secured loans to 20 and 15 different borrowers, respectively. For the three months ended June 30, 2016, FLLP invested \$7,185 across 4 portfolio companies. For the three months ended June 30, 2015, FLLP invested \$22,765 across 5 portfolio companies. Investments prepaid totaled \$6,184 for the three months ended June 30, 2016 and \$121 for the three months ended June 30, 2015. At June 30, 2016 and 2015, the weighted average yield of FLLP s portfolio was 6.5% and 6.2%, respectively, measured at fair value and 6.4% and 6.3%, respectively, measured at cost.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)****FLLP Portfolio as of June 30, 2016**

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
IA Smart Start LLC	Electronic Equipment, Instruments & Components	L+475	1.00%	5.75%	2/21/22	\$ 7,960	\$ 7,889	\$ 7,920
Athletico Management, LLC and Accelerated Holdings, LLC ⁽⁴⁾	Health Care Facilities	L+550	0.75%	6.25%	12/2/20	4,610	4,573	4,610
Capstone Logistics Acquisition, Inc. ⁽⁴⁾	Professional Services	L+450	1.00%	5.50%	10/7/21	5,361	5,317	5,254
Castle Management Borrower LLC (Highgate Hotels) ⁽⁴⁾	Real Estate Management & Development	L+450	1.00%	5.50%	9/18/20	3,820	3,791	3,744
CIBT Holdings, Inc. ⁽⁴⁾	Professional Services	L+525	1.00%	6.25%	6/28/22	2,627	2,601	2,601
Confie Seguros Holding II Co. ⁽⁴⁾	Insurance	L+450	1.25%	5.75%	11/9/18	5,430	5,427	5,389
Innovative Xcessories & Services, LLC ⁽⁴⁾	Automotive Retail	L+400	1.00%	5.00%	2/21/20	2,434	2,434	2,410
Kellermeyer Bergensons Services, LLC (KBS) ⁽⁴⁾	Commercial Services & Supplies	L+500	1.00%	6.00%	10/29/21	2,438	2,417	2,364
MedRisk, LLC	Health Care Services	L+525	1.00%	6.25%	3/1/23	3,990	3,951	3,970
Metamorph US 3, LLC (Metalogix) ⁽⁴⁾	Software	L+650	1.00%	7.50%	12/1/20	4,063	3,981	3,453
Pearl Merger Sub, LLC (PetVet) ⁽⁴⁾	Health Care Facilities	L+475	1.00%	5.75%	12/17/20	5,418	5,331	5,377
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	4,549	4,481	4,481
PSP Group, LLC (Pet Supplies Plus) ⁽⁴⁾	Specialty Retail	L+475	1.00%	5.75%	4/6/21	5,381	5,338	5,354
QBS Holding Company, Inc. (Quorum) ⁽⁴⁾	Software	L+475	1.00%	5.75%	8/7/21	3,448	3,419	3,378
Salient Partners, L.P. ⁽⁴⁾	Asset Management	L+850	1.00%	9.50%	6/9/21	5,369	5,277	5,168
Sarnova HC, LLC	Trading Companies and Distributors	L+475	1.00%	5.75%	1/28/22	4,988	4,940	4,963
Suburban Broadband, LLC (Jab Wireless, Inc.)	Wireless Telecommunication Services	L+450	1.00%	5.50%	3/26/19	8,188	8,057	8,127
Telular Corporation	Wireless Telecommunication Services	L+425	1.25%	5.50%	6/24/19	5,209	5,188	5,182
The Hilb Group, LLC & Gencorp Insurance Group, Inc. ⁽⁴⁾	Insurance	L+500	1.00%	6.00%	6/24/21	3,841	3,767	3,783
VT Buyer Acquisition Corp. (Veritext) ⁽⁴⁾	Professional Services	L+500	1.00%	6.00%	1/29/22	4,503	4,462	4,481
							\$ 92,641	\$ 92,009

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- (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 June 30, 2016.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)**

(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.

FLLP Portfolio as of December 31, 2015 (audited)

Description	Industry	Interest Rate ⁽¹⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽²⁾
IA Smart Start LLC	Electronic Equipment, Instruments & Components	5.75%	2/21/22	\$ 8,000	\$ 7,924	\$ 7,880
Athletico Management, LLC and Accelerated Holdings, LLC ⁽³⁾	Health Care Facilities	6.25%	12/2/20	4,724	4,682	4,653
Capstone Logistics Acquisition, Inc. ⁽³⁾	Professional Services	5.50%	10/7/21	5,436	5,387	5,395
Castle Management Borrower LLC (Highgate Hotels) ⁽³⁾	Real Estate Management & Development	5.50%	9/18/20	3,950	3,916	3,812
Confie Seguros Holding II Co. ⁽³⁾	Insurance	5.75%	11/9/18	5,458	5,454	5,390
Innovative Xcessories & Services, LLC ⁽³⁾	Automotive Retail	5.25%	2/21/20	2,500	2,500	2,462
Kellermeyer Bergensons Services, LLC (KBS) ⁽³⁾	Commercial Services & Supplies	6.00%	10/29/21	2,475	2,453	2,364
Metamorph US 3, LLC (Metalogix) ⁽³⁾	Software	6.50%	12/1/20	4,875	4,768	4,485
Pearl Merger Sub, LLC (PetVet) ⁽³⁾	Health Care Facilities	5.50%	12/17/20	5,445	5,350	5,336
PSP Group, LLC (Pet Supplies Plus) ⁽³⁾	Specialty Retail	5.75%	4/6/21	5,459	5,411	5,350
QBS Holding Company, Inc. (Quorum) ⁽³⁾	Software	5.75%	8/7/21	3,465	3,434	3,361
RCPSI Corporation (Pet Supermarket) ⁽³⁾	Specialty Retail	6.75%	4/16/21	5,473	5,423	5,363
Salient Partners, L.P. ⁽³⁾	Asset Management	7.50%	6/9/21	5,418	5,317	5,228
Suburban Broadband, LLC (Jab Wireless, Inc.)	Wireless Telecommunication Services	5.50%	3/26/19	8,229	8,076	8,065
Telular Corporation	Wireless Telecommunication Services	5.50%	6/24/19	5,354	5,330	5,274
					\$ 75,425	\$ 74,418

(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, 2015.

(2) 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.

(3) The Company also holds a portion of this position on its Consolidated Statements of Assets and Liabilities.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2016****(in thousands, except share amounts)**

Below is certain summarized financial information for FLLP as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016, the three months ended June 30, 2015 and the period from February 13, 2015 (commencement of operations) through June 30, 2015:

	June 30, 2016	December 31, 2015 (audited)		
Selected Balance Sheet Information for FLLP:				
Investments at fair value (cost \$92,641 and \$75,425, respectively)	\$ 92,009	\$ 74,418		
Cash and other assets	12,639	2,370		
Total assets	\$ 104,648	\$ 76,788		
Debt outstanding	\$ 63,983	\$ 43,998		
Payable for investments purchased	7,081			
Distributions payable	898	742		
Interest payable	549	400		
Accrued expenses and other payables	94	113		
Total liabilities	\$ 72,605	\$ 45,253		
Members' equity	\$ 32,043	\$ 31,535		
Total liabilities and members' equity	\$ 104,648	\$ 76,788		
	Three months ended June 30, 2016	Three months ended June 30, 2015	Six months ended June 30, 2016	For the Period February 13, 2015 (commencement of operations) through June 30, 2015
Selected Income Statement Information for FLLP:				
Interest income	\$ 1,540	\$ 720	\$ 2,883	\$ 904
Service fees	\$ 16	\$ 7	\$ 30	\$ 9
Interest and other credit facility expenses	509	169	973	1,535*
Other general and administrative expenses	51	36	86	47
Total expenses	576	212	1,089	1,591
Net investment income (loss)	\$ 964	\$ 508	\$ 1,794	\$ (687)

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Net change in unrealized gain (loss) on investments	295	249	375	348
Net income (loss)	\$ 1,259	\$ 757	\$ 2,169	\$ (339)

* FLLP made an irrevocable election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10. As such, all expenses related to the establishment of the FLLP Facility were expensed during the period from February 13, 2015 (commencement of operations) through June 30, 2015. This amount totaled \$1,316.

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SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

June 30, 2016

(in thousands, except share amounts)

Note 12. 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 July 7, 2016, the Board declared a monthly distribution of \$0.1175 per share payable on August 2, 2016 to holders of record as of July 21, 2016.

On August 2, 2016, the Board declared a monthly distribution of \$0.1175 per share payable on September 1, 2016 to holders of record as of August 18, 2016.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

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 June 30, 2016, the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2016 and 2015, the related consolidated statement of changes in net assets for the six-month period ended June 30, 2016, and the related consolidated statements of cash flows for the six-month periods ended June 30, 2016 and 2015. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review 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 review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above 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 consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd., as of December 31, 2015 and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2015, and in our report dated February 24, 2016, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

August 2, 2016

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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 regulated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

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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, our senior management team purchased an additional 500,000 shares through a concurrent private placement, also at \$20.00 per share.

On August 26, 2011, the Company established SUNS SPV, LLC ("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

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interest at the London Interbank Offered Rate (LIBOR) plus 2.25%. The Credit Facility had \$150 million immediately 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. The amendment also provided us greater investment flexibility and extended the final maturity date to November 6, 2017. On June 30, 2014, the Company again amended the Credit Facility. As a result of this amendment, commitments under the Credit Facility were reduced by \$25 million to \$175 million and may be expanded up to \$600 million under its accordion feature. This amendment to the Credit Facility also added greater investment flexibility and extends the final maturity date to June 28, 2019. The stated interest rate remains LIBOR plus 2.00% with no LIBOR floor requirement. On May 29, 2015, the Company entered into another amendment to the Credit Facility. This amendment added greater investment flexibility and extended the final maturity date to June 30, 2020.

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 directly and indirectly investing primarily in senior loans, including 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. 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 \$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. We expect that our direct investments 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 with 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 senior 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 (the 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 (the Administrator) provides the administrative services necessary for us to operate.

As of June 30, 2016, the Investment Adviser has invested approximately \$5.6 billion in more than 250 different portfolio companies since it was founded in 2006. Over the same period, the Investment Adviser completed transactions with more than 145 different financial sponsors.

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Recent Developments

On July 7, 2016, the Board declared a monthly distribution of \$0.1175 per share payable on August 2, 2016 to holders of record as of July 21, 2016.

On August 2, 2016, the Board declared a monthly distribution of \$0.1175 per share payable on September 1, 2016 to holders of record as of August 18, 2016.

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 quarterly but may 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 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;

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;

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independent directors' fees and expenses;

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 any administrative support staff.

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 June 30, 2016, we invested \$33.6 million across 13 portfolio companies. This compares to investing \$40.3 million in 9 portfolio companies for the three months ended June 30, 2015. Investment sales, prepayments and repayments during the three months ended June 30, 2016 totaled \$21.2 million versus \$38.5 million for the three months ended June 30, 2015.

At June 30, 2016, our portfolio consisted of 52 portfolio companies and was invested 80.7% in senior secured loans and 19.3% in common equity (of which 10.7% is Gemino Healthcare Finance, LLC and 8.6% is First Lien Loan Program LLC) measured at fair value versus 47 portfolio companies invested 80.3% in senior secured loans, 1.1% in unsecured loans and 18.6% in common equity/equity interests (of which 10.2% is Gemino Healthcare Finance, LLC and 8.3% is First Lien Loan Program LLC) at June 30, 2015.

The weighted average yields on our income producing portfolio of investments were 8.2% and 7.0%, respectively, at June 30, 2016 and 2015 measured at fair value, and 8.0% and 7.1%, respectively for the same periods, measured at amortized cost.

At June 30, 2016, 96.1% of our \$313.0 million income producing investment portfolio* was floating rate and 3.9% or \$12.7 million was fixed rate, measured at fair value. At June 30, 2015, 94.6% or \$328.0 million of our income producing investment portfolio* was floating rate and 5.4% or \$18.9 million was fixed rate, measured at fair value.

Since the initial public offering of Solar Senior on February 24, 2011 and through June 30, 2016, invested capital totaled approximately \$964 million in 107 portfolio companies. Over the same period, Solar Senior completed transactions with more than 65 different financial sponsors.

*

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We have included First Lien Loan Program LLC and Gemino Healthcare Finance, LLC as 100% floating rate within our income producing investment portfolio.

Table of Contents**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 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.

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 and most recently to \$125.0 million on May 27, 2016. Also on May 27, 2016, the accordion feature was increased to \$200.0 million.

On December 31, 2013, we contributed our 32,839 units in Gemino to Gemino Senior Secured Healthcare LLC (Gemino Senior Secured Healthcare). In exchange for this contribution, we received 19,839 units of equity interests and \$13.0 million in floating rate secured notes of Gemino Senior Secured Healthcare bearing interest at LIBOR plus 7.50%, maturing on December 31, 2018. However, our financial statements, including our schedule of investments, reflect our investments in Gemino Senior Secured Healthcare on a consolidated basis. Gemino's management team currently owns approximately 6% of the equity in Gemino. Gemino Senior Secured Healthcare owns approximately 94% of the equity in Gemino and Solar Senior owns 100% of the equity in Gemino Senior Secured Healthcare. Gemino and Gemino Senior Secured Healthcare are treated as pass-through entities for tax purposes.

Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of June 30, 2016, the portfolio totaled approximately \$207.4 million of commitments, of which \$131.4 million were funded, on total assets of \$132.4 million. As of December 31, 2015, the portfolio totaled approximately \$188.3 million of commitments, of which \$130.6 million were funded, on total assets of \$133.7 million. At June 30, 2016, the portfolio consisted of 38 issuers with an average balance of approximately \$3.5 million versus 36 issuers with an average balance of approximately \$3.6 million at December 31, 2015. 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 \$97.0 million and \$98.5 million of borrowings outstanding at June 30, 2016 and December 31, 2015, respectively. For the three and six months ended June 30, 2016, Gemino had net income of \$1.0 million and \$2.4 million, respectively, on gross income of \$3.3 million and \$7.1 million, respectively. For the three and six months ended June 30, 2015, Gemino had net income of \$0.9 million and \$2.1 million, respectively, on gross income of \$3.0 million and \$6.3 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As of June 30, 2016, and based upon our expectations for Gemino's portfolio performance, we believe that Gemino will be able to maintain its dividend payments to the Company.

First Lien Loan Program LLC

On September 10, 2014, the Company entered into a limited liability company agreement to create a First Lien Loan Program (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 million senior secured revolving credit facility

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(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 is 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. There were \$64.0 million of borrowings outstanding as of June 30, 2016. As of June 30, 2016 and December 31, 2015, Solar Senior and Voya contributed combined equity capital in the amount of \$33.8 million and \$33.8 million, respectively. Of the \$33.8 million of contributed equity capital, the Company contributed \$29.6 million in the form of investments and Voya contributed \$4.2 million in the form of cash. As of June 30, 2016, Solar Senior and Voya s remaining commitments totaled \$21.2 million and \$3.0 million, respectively. The Company, along with Voya, controls the funding of FLLP and FLLP may not call the unfunded commitments without approval of both the Company and Voya.

As of June 30, 2016 and December 31, 2015, FLLP had total assets of \$104.6 million and \$76.8 million, respectively. For the same periods, FLLP s portfolio consisted of first lien floating rate senior secured loans to 20 and 15 different borrowers, respectively. For the three months ended June 30, 2016, FLLP invested \$7.2 million across 4 portfolio companies. For the three months ended June 30, 2015, FLLP invested \$22.8 million across 5 portfolio companies. Investments prepaid totaled \$6.2 million for the three months ended June 30, 2016 and \$0.1 million for the three months ended June 30, 2015. At June 30, 2016 and 2015, the weighted average yield of FLLP s portfolio was 6.5% and 6.2%, respectively, measured at fair value and 6.4% and 6.3%, respectively, measured at cost.

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Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
IA Smart Start LLC	Electronic Equipment, Instruments & Components	L+475	1.00%	5.75%	2/21/22	\$ 7,960	\$ 7,889	\$ 7,920
Athletico Management, LLC and Accelerated Holdings, LLC ⁽⁴⁾	Health Care Facilities	L+550	0.75%	6.25%	12/2/20	4,610	4,573	4,610
Capstone Logistics Acquisition, Inc. ⁽⁴⁾	Professional Services	L+450	1.00%	5.50%	10/7/21	5,361	5,317	5,254
Castle Management Borrower LLC (Highgate Hotels) ⁽⁴⁾	Real Estate Management & Development	L+450	1.00%	5.50%	9/18/20	3,820	3,791	3,744
CIBT Holdings, Inc. ⁽⁴⁾	Professional Services	L+525	1.00%	6.25%	6/28/22	2,627	2,601	2,601
Confie Seguros Holding II Co. ⁽⁴⁾	Insurance	L+450	1.25%	5.75%	11/9/18	5,430	5,427	5,389
Innovative Xcessories & Services, LLC ⁽⁴⁾	Automotive Retail	L+400	1.00%	5.00%	2/21/20	2,434	2,434	2,410
Kellermeyer Bergensons Services, LLC (KBS) ⁽⁴⁾	Commercial Services & Supplies	L+500	1.00%	6.00%	10/29/21	2,438	2,417	2,364
MedRisk, LLC	Health Care Services	L+525	1.00%	6.25%	3/1/23	3,990	3,951	3,970
Metamorph US 3, LLC (Metalogix) ⁽⁴⁾	Software	L+650	1.00%	7.50%	12/1/20	4,063	3,981	3,453
Pearl Merger Sub, LLC (PetVet) ⁽⁴⁾	Health Care Facilities	L+475	1.00%	5.75%	12/17/20	5,418	5,331	5,377
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	4,549	4,481	4,481
PSP Group, LLC (Pet Supplies Plus) ⁽⁴⁾	Specialty Retail	L+475	1.00%	5.75%	4/6/21	5,381	5,338	5,354
QBS Holding Company, Inc. (Quorum) ⁽⁴⁾	Software	L+475	1.00%	5.75%	8/7/21	3,448	3,419	3,378
Salient Partners, L.P. ⁽⁴⁾	Asset Management	L+850	1.00%	9.50%	6/9/21	5,369	5,277	5,168
Sarnova HC, LLC	Trading Companies and Distributors	L+475	1.00%	5.75%	1/28/22	4,988	4,940	4,963
Suburban Broadband, LLC (Jab Wireless, Inc.)	Wireless Telecommunication Services	L+450	1.00%	5.50%	3/26/19	8,188	8,057	8,127
Telular Corporation	Wireless Telecommunication Services	L+425	1.25%	5.50%	6/24/19	5,209	5,188	5,182
The Hilb Group, LLC & Gencorp Insurance Group, Inc. ⁽⁴⁾	Insurance	L+500	1.00%	6.00%	6/24/21	3,841	3,767	3,783
VT Buyer Acquisition Corp. (Veritext) ⁽⁴⁾	Professional Services	L+500	1.00%	6.00%	1/29/22	4,503	4,462	4,481
							\$ 92,641	\$ 92,009

(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.

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- (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 June 30, 2016.
- (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.

FLLP Portfolio as of December 31, 2015 (audited) (in thousands)

Description	Industry	Interest Rate ⁽¹⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽²⁾
IA Smart Start LLC	Electronic Equipment, Instruments & Components	5.75%	2/21/22	\$ 8,000	\$ 7,924	\$ 7,880
Athletico Management, LLC and Accelerated Holdings, LLC ⁽³⁾	Health Care Facilities	6.25%	12/2/20	4,724	4,682	4,653
Capstone Logistics Acquisition, Inc. ⁽³⁾	Professional Services	5.50%	10/7/21	5,436	5,387	5,395
Castle Management Borrower LLC (Highgate Hotels) ⁽³⁾	Real Estate Management & Development	5.50%	9/18/20	3,950	3,916	3,812
Confie Seguros Holding II Co. ⁽³⁾	Insurance	5.75%	11/9/18	5,458	5,454	5,390
Innovative Xcessories & Services, LLC ⁽³⁾	Automotive Retail	5.25%	2/21/20	2,500	2,500	2,462
Kellermeyer Bergensons Services, LLC (KBS) ⁽³⁾	Commercial Services & Supplies	6.00%	10/29/21	2,475	2,453	2,364
Metamorph US 3, LLC (Metalogix) ⁽³⁾	Software	6.50%	12/1/20	4,875	4,768	4,485
Pearl Merger Sub, LLC (PetVet) ⁽³⁾	Health Care Facilities	5.50%	12/17/20	5,445	5,350	5,336
PSP Group, LLC (Pet Supplies Plus) ⁽³⁾	Specialty Retail	5.75%	4/6/21	5,459	5,411	5,350
QBS Holding Company, Inc. (Quorum) ⁽³⁾	Software	5.75%	8/7/21	3,465	3,434	3,361
RCPSI Corporation (Pet Supermarket) ⁽³⁾	Specialty Retail	6.75%	4/16/21	5,473	5,423	5,363
Salient Partners, L.P. ⁽³⁾	Asset Management	7.50%	6/9/21	5,418	5,317	5,228
Suburban Broadband, LLC (Jab Wireless, Inc.)	Wireless Telecommunication Services	5.50%	3/26/19	8,229	8,076	8,065
Telular Corporation	Wireless Telecommunication Services	5.50%	6/24/19	5,354	5,330	5,274
					\$ 75,425	\$ 74,418

- (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, 2015.
- (2) 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.
- (3) The Company also holds a portion of this position on its Consolidated Statements of Assets and Liabilities.

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Below is certain summarized financial information for FLLP as of June 30, 2016 and December 31, 2015 and for the three and six months ended June 30, 2016, the three months ended June 30, 2015 and the period from February 13, 2015 (commencement of operations) through June 30, 2015:

	June 30, 2016	December 31, 2015 (audited)
Selected Balance Sheet Information for FLLP (in thousands):		
Investments at fair value (cost \$92,641 and \$75,425, respectively)	\$ 92,009	\$ 74,418
Cash and other assets	12,639	2,370
 Total assets	 \$ 104,648	 \$ 76,788
 Debt outstanding	 \$ 63,983	 \$ 43,998
Payable for investments purchased	7,081	
Distributions payable	898	742
Interest payable	549	400
Accrued expenses and other payables	94	113