

Solar Senior Capital Ltd.  
Form 10-Q  
May 07, 2013  
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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 March 31, 2013

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

**SOLAR SENIOR CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State or Incorporation)

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

Identification No.)

**500 Park Avenue**

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

**10022**  
(Zip Code)

**(212) 993-1670**

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>

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 May 6, 2013 was 11,514,592.

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**SOLAR SENIOR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013**

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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 shares)

	March 31, 2013 (unaudited)	December 31, 2012
<b>Assets</b>		
Investments, at fair value (cost: \$241,334 and \$214,075, respectively)	\$ 239,616	\$ 212,602
Cash	2,269	2,647
Receivable for investments sold	1,508	282
Interest receivable	1,422	1,294
Deferred offering costs	111	148
Prepaid expenses and other assets	108	56
<b>Total Assets</b>	<b>\$ 245,034</b>	<b>\$ 217,029</b>
<b>Liabilities</b>		
Credit facility payable (see note 6 and 7)	\$ 22,600	\$ 39,100
Dividends payable	1,352	1,116
Payable for investments purchased	9,552	995
Management fee payable	570	581
Performance-based incentive fees payable	80	84
Interest payable	82	121
Administrative services fee payable	194	431
Other liabilities and accrued expenses	539	498
<b>Total Liabilities</b>	<b>\$ 34,969</b>	<b>\$ 42,926</b>
<b>Net Assets</b>		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 11,508,527 and 9,500,100 issued and outstanding, respectively	\$ 115	\$ 95
Paid-in capital in excess of par	214,822	177,728
Distributions in excess of net investment income	(3,176)	(2,247)
Accumulated net realized gain	22	
Net unrealized depreciation	(1,718)	(1,473)
<b>Total Net Assets</b>	<b>\$ 210,065</b>	<b>\$ 174,103</b>
<b>Net Asset Value Per Share</b>	<b>\$ 18.25</b>	<b>\$ 18.33</b>

See notes to the consolidated financial statements.



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

(in thousands, except per share amounts)

	Three Months Ended March 31, 2013	Three Months Ended March 31, 2012
<b>INVESTMENT INCOME:</b>		
Interest	\$ 4,461	\$ 3,909
<b>EXPENSES:</b>		
Management fees (see note 3)	\$ 570	\$ 498
Interest expense	207	221
Performance-based incentive fees (see note 3)	80	48
Administrative services expense	232	164
Insurance expense	70	99
Other general and administrative expenses	175	229
Total operating expenses	1,334	1,259
Debt issuance and related expense (see note 7)		24
Total expenses	1,334	1,283
<b>Net investment income</b>	<b>\$ 3,127</b>	<b>\$ 2,626</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS:</b>		
Net realized gain	\$ 22	\$ 42
Net change in unrealized gain (loss)	(245)	3,049
<b>Net realized and unrealized gain (loss)</b>	<b>(223)</b>	<b>3,091</b>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 2,904</b>	<b>\$ 5,717</b>
<b>EARNINGS PER SHARE (see note 5)</b>	<b>\$ 0.26</b>	<b>\$ 0.60</b>

See notes to consolidated financial statements.

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

(in thousands, except shares)

	Three months ended March 31, 2013 (unaudited)	Year ended December 31, 2012
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 3,127	\$ 12,493
Net realized gain	22	618
Net change in unrealized gain (loss)	(245)	801
<b>Net increase in net assets resulting from operations</b>	<b>2,904</b>	<b>13,912</b>
<b>Dividends and distributions to stockholders:</b>	<b>(4,056)</b>	<b>(12,255)</b>
<b>Capital share transactions:</b>		
Net proceeds from shares sold	37,200	
Offering costs and other	(244)	11
Reinvestment of dividends	158	
<b>Net increase in net assets from capital share transactions</b>	<b>37,114</b>	<b>11</b>
<b>Total increase in net assets:</b>	<b>35,962</b>	<b>1,668</b>
Net assets at beginning of period	174,103	172,435
Net assets at end of period	\$ 210,065	\$ 174,103
<b>Capital share activity:</b>		
Shares sold	2,000,000	
Shares issued from reinvestment of dividends	8,427	
<b>Net increase from capital share activity</b>	<b>2,008,427</b>	

See notes to consolidated financial statements.

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

(in thousands)

	Three months ended March 31, 2013	Three months ended March 31, 2012
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets resulting from operations	\$ 2,904	\$ 5,717
Adjustments to reconcile net increase in net assets resulting from operations:		
Net realized gain on investments	(22)	(42)
Net change in unrealized (gain) loss on investments	245	(3,049)
Debt issuance costs		24
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(49,308)	(39,968)
Proceeds from disposition of investments	22,071	5,800
Receivable for investments sold	(1,226)	4,931
Deferred offering costs	37	(50)
Interest receivable	(128)	(16)
Prepaid expenses and other assets	(52)	(44)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments purchased	8,557	18,419
Management fee payable	(11)	(446)
Performance-based incentive fees payable	(4)	48
Administrative services expense	(237)	(98)
Interest payable	(39)	68
Other liabilities and accrued expenses	41	(34)
<b>Net Cash Used in Operating Activities</b>	<b>(17,172)</b>	<b>(8,740)</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from shares sold	37,200	
Offering costs	(244)	
Cash dividends paid	(3,662)	(1,900)
Debt issuance costs		(24)
Proceeds from borrowings	39,600	19,800
Repayments of borrowings	(56,100)	(10,250)
<b>Net Cash Provided by Financing Activities</b>	<b>16,794</b>	<b>7,626</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(378)</b>	<b>(1,114)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>2,647</b>	<b>2,934</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 2,269</b>	<b>\$ 1,820</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 246	\$ 51
Cash paid for income taxes	\$ 16	\$ 15



See notes to consolidated financial statements.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****March 31, 2013****(in thousands)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Basis Point Spread Above Index <sup>(5)</sup>	Maturity	Par Amount	Cost	Fair Value
<b>Bank Debt/Senior Secured Investments 110.7%</b>							
ABB/Concise Optical LLC	Health Care Providers & Services	5.50%	L+425	2/06/2019	\$ 5,000	\$ 4,975	\$ 4,975
Aderant North America, Inc.	Software	6.25%	L+500	12/20/2018	5,000	4,952	5,000
Advantage Sales and Marketing, Inc.	Professional Services	8.25%	L+750	6/17/2018	7,500	7,500	7,500
AmeriQual Group, LLC	Food Products	6.50%	L+500	3/28/2016	12,193	12,075	12,193
Apple Leisure Group <sup>(4)</sup>	Hotels, Motels, Inns & Gaming	7.00%	L+575	2/28/2019	7,500	7,426	7,425
Asurion, LLC	Insurance	4.50%	L+325	5/24/2019	9,782	9,733	9,904
ATI Holdings, Inc. <sup>(4)</sup>	Health Care Providers & Services	5.75%	L+450	1/31/2020	4,988	4,939	4,938
Attachmate Corporation <sup>(4)</sup>	Software	7.25%	L+575	11/22/2017	11,325	11,131	11,478
Bellisio Foods, Inc. <sup>(4)</sup>	Food Products	7.00%	L+550	12/16/2017	4,650	4,612	4,650
BJ S Wholesale Club, Inc.	Food & Staples Retailing	9.75%	L+850	3/26/2020	5,000	4,952	5,200
Catapult Learning LLC <sup>(4)</sup>	Education Services	7.50%	L+600	4/05/2017	3,850	3,795	3,715
Confie Seguros Holding II Co. <sup>(4)</sup>	Insurance	6.50%	L+525	11/09/2018	9,975	9,833	9,975
EIG Investors Corp. 2nd Lien	Internet Software & Services	10.25%	L+900	5/09/2020	5,000	4,952	5,045
Engineering Solutions & Products, LLC <sup>(7)</sup>	Aerospace & Defense	8.50%	P+525	4/21/2017	9,941	9,669	4,871
Hearthside Food Solutions LLC <sup>(4)</sup>	Food Products	6.50%	L+525	6/07/2018	9,997	9,950	9,998
Hoffmaster Group, Inc. <sup>(4)</sup>	Paper & Forest Products	6.50%	L+525	1/03/2018	4,763	4,742	4,739
Hoffmaster Group, Inc. 2nd Lien	Paper & Forest Products	10.25%	L+900	1/03/2019	3,000	2,973	2,970
Insight Pharmaceuticals LLC <sup>(4)</sup>	Personal & Nondurable Consumer Products	6.25%	L+500	8/26/2016	7,880	7,880	7,880
KIK Custom Products, Inc.	Diversified / Conglomerate Service	8.50%	L+700	5/31/2014	14,688	14,504	14,688
KODA Distribution Group Inc.	Distributors	6.50%	L+550	4/09/2018	9,600	9,552	9,552
Landslide Holdings, Inc. <sup>(4)</sup>	Software	7.00%	L+575	6/19/2018	4,813	4,729	4,813
Marshall Retail Group, LLC <sup>(4)</sup>	Specialty Retail	8.00%	L+650	10/19/2016	4,750	4,697	4,750
National Vision, Inc. <sup>(4)</sup>	Specialty Retail	7.00%	L+575	8/02/2018	9,875	9,745	9,875
Porex Corporation <sup>(4)</sup>	Chemicals, Plastics & Rubber	6.75%	L+525	3/31/2015	4,284	4,248	4,284
Renaissance Learning, Inc. <sup>(4)</sup>	Education Services	5.75%	L+450	11/13/2018	3,980	3,942	4,000
Shield Finance Co. SARL <sup>(3,4,6)</sup>	IT Services	6.50%	L+525	5/10/2019	9,925	9,801	9,925
Shoes for Crews, Inc. <sup>(4)</sup>	Textiles & Leather	7.00%	L+500	3/27/2017	4,722	4,713	4,716
SLT Environmental, Inc. <sup>(4)</sup>	Chemicals, Plastics & Rubber	7.00%	L+550	5/27/2016	9,924	9,826	9,850
Smart Balance, Inc. <sup>(4,6)</sup>	Food Products	7.00%	L+575	7/02/2018	3,880	3,810	3,919

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Sotera Defense Solutions, Inc.	Aerospace & Defense	7.50%	L+600	4/22/2017	7,395	7,342	7,321
Things Remembered, Inc. <sup>(4)</sup>	Specialty Retail	8.00%	L+650	5/24/2018	8,955	8,798	8,955
TriNet HR Corp. <sup>(4)</sup>	Professional Services	6.50%	L+525	10/24/2018	9,975	9,928	9,975
Water Pik, Inc <sup>(4)</sup>	Personal & Nondurable Consumer Products	6.75%	L+525	8/10/2017	3,425	3,399	3,425
<b>Total Bank Debt/Senior Secured Investments</b>						<b>235,123</b>	<b>232,504</b>
<b>Unsecured Bank Debt/Bonds 3.4%</b>							
Apollo Investment Corporation <sup>(6)</sup>	Finance	5.75%		1/15/2016	3,650	3,290	3,878
Asurion Holdco	Insurance	11.00%	L+950	3/2/2019	3,000	2,921	3,234
<b>Unsecured Bank Debt/Bonds</b>						<b>6,211</b>	<b>7,112</b>
<b>Total Investments <sup>(8)</sup> 114.1%</b>						<b>\$ 241,334</b>	<b>\$ 239,616</b>
<b>Liabilities in Excess of Other Assets (14.1%)</b>							<b>(29,551)</b>
<b>Net Assets 100.0%</b>							<b>\$ 210,065</b>

See notes to consolidated financial statements.

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**SOLAR SENIOR CAPITAL LTD.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)**

**March 31, 2013**

**(in thousands)**

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act ). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2013.
- (3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars. All other investments are domiciled in the United States.
- (4) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned subsidiary SUNS SPV LLC. Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to the creditors, if any, of Solar Senior Capital Ltd. The respective par amounts held through SUNS SPV LLC are: Apple Leisure Group \$7,500; Attachmate Corporation \$9,438; ATI Holdings, Inc. \$4,988; Bellisio Foods, Inc. \$3,720; Catapult Learning, LLC \$3,850; Confie Seguros Holdings II Co. \$4,988; Hearthside Food Solutions, LLC \$9,998; Hoffmaster Group, Inc. \$3,810; Insight Pharmaceuticals LLC \$5,431; Landslide Holdings, Inc. \$1,925; Marshall Retail \$4,750; National Vision, Inc. \$9,875; Porex Corporation \$4,284; Renaissance Learning, Inc. \$3,980; Shield Finance Co. SARL \$9,925; Shoes for Crews, Inc. \$4,722; SLT Environmental, Inc. \$9,924; Smart Balance, Inc. \$1,940; Things Remembered, Inc. \$ 8,955; TriNet HR Corporation \$9,975; and WaterPik, Inc. \$3,425. Par balances in excess of these stated amounts are held directly by Solar Senior Capital Ltd.
- (5) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (6) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
- (7) Investment is on non-accrual status.
- (8) Aggregate gross unrealized depreciation for federal income tax purposes is \$4,209; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$1,402 and \$5,611, respectively, based on a tax cost of \$243,825.

See notes to consolidated financial statements.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2013****(in thousands)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of March 31, 2013</b>
Food Products	12.8%
Specialty Retail	9.8%
Insurance	9.7%
Software	8.9%
Professional Services	7.3%
Diversified/Conglomerate Service	6.1%
Chemicals, Plastics & Rubber	5.9%
Aerospace & Defense	5.1%
Personal & Nondurable Consumer Products	4.7%
IT Services	4.1%
Distributors	4.0%
Education Services	3.2%
Paper & Forest Products	3.2%
Hotels, Restaurants & Leisure	3.1%
Food Staples Retailing	2.2%
Business Services	2.1%
Health Care Providers & Services	2.1%
Health Education & Childcare	2.1%
Textiles & Leather	2.0%
Finance	1.6%
<b>Total Investments</b>	<b>100.0%</b>

See notes to consolidated financial statements.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2012****(in thousands)**

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

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TriNet HR Corp. <sup>(4)</sup>	Professional Services	6.50%	L+525	10/24/2018	10,000	9,951	9,950
Water Pik, Inc <sup>(4)</sup>	Personal & Nondurable Consumer Products	6.75%	L+525	8/10/2017	3,425	3,398	3,425
<b>Total Bank Debt/Senior Secured Investments</b>						<b>207,895</b>	<b>205,624</b>
<b>Unsecured Bank Debt/Bonds 4.0%</b>							
Apollo Investment Corporation <sup>(6)</sup>	Finance	5.75%		1/15/2016	3,650	3,262	3,778
Asurion Holdco	Insurance	11.00%	L+950	3/2/2019	3,000	2,918	3,200
<b>Unsecured Bank Debt/Bonds</b>						<b>6,180</b>	<b>6,978</b>
<b>Total Investments <sup>(7)</sup> 122.1%</b>						<b>\$ 214,075</b>	<b>\$ 212,602</b>
Liabilities in Excess of Other Assets (22.1%)							<b>(38,499)</b>
<b>Net Assets 100.0%</b>							<b>\$ 174,103</b>

See notes to consolidated financial statements.

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**SOLAR SENIOR CAPITAL LTD.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**

**December 31, 2012**

**(in thousands)**

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act ). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offer Rate (LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2012. As of December 31, 2012 all investments are paying cash interest.
- (3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars. All other investments are domiciled in the United States.
- (4) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned subsidiary SUNS SPV LLC. Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to the creditors, if any, of Solar Senior Capital Ltd. The respective par amounts held through SUNS SPV LLC are: ABB/Concise Optical Group \$4,000; Attachmate Corporation \$9,625; Bellisio Foods, Inc. \$3,720; Catapult Learning, LLC \$3,900; Citadel Plastics Holdings, Inc. \$3,851; Confie Seguros Holdings II Co. \$5,000; Hearthiside Food Solutions, LLC \$9,000; Hoffmaster Group, Inc. \$3,890; Insight Pharmaceuticals LLC \$5,445; Landslide Holdings, Inc. \$1,950; Marshall Retail \$4,750; National Vision, Inc. \$9,925; Porex Corporation \$4,284; Renaissance Learning, Inc. \$3,990; Shield Finance Co. SARL \$9,950; Shoes for Crews, Inc. \$4,803; SLT Environmental, Inc. \$9,924; Smart Balance, Inc. \$1,940; Things Remembered, Inc. \$ 8,978; TriNet HR Corporation \$10,000; and WaterPik, Inc. \$3,425. Par balances in excess of these stated amounts are held directly by Solar Senior Capital Ltd.
- (5) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (6) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company s total assets at the time of acquisition of any additional non-qualifying assets.
- (7) Aggregate gross unrealized depreciation for federal income tax purposes is \$3,918; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$1,309 and \$5,227, respectively, based on a tax cost of \$216,520.

See notes to consolidated financial statements.



**Table of Contents****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2012****(in thousands)**

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

See notes to consolidated financial statements.

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**SOLAR SENIOR CAPITAL LTD.**

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

**March 31, 2013**

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

**Note 1. Organization**

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

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

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

**Note 2. Significant Accounting Policies**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ( GAAP ), and include the accounts of the Company and its wholly-owned subsidiary, SUNS SPV LLC (the SUNS SPV ), a Delaware limited liability company formed in August 2011. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts may have been reclassified to conform to current period presentation.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 and 12 of Regulation S-X, as appropriate. GAAP also requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2013.

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

The significant accounting policies consistently followed by the Company are:

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

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**SOLAR SENIOR CAPITAL LTD.**

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

**March 31, 2013**

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

- (b) The Company conducts the valuation of its assets in accordance with GAAP and the 1940 Act. The Company generally values its assets on a quarterly basis, or more frequently if required. Investments for which market quotations are readily available on an exchange are valued at the closing price on the date of valuation. The Company may also obtain quotes with respect to certain of its investments from pricing services or brokers or dealers in order to value assets. When doing so, management determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the investment. If determined adequate, the Company uses the quote obtained. Debt investments with remaining maturities of 60 days or less shall each be valued at cost with interest accrued or discount amortized to the date of maturity, unless such valuation, in the judgment of our 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 our board of directors.

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 Solar Capital Partners, LLC (the Investment Adviser) or the Company's board of directors (the Board) does not represent fair value, each shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuation conclusions are documented and discussed with senior management; (iii) independent third-party valuation firms engaged by, or on behalf of, the Board will conduct independent appraisals and review management's preliminary valuations and make their own assessment for (a) each portfolio investment that, when taken together with all other investments in the same portfolio company, exceeds 10% of 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 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 third-party valuation firms.

The recommendation of fair value generally considers the following factors among others, as relevant: 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.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material. Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available

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**SOLAR SENIOR CAPITAL LTD.**

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

**March 31, 2013**

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

current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2013, there has been no change to the Company's valuation techniques and the nature of the related inputs considered in the valuation process.

Accounting Standards Codification (ASC) 820 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

- (c) Gains or losses on investments are calculated by using the specific identification method.
- (d) The Company records interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the interest method or on a straight-line basis, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. The Company records prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring and other fees for services rendered are recorded as 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 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 estimated excess taxable income as appropriate.
- (f) Book and tax basis differences relating to stockholder dividends and distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts annually. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.
- (g)

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Dividends and distributions to common stockholders are recorded as of the record date. The amount to be paid out as a dividend is determined by the board of directors. 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)**

**March 31, 2013**

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

- (h) In accordance with Regulation S-X Article 6.03 and ASC 810 *Consolidation*, the Company generally will not consolidate its interest in any operating company other than in investment company subsidiaries, certain financing subsidiaries, and controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net realized and unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.
- (j) The Company has made an irrevocable election to apply the fair value option of accounting to its senior secured revolving credit facility (the *Credit Facility*), in accordance with ASC 825-10 and uses an independent third-party valuation firm to measure its fair value.
- (k) The Company records expenses related to shelf filings and applicable equity offering costs as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with ASC 946-20-25.
- (l) Investments that are expected to pay regularly scheduled interest in cash are generally placed on non-accrual status when principal or interest cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest obligations. Cash interest payments received on non-accrual designated investments may be recognized as income or applied to principal depending on management's judgment.
- (m) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Note 3. Agreements**

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



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**SOLAR SENIOR CAPITAL LTD.**

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

**March 31, 2013**

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

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, computed net of all realized capital losses or unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). The Company pays the Investment Adviser an incentive fee with respect to pre-incentive fee net investment income for each calendar quarter as follows:

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

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

and

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

For the three months ended March 31, 2013 and 2012, the Company recognized \$570 and \$498, respectively, in base management fees and \$80 and \$48, respectively, in performance-based incentive fees.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and will equal 20% of the Company's cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For financial statement purposes, the second part of the incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the three months ended March 31, 2013 and 2012.

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 months ended March 31, 2013 and 2012, the Company recognized expenses under the Administration Agreement of \$232 and \$164, respectively.





**Table of Contents****SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except share and per share amounts)****Note 4. Net Asset Value Per Share**

At March 31, 2013, the Company's total net assets and net asset value per share were \$210,065 and \$18.25, respectively. This compares to total net assets and net asset value per share at December 31, 2012 of \$174,103 and \$18.33, respectively.

**Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10, for the three months ended March 31, 2013 and March 31, 2012:

	<b>Three Months Ended</b>	
	<b>March 31, 2013</b>	<b>March 31, 2012</b>
<b><u>Earnings per share (basic &amp; diluted)</u></b>		
Numerator for increase in net assets per share:	\$ 2,904	\$ 5,717
Denominator for weighted average shares:	11,127,825	9,500,100
Earnings per share:	0.26	0.60

**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 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)****March 31, 2013****(in thousands, except share and per share amounts)**

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore gains and losses for such assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2013 and December 31, 2012:

**Fair Value Measurements****As of March 31, 2013**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$	\$ 26,582	\$ 205,922	\$ 232,504
Unsecured Loans/ Bonds		7,112		7,112
Total Investments		33,694	205,922	239,616
Credit Facility			\$ 22,600	\$ 22,600

**Fair Value Measurements****As of December 31, 2012**

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



Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except share and per share amounts)**

The following table provides a summary of the changes in fair value of Level 3 assets for the three months ended March 31, 2013 as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2013:

**Fair Value Measurements Using Level 3 Inputs****As of March 31, 2013**

	<b>Bank Debt/Senior Secured Loans</b>
<b>Fair value, December 31, 2012</b>	\$ 183,850
Total gains or losses included in earnings:	
Net realized gain	200
Net change in unrealized gain (loss)	(395)
Purchase of investment securities	34,527
Proceeds from dispositions of investment securities	(12,260)
Transfers in/out of Level 3	
<b>Fair value, March 31, 2013</b>	<b>\$ 205,922</b>
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:	
Net change in unrealized gain (loss)	\$ (353)

During the three months ended March 31, 2013, there were no transfers in and out of Levels 1, 2, or 3. The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the period.

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the three months ended March 31, 2013:

<b>Credit Facility</b>	<b>Fair Value</b>
<b>Fair value, December 31, 2012</b>	<b>\$ 39,100</b>
Total unrealized appreciation	
Borrowings	39,600
Repayments	(56,100)
Transfers in/out of Level 3	
<b>Fair value, March 31, 2013</b>	<b>\$ 22,600</b>

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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 March 31, 2013, there were borrowings of \$22,600 on the Credit Facility. The Company uses an independent third-party valuation firm to measure the fair value of the Credit Facility.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except share and per share amounts)**

The following table provides a summary of the changes in fair value of Level 3 assets for the year ended December 31, 2012 as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at December 31, 2012:

**Fair Value Measurements Using Level 3 Inputs****As of December 31, 2012**

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

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

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the year ended December 31, 2012:

	<b>Fair Value</b>
<b>Credit Facility</b>	
<b>Fair value, December 31, 2011</b>	\$ 8,600
Total unrealized appreciation	
Borrowings	130,383
Repayments	(99,883)
Transfers in/out of Level 3	
<b>Fair value, December 31, 2012</b>	\$ 39,100



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The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. On December 31, 2012, there were borrowings of \$39,100 on the Credit Facility. The Company uses an independent third-party valuation firm to measure the fair value of our Credit Facility.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except share and per share amounts)**Quantitative Information about Level 3 Fair Value Measurements

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

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

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of March 31, 2013 is summarized in the table below:

			Valuation		
	Asset or	Fair Value at	Techniques/	Unobservable	Range (Weighted
	Liability	March 31,	Methodology	Input	Average)
Senior Secured / Bank Debt	Asset	\$ 205,922	Yield Analysis/Market	Market Yields /Bid-Ask Spreads/ EBITDA Multiples	5.6% - 10.6% (7.2%)
			Approach/Broker quoted		4.7x - 6.9x (5.9x)
			Enterprise value		
Credit Facility	Liability	\$ 22,600	Yield Analysis/Market	Market Yields	L+0.5% - L+5.5%
			Approach		(L+2.7%)

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

			Valuation		
	Asset or	Fair Value at	Techniques/	Unobservable	Range (Weighted
	Liability	December 31,	Methodology	Input	Average)
Senior Secured / Bank Debt	Asset	\$ 183,850	Yield Analysis/Market	Market Yields /Bid-Ask Spreads/ EBITDA Multiples	5.8% - 10.6% (7.8%)
			Approach/Broker quoted		3.6x - 7.3x (5.8x)

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Enterprise value					
Credit Facility	Liability	\$	39,100	Yield Analysis/Market	Market Yields
					L+0.5% - L+5.5%
				Approach	(L+2.7%)

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

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**SOLAR SENIOR CAPITAL LTD.**

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

**March 31, 2013**

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

**Note 7. Debt**

*Senior Secured Revolving Credit Facility* On August 26, 2011, the Company established the SUNS SPV which entered into a \$200 million senior secured revolving credit facility (the Credit Facility ) with Citigroup Global Markets Inc. acting as administrative agent. The Credit Facility was scheduled to mature on August 26, 2016 and generally bore interest at a rate of LIBOR plus 2.25%. The Credit Facility has \$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, the Company amended the Credit Facility. As a result of the amendment, the stated interest rate on the Credit Facility was reduced to LIBOR plus 2.00% from LIBOR plus 2.25%, and the Credit Facility continues to have no LIBOR floor requirement. In addition, the amendment reduced certain non-usage fees. The amendment also provided us greater flexibility and extended the final maturity date to November 6, 2017.

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. Accounting for the Credit Facility at fair value will better align the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. ASC 825-10 requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility are reported in the Consolidated Statement of Operations. As a result of this election, approximately \$2.8 million of costs related to the establishment of the original Credit Facility was expensed during the period January 28, 2011 (commencement of operations) to December 31, 2011, and approximately \$1.0 million was expensed during the year ended December 31, 2012 related to the amendment, rather than being deferred and amortized over the life of the Credit Facility.

The average annualized interest cost for all borrowings for the three months ended March 31, 2013 and the year ended December 31, 2012 was 2.22% and 2.48%, respectively. These costs are exclusive of commitment fees and for other prepaid expenses related to establishing the Credit Facility. This average annualized interest cost reflects the average interest cost for all outstanding borrowings. The maximum amount borrowed on the Credit Facility during the three months ended March 31, 2013 and the year ended December 31, 2012, was \$40,200 and \$74,500, respectively.

**Table of Contents****SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except share and per share amounts)****Note 8. Financial Highlights**

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

	<b>Three months ended March 31, 2013</b>	<b>Year ended December 31, 2012</b>
<b><u>Per Share Data</u><sup>(1)</sup>:</b>		
Net asset value, beginning of period	\$ 18.33	\$ 18.15
Net investment income	0.28	1.31
Net realized and unrealized gain (loss)	(0.02)	0.15
Net increase in net assets resulting from operations	0.26	1.46
Anti-dilution from issuance of common stock	0.05	
Offering costs and other	(0.02)	0.01
Dividends and distributions to shareholders	(0.37)	(1.29)
Net asset value, end of period	\$ 18.25	\$ 18.33