

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 814-00849

SOLAR SENIOR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

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

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

10022
(Zip Code)

Registrant's telephone number, including area code: (212) 993-1670

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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 Act) Yes No

The aggregate market value of common stock held by non-affiliates of the Registrant on June 30, 2014 based on the closing price on that date of \$16.88 on the NASDAQ Global Select Market was approximately \$181.8 million. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 11,533,315 shares of the Registrant's common stock outstanding as of February 24, 2015.

Portions of the registrant's Proxy Statement for its 2015 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K are incorporated by reference into Part III of this Form 10-K.

SOLAR SENIOR CAPITAL LTD.
FORM 10-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I</u>	
Item 1. Business	1
Item 1A. Risk Factors	24
Item 1B. Unresolved Staff Comments	49
Item 2. Properties	49
Item 3. Legal Proceedings	50
Item 4. Mine Safety Disclosures	50
<u>PART II</u>	
Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	51
Item 6. Selected Financial Data	55
Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations	56
Item 7A. Quantitative and Qualitative Disclosures about Market Risk	70
Item 8. Financial Statements and Supplementary Data	71
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	101
Item 9A. Controls and Procedures	101
Item 9B. Other Information	101
<u>PART III</u>	
Item 10. Directors, Executive Officers and Corporate Governance	102
Item 11. Executive Compensation	102
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	102
Item 13. Certain Relationships and Related Transactions, and Director Independence	102
Item 14. Principal Accounting Fees and Services	102
<u>PART IV</u>	
Item 15. Exhibits, Financial Statement Schedules	103
Signatures	105

PART I

Item 1. Business

Solar Senior Capital Ltd. (“Solar Senior”, the “Company”, “SUNS”, “we”, “us” 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 treated as a business development company (or “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 FASB Accounting Standards Codification (“ASC”) Topic 946. In addition, for tax purposes we elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On February 24, 2011, we priced our initial public offering (the “IPO”), 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 transaction exempt from registration under the Securities Act of 1933, as amended, or the Securities Act (the “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 interest at the London Interbank Offered Rate (“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, we 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.

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.

We invest primarily in U.S. middle market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. Our investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by investing primarily in senior loans, including first lien 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.

[Table of Contents](#)

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

As of December 31, 2014, our investments totaled \$340.5 million and our net asset value was \$203.5 million. Our portfolio was comprised of debt and equity investments in 43 portfolio companies with our portfolio of income producing investments having a weighted average annualized yield on a fair value basis of approximately 7.0%.

During our fiscal year ended December 31, 2014, we invested \$216.1 million across 35 portfolio companies through a combination of primary and secondary market purchases. Investments sold or prepaid during the fiscal year ended December 31, 2014 totaled \$143.1 million.

Solar Capital Partners

Solar Capital Partners, our investment adviser, is controlled and led by Michael S. Gross, our chairman and chief executive officer, and Bruce Spohler, our chief operating officer. They are supported by a team of dedicated investment professionals. Solar Capital Partners’ investment team has extensive experience in leveraged lending and private equity, as well as significant contacts with financial sponsors.

In addition, Solar Capital Partners serves as the investment adviser for Solar Capital Ltd. (or “Solar Capital”), a publicly traded business development company with approximately \$1.7 billion of investable capital that invests in the senior debt securities, mezzanine loans and equity securities of leveraged middle market companies similar to those we intend to target for investment. Through December 31, 2014, the investment team led by Messrs. Gross and Spohler has invested approximately \$4.7 billion in more than 180 different portfolio companies for Solar Capital and Solar Senior, involving an aggregate of more than 110 different financial sponsors. As of February 24, 2015, Mr. Gross and Mr. Spohler beneficially owned, either directly or indirectly, approximately 6.7% and 4.1%, respectively, of our outstanding common stock.

Solar Capital Management

Pursuant to an administration agreement (the “Administration Agreement”), Solar Capital Management furnishes us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities. Under the Administration Agreement, Solar Capital Management also performs, or oversees the performance of, our required administrative services, which include, among other things, being responsible for the financial records which we are required to maintain and preparing reports to our stockholders. In addition, Solar Capital Management assists us in determining and publishing our net asset value, oversees the preparation and filing of our tax returns and the printing and dissemination of reports to our stockholders, and generally oversees the payment of our expenses and the performance of administrative and professional services rendered to us by others. Solar Capital Management also provides managerial assistance, if any, on our behalf to those portfolio companies that request such assistance.

[Table of Contents](#)

Operating and Regulatory Structure

A BDC is regulated by the 1940 Act. A BDC must be organized in the United States for the purpose of investing in or lending to primarily private companies and making significant managerial assistance available to them. A BDC may use capital provided by public stockholders and from other sources to make long-term, private investments in businesses. A BDC provides stockholders the ability to retain the liquidity of a publicly traded stock while sharing in the possible benefits, if any, of investing in primarily privately owned companies.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by vote of a majority of our outstanding voting securities, as required by the 1940 Act. A majority of the outstanding voting securities of a company is defined under the 1940 Act as the lesser of: (a) 67% or more of such company's voting securities present at a meeting if more than 50% of the outstanding voting securities of such company are present or represented by proxy, or (b) more than 50% of the outstanding voting securities of such company. We do not anticipate any substantial change in the nature of our business.

As with other companies regulated by the 1940 Act, a BDC must adhere to certain substantive regulatory requirements. A majority of our directors must be persons who are not interested persons, as that term is defined in the 1940 Act. Additionally, we are required to provide and maintain a bond issued by a reputable fidelity insurance company to protect the BDC. Furthermore, as a BDC, we are prohibited from protecting any director or officer against any liability to us or our stockholders arising from willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of such person's office.

As a BDC, we are required to meet an asset coverage ratio, reflecting the value of our total assets to our total senior securities, which include all of our borrowings and any preferred stock we may issue in the future, of at least 200%. We may also be prohibited under the 1940 Act from knowingly participating in certain transactions with our affiliates without the prior approval of our directors who are not interested persons and, in some cases, prior approval by the Securities and Exchange Commission ("SEC").

We are generally not able to issue and sell our common stock at a price below net asset value per share without annual shareholder approval. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value of our common stock if our board of directors determines that such sale is in our best interests and the best interests of our stockholders, and our stockholders approve such sale. In addition, we may generally issue new shares of our common stock at a price below net asset value in rights offerings to existing stockholders, in payment of dividends and in certain other limited circumstances.

As a BDC, we are generally limited in our ability to invest in any portfolio company in which our investment adviser or any of its affiliates currently have an investment or to make any co-investments with our investment adviser or its affiliates without an exemptive order from the SEC, subject to certain exceptions.

We will be periodically examined by the SEC for compliance with the 1940 Act.

Qualifying Assets

Under the 1940 Act, a BDC may not acquire any asset other than assets of the type listed in Section 55(a) of the 1940 Act, which are referred to as qualifying assets, unless, at the time the acquisition is made, qualifying assets represent at least 70% of the BDC's total assets. The principal categories of qualifying assets relevant to our business are the following:

- (1) Securities purchased in transactions not involving any public offering from the issuer of such securities, which issuer (subject to certain limited exceptions) is an eligible portfolio company, or from any person who is, or has been during the preceding 13 months, an affiliated person of an eligible

[Table of Contents](#)

portfolio company, or from any other person, subject to such rules as may be prescribed by the SEC. An eligible portfolio company is defined in the 1940 Act as any issuer which:

- (a) is organized under the laws of, and has its principal place of business in, the United States;
 - (b) is not an investment company (other than a small business investment company wholly owned by the BDC) or a company that would be an investment company but for certain exclusions under the 1940 Act; and
 - (c) satisfies any of the following:
 - i.) does not have any class of securities that is traded on a national securities exchange;
 - ii.) has a class of securities listed on a national securities exchange, but has an aggregate market value of outstanding voting and non-voting common equity of less than \$250 million;
 - iii.) is controlled by a BDC or a group of companies including a BDC and the BDC has an affiliated person who is a director of the eligible portfolio company; or
 - iv.) is a small and solvent company having total assets of not more than \$4.0 million and capital and surplus of not less than \$2.0 million.
- (2) Securities of any eligible portfolio company which we control.
 - (3) Securities purchased in a private transaction from a U.S. issuer that is not an investment company or from an affiliated person of the issuer, or in transactions incident thereto, if the issuer is in bankruptcy and subject to reorganization or if the issuer, immediately prior to the purchase of its securities, was unable to meet its obligations as they came due without material assistance other than conventional lending or financing arrangements.
 - (4) Securities of an eligible portfolio company purchased from any person in a private transaction if there is no ready market for such securities and we already own 60% of the outstanding equity of the eligible portfolio company.
 - (5) Securities received in exchange for or distributed on or with respect to securities described in (1) through (4) above, or pursuant to the exercise of warrants or rights relating to such securities.
 - (6) Cash, cash equivalents, U.S. government securities or high-quality debt securities maturing in one year or less from the time of investment.
 - (7) Office furniture and equipment, interests in real estate and leasehold improvements and facilities maintained to conduct the business operations of the business development company, deferred organization and operating expenses, and other noninvestment assets necessary and appropriate to its operations as a business development company, including notes of indebtedness of directors, officers, employees, and general partners held by a business development company as payment for securities of such company issued in connection with an executive compensation plan described in Section 57(j) of the 1940 Act.

Under Section 55(b) of the 1940 Act, the value of a BDC's assets shall be determined as of the date of the most recent financial statements filed by such company with the SEC pursuant to Section 13 of the Securities Exchange Act of 1934 (the "1934 Act"), and shall be determined no less frequently than annually.

Managerial Assistance to Portfolio Companies

As a BDC, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may also receive fees for these services. Solar Capital Management provides such managerial assistance, if any, on our behalf to portfolio companies that request this assistance.

[Table of Contents](#)

Temporary Investments

Pending investment in other types of “qualifying assets,” as described above, our investments may consist of cash, cash equivalents, U.S. government securities or high-quality investment grade debt securities maturing in one year or less from the time of investment, which we refer to, collectively, as temporary investments, so that 70% of our assets are qualifying assets. Typically, we will invest in U.S. Treasury bills, repurchase agreements, provided that such repurchase agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies, or other high-quality, short-term debt securities. A repurchase agreement involves the purchase by an investor, such as us, of a specified security and the simultaneous agreement by the seller to repurchase it at an agreed-upon future date and at a price which is greater than the purchase price by an amount that reflects an agreed-upon interest rate. There is no percentage restriction on the proportion of our assets that may be invested in such repurchase agreements. However, if more than 25% of our total assets constitute repurchase agreements from a single counterparty, we would not meet the diversification tests in order to qualify as a RIC for U.S. federal income tax purposes. Thus, we do not intend to enter into repurchase agreements with a single counterparty in excess of this limit. Our investment adviser will monitor the creditworthiness of the counterparties with which we enter into repurchase agreement transactions.

Senior Securities

We are permitted, under specified conditions, to issue multiple classes of indebtedness and one class of stock senior to our common stock if our asset coverage, as defined in the 1940 Act, is at least equal to 200% immediately after each such issuance. In addition, while any senior securities remain outstanding, we must make provisions to prohibit any distribution to our stockholders or the repurchase of such securities or shares unless we meet the applicable asset coverage ratios at the time of the distribution or repurchase. We may also borrow amounts up to 5% of the value of our total assets for temporary or emergency purposes without regard to asset coverage. We may borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us.

Code of Ethics

We and Solar Capital Partners have each adopted a code of ethics pursuant to Rule 17j-1 under the 1940 Act and Rule 204A-1 under the Investment Advisers Act of 1940 (the “Advisers Act”), respectively, that establishes procedures for personal investments and restricts certain transactions by our personnel. Our codes of ethics generally do not permit investments by our employees in securities that may be purchased or held by us. You may read and copy these codes of ethics at the SEC’s Public Reference Room in Washington, D.C. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1 (800) SEC-0330. In addition, each code of ethics is available on the EDGAR Database on the SEC’s Internet site at <http://www.sec.gov>. You may also obtain copies of the codes of ethics, after paying a duplicating fee, by electronic request at the following Email address: publicinfo@sec.gov, or by writing the SEC’s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549.

Compliance Policies and Procedures

We and our investment adviser have adopted and implemented written policies and procedures reasonably designed to detect and prevent violation of the federal securities laws. We are required to review these compliance policies and procedures annually for their adequacy and the effectiveness of their implementation and to designate a chief compliance officer to be responsible for their administration. Guy Talarico currently serves as our chief compliance officer.

Proxy Voting Policies and Procedures

We have delegated our proxy voting responsibility to our investment adviser. A summary of the Proxy Voting Policies and Procedures of our adviser are set forth below. The guidelines are reviewed periodically by the adviser and our non-interested directors, and, accordingly, are subject to change.

[Table of Contents](#)

As an investment adviser registered under the Investment Advisers Act of 1940, Solar Capital Partners has a fiduciary duty to act solely in the best interests of its clients. As part of this duty, it recognizes that it must vote securities held by its clients in a timely manner free of conflicts of interest. These policies and procedures for voting proxies for investment advisory clients are intended to comply with Section 206 of, and Rule 206(4)-6 under, the Advisers Act.

Our investment adviser votes proxies relating to our portfolio securities in the best interest of our stockholders. Solar Capital Partners reviews on a case-by-case basis each proposal submitted for a proxy vote to determine its impact on our investments. Although it generally votes against proposals that may have a negative impact on our investments, it may vote for such a proposal if there exists compelling long-term reasons to do so. The proxy voting decisions of our investment adviser are made by the senior investment professionals who are responsible for monitoring each of our investments. To ensure that our vote is not the product of a conflict of interest, it requires that: (i) anyone involved in the decision making process disclose to a managing member of Solar Capital Partners any potential conflict that he or she is aware of and any contact that he or she has had with any interested party regarding a proxy vote; and (ii) employees involved in the decision making process or vote administration are prohibited from revealing how we intend to vote on a proposal in order to reduce any attempted influence from interested parties.

You may obtain information about how we voted proxies by making a written request for proxy voting information to: Solar Capital Partners, LLC, 500 Park Avenue, New York, NY 10022.

Privacy Principles

We are committed to maintaining the privacy of our stockholders and to safeguarding their non-public personal information. The following information is provided to help you understand what personal information we collect, how we protect that information and why, in certain cases, we may share information with select other parties.

Generally, we do not receive any non-public personal information relating to our stockholders, although certain non-public personal information of our stockholders may become available to us. We do not disclose any non-public personal information about our stockholders (or former stockholders) to anyone, except as permitted by law or as is necessary in order to service stockholder accounts (for example, to a transfer agent or third party administrator).

We restrict access to non-public personal information about our stockholders to employees of our investment adviser and its affiliates with a legitimate business need for the information. We maintain physical, electronic and procedural safeguards designed to protect the non-public personal information of our stockholders.

Taxation as a Regulated Investment Company

As a BDC, we elected to be treated, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level U.S. federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To continue to qualify as a RIC, we must, among other things, meet certain source-of-income and asset diversification requirements (as described below). In addition, to qualify for RIC tax treatment we must distribute to our stockholders, for each taxable year, at least 90% of our “investment company taxable income,” which is generally our ordinary income plus the excess of our realized net short-term capital gains over our realized net long-term capital losses (the “Annual Distribution Requirement”). If we qualify as a RIC and satisfy the Annual Distribution Requirement, then we will not be subject to U.S. federal income tax on the portion of our investment company taxable income and net capital gain (i.e., realized net long-term capital gains in excess of realized net short-term capital losses) we distribute to stockholders. We will be subject to U.S. federal income tax at the regular corporate rates on any income or capital gain not distributed (or deemed not distributed) to our stockholders.

[Table of Contents](#)

We will be subject to a 4% nondeductible U.S. federal excise tax on certain undistributed income unless we distribute in a timely manner an amount at least equal to the sum of (1) 98% of our ordinary income for each calendar year, (2) 98.2% of our capital gain net income for the one-year period ending October 31 in that calendar year and (3) any income realized, but not distributed, and on which we paid no U.S. federal income tax, in preceding years (the “Excise Tax Avoidance Requirement”).

In order to qualify as a RIC for U.S. federal income tax purposes, we must, among other things:

- at all times during each taxable year, have in effect an election to be treated as a BDC under the 1940 Act;
- derive in each taxable year at least 90% of our gross income from (a) dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or currencies, or other income derived with respect to our business of investing in such stock, securities or currencies and (b) net income derived from an interest in a “qualified publicly traded partnership;” and
- diversify our holdings so that at the end of each quarter of the taxable year:
 - at least 50% of the value of our assets consists of cash, cash equivalents, U.S. government securities, securities of other RICs, and other securities if such other securities of any one issuer do not represent more than 5% of the value of our assets or more than 10% of the outstanding voting securities of the issuer; and
 - no more than 25% of the value of our assets is invested in (i) the securities, other than U.S. government securities or securities of other RICs, of one issuer, (ii) the securities of two or more issuers that are controlled, as determined under applicable tax rules, by us and that are engaged in the same or similar or related trades or businesses or (iii) the securities of one or more “qualified publicly traded partnerships.”

The Regulated Investment Company Modernization Act of 2010, which was generally effective for 2011 and subsequent tax years, provides some relief from RIC disqualification due to failures of the income and asset diversification requirements, although there may be additional taxes due in such cases.

We may be required to recognize taxable income in circumstances in which we do not receive cash. For example, if we hold debt obligations that are treated under applicable tax rules as having original issue discount (such as debt instruments with payment-in-kind (“PIK”) interest or, in certain cases, increasing interest rates or debt instruments issued with warrants), we must include in income each year a portion of the original issue discount that accrues over the life of the obligation, regardless of whether cash representing such income is received by us in the same taxable year. Because any original issue discount accrued will be included in our investment company taxable income for the year of accrual, we may be required to make a distribution to our stockholders in order to satisfy the Annual Distribution Requirement, even though we will not have received any corresponding cash amount.

Because we may use debt financing, we will be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the Annual Distribution Requirement. If we are unable to obtain cash from other sources or are otherwise limited in our ability to make distributions, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level U.S. federal income tax.

Certain of our investment practices may be subject to special and complex U.S. federal income tax provisions that may, among other things: (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions; (ii) convert lower taxed long-term capital gain into higher taxed short-term capital gain or ordinary income; (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited); (iv) cause us to recognize income or gain without a corresponding receipt of cash; (v) adversely affect

[Table of Contents](#)

the time as to when a purchase or sale of securities is deemed to occur; (vi) adversely alter the characterization of certain complex financial transactions; and (vii) produce income that will not be qualifying income for purposes of the 90% gross income test described above. We will monitor our transactions and may make certain tax elections in order to mitigate the potential adverse effect of these provisions.

Gain or loss realized by us from the sale or exchange of warrants acquired by us as well as any loss attributable to the lapse of such warrants generally will be treated as capital gain or loss. The treatment of such gain or loss as long-term or short-term will depend on how long we held a particular warrant. Upon the exercise of a warrant acquired by us, our tax basis in the stock purchased under the warrant will equal the sum of the amount paid for the warrant plus the strike price paid on the exercise of the warrant. Except as set forth in “Failure to Qualify as a Regulated Investment Company,” the remainder of this discussion assumes we will qualify as a RIC for each taxable year.

Failure to Qualify as a Regulated Investment Company

If we were unable to qualify for treatment as a RIC, we would be subject to tax on all of our taxable income at regular corporate rates. We would not be able to deduct distributions to stockholders, nor would they be required to be made. Such distributions would be taxable to our stockholders as dividends and, provided certain holding period and other requirements were met, could qualify for treatment as “qualified dividend income” in the hands of non-corporate stockholders (and thus eligible for the same lower maximum tax rate applicable to long-term capital gains) to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate shareholders would be eligible for the dividends received deduction. Distributions in excess of our current and accumulated earnings and profits would be treated first as a return of capital to the extent of the stockholder’s tax basis, and any remaining distributions would be treated as a capital gain. To re-qualify as a RIC in a subsequent taxable year, we would be required to satisfy the RIC qualification requirements for that year and dispose of any earnings and profits from any year in which we failed to qualify as a RIC. Subject to a limited exception applicable to RICs that qualified as such under Subchapter M of the Code for at least one year prior to disqualification and that re-qualify as a RIC no later than the second year following the non-qualifying year, we could be subject to tax on any unrealized net built-in gains in the assets held by us during the period in which we failed to qualify as a RIC that are recognized within the subsequent 10 years, unless we made a special election to pay corporate-level U.S. federal income tax on such built-in gain at the time of our requalification as a RIC.

Investment Advisory Fees

Pursuant to an investment advisory and management agreement (the “Investment Advisory and Management Agreement”), we have agreed to pay Solar Capital Partners a fee for investment advisory and management services 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 our gross assets. For services rendered under the Investment Advisory and Management Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. Base management fees for any partial month or quarter will be appropriately pro-rated.

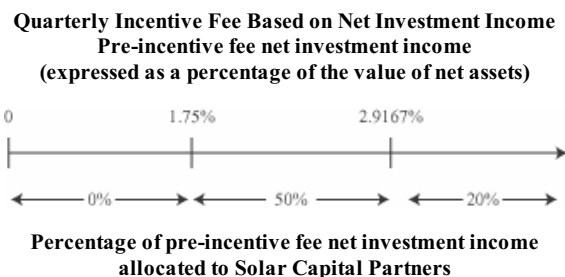
The incentive fee has two parts, as follows: one is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus our operating expenses for the quarter (including the base management fee, expenses payable under the Administration Agreement to Solar Capital Management, and any interest expense and

[Table of Contents](#)

distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments 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 appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 1.00% base management fee. We pay Solar Capital Partners an incentive fee with respect to our pre-incentive fee net investment income in 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 our 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). We refer to this portion of our pre-incentive fee net investment income (which exceeds the hurdle but is less than 2.9167%) as the “catch-up.” The “catch-up” is meant to provide our investment adviser with 20% of our pre-incentive fee net investment income as if a hurdle did not apply if this net investment income exceeds 2.9167% in any calendar quarter; and
- 20% of the amount of our pre-incentive fee net investment income, if any, that exceeds 2.9167% in any calendar quarter (11.67% annualized) is payable to Solar Capital Partners (once the hurdle is reached and the catch-up is achieved, 20% of all pre-incentive fee investment income thereafter is allocated to Solar Capital Partners).

The following is a graphical representation of the calculation of the income-related portion of the incentive fee:



These calculations are appropriately pro-rated for any period of less than three months. You should be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to pre-incentive fee net investment income.

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 and Management Agreement, as of the termination date), and equals 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees with respect to each of the investments in our portfolio.

[Table of Contents](#)

Examples of Quarterly Incentive Fee Calculation

Example 1: Income Related Portion of Incentive Fee (*):

Alternative 1:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 1.25%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

$$(\text{investment income} - (\text{management fee} + \text{other expenses})) = 0.80\%$$

Pre-incentive net investment income does not exceed hurdle rate, therefore there is no incentive fee.

Alternative 2:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 2.70%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.50%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

$$(\text{investment income} - (\text{management fee} + \text{other expenses})) = 2.25\%$$

Incentive fee = 50% × pre-incentive fee net investment income, subject to the “catch-up” (4)

$$= 50\% \times (2.25\% - 1.75\%)$$

$$= 0.25\%$$

[Table of Contents](#)

Alternative 3:

Assumptions

Investment income (including interest, dividends, fees, etc.) = 4.00%

Hurdle rate (1) = 1.75%

Management fee (2) = 0.25%

Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%

Pre-incentive fee net investment income

(investment income – (management fee + other expenses)) = 3.55%

Incentive fee = 20% × pre-incentive fee net investment income, subject to “catch-up” (4)

Incentive fee = 50% × “catch-up” + (20% × (pre-incentive fee net investment income – 2.9167%))

Catch-up = 2.9167% – 1.75%

= 1.1667%

Incentive fee = (50% × 1.1667%) + (20% × (3.55% – 2.9167%))

= 0.58334% + (20% × 0.6333%)

= 0.58334% + 0.12667%

= 0.71001%

(*) The hypothetical amount of pre-incentive fee net investment income shown is based on a percentage of total net assets.

(1) Represents 7% annualized hurdle rate.

(2) Represents 1% annualized management fee.

(3) Excludes organizational and offering expenses.

(4) The “catch-up” provision is intended to provide our investment adviser with an incentive fee of approximately 20% on all of our pre-incentive fee net investment income as if a hurdle rate did not apply when our net investment income exceeds 2.9167% in any calendar quarter.

Example 2: Capital Gains Portion of Incentive Fee:

Alternative 1:

Assumptions

- Year 1: \$20 million investment made in Company A (“Investment A”), and \$30 million investment made in Company B (“Investment B”)
- Year 2: Investment A sold for \$50 million and fair market value (“FMV”) of Investment B determined to be \$32 million
- Year 3: FMV of Investment B determined to be \$25 million
- Year 4: Investment B sold for \$31 million

Table of Contents

The capital gains portion of the incentive fee would be:

- Year 1: None
- Year 2: Capital gains incentive fee of \$6 million (\$30 million realized capital gains on sale of Investment A multiplied by 20%)
- Year 3: None

\$5 million cumulative fee (20% multiplied by \$25 million (\$30 million cumulative capital gains less \$5 million cumulative capital depreciation)) less \$6 million (previous capital gains fee paid in Year 2)

- Year 4: Capital gains incentive fee of \$200,000

\$6.2 million cumulative fee (\$31 million cumulative realized capital gains multiplied by 20%) less \$6 million (previous capital gains fee paid in Year 2)

Alternative 2:

Assumptions

- Year 1: \$20 million investment made in Company A (“Investment A”), \$30 million investment made in Company B (“Investment B”) and \$25 million investment made in Company C (“Investment C”)
- Year 2: Investment A sold for \$50 million, FMV of Investment B determined to be \$25 million and FMV of Investment C determined to be \$25 million
- Year 3: FMV of Investment B determined to be \$27 million and Investment C sold for \$30 million
- Year 4: FMV of Investment B determined to be \$24 million
- Year 5: Investment B sold for \$20 million

The capital gains incentive fee, if any, would be:

- Year 1: None
- Year 2: \$5 million capital gains incentive fee

20% multiplied by \$25 million (\$30 million realized capital gains on sale of Investment A less \$5 million unrealized capital depreciation on Investment B)

- Year 3: \$1.4 million capital gains incentive fee⁽¹⁾

\$6.4 million cumulative fee (20% multiplied by \$32 million (\$35 million cumulative realized capital gains less \$3 million unrealized capital depreciation)) less \$5 million (previous capital gains fee paid in Year 2)

- Year 4: None
- Year 5: None

\$5 million cumulative fee (20% multiplied by \$25 million (cumulative realized capital gains of \$35 million less realized capital losses of \$10 million)) less \$6.4 million (previous cumulative capital gains fee paid in Year 2 and Year 3)

- (1) As illustrated in Year 3 of Alternative 1 above, if Solar Senior Capital were to be wound up on a date other than December 31 of any year, Solar Senior Capital may have paid aggregate capital gain incentive fees that are more than the amount of such fees that would be payable if Solar Senior Capital had been wound up on December 31 of such year.

[Table of Contents](#)

Payment of Our 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;
- 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.

Investments

Solar Senior seeks to create a diverse portfolio of senior loans by investing approximately \$5 million to \$30 million of capital, on average, in the securities of leveraged companies, including middle-market companies. We expect that this investment size will vary proportionately with the size of our capital base and/or for strategic initiatives. 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 invest are typically made to U.S. and,

[Table of Contents](#)

to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior loans typically are rated below investment grade. Securities rated below investment grade are often referred to as “leveraged loans,” “high yield” or “junk” securities, and may be considered “high risk” compared to debt instruments that are rated investment grade. Senior secured loans, however are generally less risky than subordinated debt, bearing lower leverage and higher recovery statistics. In addition, many of our debt investments are not scheduled to fully amortize over their stated terms, which could cause us to suffer losses if the respective issuer of such debt investment is unable to refinance or repay their remaining indebtedness at maturity.

In addition to senior secured loans, we may invest a portion of our portfolio in opportunistic investments, which are not our primary focus, but are intended to enhance our returns to stockholders. These investments may include similar 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.

We currently borrow funds under the Credit Facility and may borrow additional funds to make investments. As a result, we are exposed to the risks of leverage, which may be considered a speculative investment technique. The use of leverage magnifies the potential for loss on amounts invested and therefore increases the risks associated with investing in our securities. In addition, the costs associated with our borrowings, including any increase in management fees payable to our investment adviser, Solar Capital Partners, will be borne by our common stockholders.

Additionally, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly or partially owned subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans.

Moreover, we may acquire investments in the secondary market and, in analyzing such investments, we expect to employ the same or similar analytical process as we use for our primary investments.

We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

Our principal focus is to provide senior secured loans, including first lien and second lien loans, to private middle-market companies in a variety of industries. We generally seek to target companies that generate positive

[Table of Contents](#)

cash flows. We generally seek to invest in companies from the broad variety of industries in which our investment adviser has direct expertise. The following is a representative list of the industries in which we may invest.

- Aerospace & Defense
- Air Freight & Logistics
- Automobiles
- Asset Management & Custody Banks
- Building Products
- Chemicals
- Commercial Services & Supplies
- Communications Equipment
- Construction & Engineering
- Consumer Finance
- Containers & Packaging
- Distributors
- Diversified Consumer Services
- Diversified Financial Services
- Diversified Real Estate Activities
- Diversified Telecommunications Services
- Education Services
- Food Products
- Footwear
- Health Care Equipment & Supplies
- Health Care Facilities
- Health Care Services
- Health Care Technology
- Hotels, Restaurants & Leisure
- Industrial Conglomerates
- Insurance
- Internet Software & Services
- IT Services
- Leisure Equipment & Products
- Machinery
- Media
- Multiline Retail
- Paper & Forest Products
- Personal Products
- Professional Services
- Research & Consulting Services
- Software
- Specialty Retail
- Textiles, Apparel & Luxury Goods
- Utilities

We may invest in other industries if we are presented with attractive opportunities.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds. We may also co-invest on a concurrent basis with affiliates of ours, subject to compliance with applicable regulations, any exemptive order received and our allocation procedures. Certain other types of negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any other such order will be obtained.

At December 31, 2014, our portfolio consisted of 43 portfolio companies and was invested 88.5% in senior secured loans, 1.1% in unsecured loans and 10.4% in common equity, in each case, measured at fair value. We expect that our portfolio will continue to include primarily senior secured loans.

While our primary investment objective is to generate current income through investments in U.S. senior secured loans, and we may also invest a portion of the portfolio in opportunistic investments, including foreign securities.

Listed below are our top ten portfolio companies and industries based on their fair value and represented as a percentage of total assets as of December 31, 2014 and 2013:

[Table of Contents](#)**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF DECEMBER 31, 2014**

<u>Portfolio Company</u>	<u>% of Total Assets</u>
Gemino Healthcare Finance LLC	8.9%
Fulton Holdings Corp.	3.9%
Athletico Management, LLC and Accelerated Holdings, LLC	3.9%
Metamorph US 3, LLC (Metalogix)	3.8%
Confie Seguros Holding II Co.	3.4%
Capstone Logistics Acquisition, Inc.	3.3%
Castle Management Borrower LLC (Highgate Hotels)	3.1%
AmeriQual Group, LLC	2.8%
IPC Systems, Inc.	2.6%
QBS Holding Company, Inc. (Quorum)	2.6%

<u>Industry</u>	<u>% of Total Assets</u>
Diversified Financial Services	9.9%
Communications Equipment	7.7%
Professional Services	7.3%
Software	7.2%
Health Care Services	7.1%
Insurance	7.0%
Food Products	5.9%
Specialty Retail	3.9%
Health Care Facilities	3.9%
Internet Software & Services	3.7%

TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF DECEMBER 31, 2013

<u>Portfolio Company</u>	<u>% of Total Assets</u>
Gemino Healthcare Finance LLC	12.7%
Fulton Holdings Corp.	5.5%
AmeriQual Group, LLC	4.4%
Confie Seguros Holding II Co.	4.3%
Attachmate Corporation	3.9%
Trident USA Health Services	3.7%
ABG Intermediate Holdings 2 LLC (Authentic Brands)	3.7%
Securus Technologies, Inc.	3.6%
Hearthside Food Solutions	3.6%
Shield Finance Co. SARL	3.6%

<u>Industry</u>	<u>% of Total Assets</u>
Diversified Financial Services	14.1%
Specialty Retail	10.7%
Food Products	8.0%
Software	7.6%
Professional Services	7.5%
Insurance	6.9%
Health Care Services	6.2%
Communications Equipment	4.7%
Textiles, Apparel & Luxury Goods	3.7%
IT Services	3.6%

[Table of Contents](#)

Listed below is the geographic breakdown of the portfolio based on fair value as of December 31, 2014, 2013 and 2012:

<u>Geographic Region</u>	<u>% of Portfolio at December 31, 2014</u>	<u>% of Portfolio at December 31, 2013</u>	<u>% of Portfolio at December 31, 2012</u>
United States	100.0%	96.3%	95.3%
Western Europe	—	3.7%	4.7%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Investment Selection Process

Solar Capital Partners is committed to and utilizes a value-oriented investment philosophy with a focus on the preservation of capital and a commitment to managing downside exposure.

Portfolio Company Characteristics

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, not all of these criteria will be met by each prospective portfolio company in which we choose to invest.

Stable Earnings and Strong Free Cash Flow. We seek to invest in companies who have demonstrated stable earnings through economic cycles. We target companies that can de-lever through consistent generation of cash flows rather than relying solely on growth to service and repay our loans.

Value Orientation. Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. We intend to focus on companies in which we can invest at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis.

Value of Assets. The prospective value of the assets, if any, that collateralizes the loans in which we invest, will be an important factor in our credit analysis. Our analysis emphasizes both tangible assets, such as accounts receivable, inventory, equipment and real estate, and intangible assets, such as intellectual property, customer lists, networks and databases. In some of our senior loan transactions, the portfolio company's fundings may be derived from a borrowing base determined by the value of such company's assets.

Strong Competitive Position in Industry. We seek to invest in target companies that have developed leading market positions within their respective markets and are well positioned to capitalize on growth opportunities. We seek companies that demonstrate significant competitive advantages versus their competitors, which we believe should help to protect their market position and profitability.

Diversified Customer and Supplier Base. We seek to invest in businesses that have a diversified customer and supplier base. We believe that companies with a diversified customer and supplier base are generally better able to endure economic downturns, industry consolidation, changing business preferences and other factors that may negatively impact their customers, suppliers and competitors.

Exit Strategy. We seek to predominantly invest in companies which provide multiple alternatives for an eventual exit. We look for opportunities that provide an exit typically within three years of the initial capital commitment.

[Table of Contents](#)

We generally seek companies that we believe will provide a steady stream of cash flow to repay our loans and reinvest in their respective businesses. We believe that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies represents a key means by which we will be able to exit from our investments over time.

In addition, we also seek to invest in companies whose business models or expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction. We generally underwrite our investments on a hold-to-maturity basis, but expensive capital is often repaid prior to stated maturity.

Experienced and Committed Management. We generally require that portfolio companies have an experienced management team. We plan to also require portfolio companies have in place proper incentives to induce management to succeed and to act in concert with our interests as investors, including having significant equity interests.

Strong Sponsorship. We generally aim to invest alongside other sophisticated investors. We typically seek to partner with successful financial sponsors who have historically generated high returns. We believe that investing in these sponsors' portfolio companies enables us to benefit from their direct involvement and due diligence.

Solar Senior Capital's senior investment team works in concert with sponsors to proactively manage investment opportunities by acting as a partner throughout the investment process. We actively focus on the middle-market financial sponsor community, with a particular focus on the upper-end of the middle-market (sponsors with equity funds of \$800 million to \$3 billion). We favor such sponsors because they typically:

- buy larger companies with strong business franchises;
- invest significant amounts of equity in their portfolio companies;
- value flexibility and creativity in structuring their transactions;
- possess longer track records over multiple investment funds;
- have deep management experience and resources;
- have better ability to withstand downturns; and
- possess the ability to support portfolio companies with additional capital.

We divide our coverage of these sponsors among our more senior investment professionals, who are responsible for day-to-day interaction with financial sponsors. We take a proactive approach, provide quick feedback, deliver on commitments, and are constructive throughout the life cycle of an investment.

Due Diligence

Our "private equity" approach to credit investing typically incorporates extensive in-depth due diligence often alongside the private equity sponsor. In conducting due diligence, we will use publicly available information as well as information from relationships with former and current management teams, consultants, competitors and investment bankers. We believe that our due diligence methodology allows us to screen a high volume of potential investment opportunities on a consistent and thorough basis.

Our due diligence typically includes:

- review of historical and prospective financial information;
- review and valuation of assets;

Table of Contents

- research relating to the company's management, industry, markets, products and services and competitors;
- on-site visits;
- discussions with management, employees, customers or vendors of the potential portfolio company;
- review of senior loan documents; and
- background investigations.

We also expect to evaluate the private equity sponsor making the investment. Further, due to Solar Capital Partners' considerable repeat business with sponsors, we have direct experience with the management teams of many sponsors. A private equity sponsor is typically the controlling shareholder upon completion of an investment and as such is considered critical to the success of the investment. The equity sponsor is evaluated along several key criteria, including:

- investment track record;
- industry experience;
- capacity and willingness to provide additional financial support to the company through additional capital contributions, if necessary; and
- reference checks.

Throughout the due diligence process, a deal team is in constant dialogue with the management team of the company in which we are considering to invest to ensure that any concerns are addressed as early as possible through the process and that unsuitable investments are filtered out before considerable time has been invested.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the investment professionals leading the investment present the investment opportunity to Solar Capital Partners' investment committee, which then determine whether to pursue the potential investment. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

The Investment Committee

All new investments are required to be approved by a consensus of the investment committee of Solar Capital Partners, which is led by Messrs. Gross and Spohler. The members of Solar Capital Partners' investment committee receive no compensation from us. Such members may be employees or partners of Solar Capital Partners and may receive compensation or profit distributions from Solar Capital Partners.

Investment Structure

Once we determine that a prospective portfolio company is suitable for investment, we will work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

We seek to invest in portfolio companies primarily in the form of senior loans. These senior loans typically have current cash pay interest with some amortization of principal. Interest is typically paid on a floating rate basis, often with a floor on the LIBOR rate. We generally seek to obtain security interests in the assets of our portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

[Table of Contents](#)

Typically, we expect that our senior loans will have final maturities of four to seven years. However, we also expect that our portfolio companies often may repay these loans early, generally within three years from the date of initial investment.

We seek to tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. We seek to limit the downside potential of our investments by negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

We typically seek to hold most of our investments to maturity or repayment, but believe we have the ability to sell our investments earlier.

Managerial Assistance

As a business development company, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may receive fees for these services.

Ongoing Relationships with Portfolio Companies

Solar Capital Partners monitors our portfolio companies on an ongoing basis. Solar Capital Partners monitors the financial trends of each portfolio company to determine if it is meeting its business plan and to assess the appropriate course of action for each company.

Solar Capital Partners has several methods of evaluating and monitoring the performance and fair value of our investments, which include the following:

- Assessment of success in adhering to each portfolio company's business plan and compliance with covenants;
- Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;
- Comparisons to other Solar Capital and Solar Senior Capital portfolio companies in the industry, if any; and
- Review of monthly and quarterly financial statements, asset valuations, and financial projections for portfolio companies.

In addition to various risk management and monitoring tools, Solar Capital Partners also uses an investment rating system to characterize and monitor our expected level of returns on each investment in our portfolio.

[Table of Contents](#)

We use an investment rating scale of 1 to 4. The following is a description of the conditions associated with each investment rating:

Investment Rating	Summary Description
1	Involves the least amount of risk in our portfolio, the portfolio company is performing above expectations, and the trends and risk factors are generally favorable (including a potential exit)
2	Risk that is similar to the risk at the time of origination, the portfolio company is performing as expected, and the risk factors are neutral to favorable; all new investments are initially assessed a grade of 2
3	The portfolio company is performing below expectations, may be out of compliance with debt covenants, and requires procedures for closer monitoring
4	The investment is performing well below expectations and is not anticipated to be repaid in full

Solar Capital Partners monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. As of December 31, 2014, 2013 and 2012, the weighted average investment rating on the fair market value of our portfolio was 2. In connection with our valuation process, Solar Capital Partners reviews these investment ratings on a quarterly basis.

Valuation Procedures

We conduct the valuation of our assets, pursuant to which our net asset value shall be determined, at all times consistent with U.S. generally accepted accounting principles ("GAAP") and the 1940 Act and generally value our assets on a quarterly basis, or more frequently if required. Our valuation procedures are summarized in more detail below:

Securities for which market quotations are readily available on an exchange shall be valued at the closing price on the day of valuation. We may also obtain quotes with respect to certain of our investments from pricing services or brokers or dealers in order to value assets. When doing so, we determine whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, we use the quote obtained. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of the investment adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of our board.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of our investment adviser or board of directors, does not represent fair value, shall each 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 our senior management; (iii) independent third-party valuation firms engaged by, or on behalf of, the board of directors 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 our 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 default; (iv) the board of directors 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 will generally consider the following factors among others, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company's ability to make payments;

[Table of Contents](#)

- the portfolio company's earnings and discounted cash flow;
- the markets in which the issuer does business; and
- comparisons to publicly traded securities.

Securities for which market quotations are not readily available or for which a pricing source is not sufficient may include, but are not limited to, the following:

- private placements and restricted securities that do not have an active trading market;
- securities whose trading has been suspended or for which market quotes are no longer available;
- debt securities that have recently gone into default and for which there is no current market;
- securities whose prices are stale;
- securities affected by significant events; and
- securities that the investment adviser believes were priced incorrectly.

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

Competition

Our primary competitors provide financing to middle-market companies and include other business development companies, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, alternative investment vehicles, such as hedge funds, frequently invest in middle-market companies. As a result, competition for investment opportunities at middle-market companies can be intense. However, we continue to believe that there has been an overall reduction in the amount of debt capital available on average since the downturn in the credit markets, which began in mid-2007, and that this has resulted in a somewhat less competitive environment for making new investments. While many middle-market companies were previously able to raise senior debt financing through traditional large financial institutions, we believe this approach to financing is more difficult as implementation of U.S. and international financial reforms, such as Basel 3, limits the capacity of large financial institutions to hold non-investment grade leveraged loans on their balance sheets. We believe that many of these financial institutions have de-emphasized their service and product offerings to middle-market companies in particular.

Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a business development company. We use the industry information available to Messrs. Gross and Spohler and the other investment professionals of Solar Capital Partners to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of Messrs. Gross and Spohler and the other senior investment professionals of our investment adviser enable us to learn about, and compete effectively for, financing opportunities with attractive leveraged companies in the industries in which we seek to invest.

Staffing

We do not currently have any employees. Mr. Gross, our chairman and chief executive officer, and Mr. Spohler, our chief operating officer, currently serve as the managing member and partner, respectively, of

[Table of Contents](#)

our investment adviser, Solar Capital Partners. Richard Peteka, our chief financial officer and corporate secretary, is an employee of Solar Capital Management, and performs his functions as chief financial officer under the terms of our Administration Agreement. Guy Talarico, our chief compliance officer, is the chief executive officer of Alaric Compliance Services, LLC, and performs his functions as our chief compliance officer under the terms of an agreement between Solar Capital Management and Alaric Compliance Services, LLC. Solar Capital Management has retained Mr. Talarico and Alaric Compliance Services, LLC pursuant to its obligations under our Administration Agreement.

Our day-to-day investment operations are managed by Solar Capital Partners. Based upon its needs, Solar Capital Partners may hire additional investment professionals. In addition, we will reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief financial officer and any administrative support staff.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 imposes a wide variety of regulatory requirements on publicly-held companies and their insiders. Many of these requirements affect us. For example:

- Pursuant to Rule 13a-14 of the 1934 Act, our Chief Executive Officer and Chief Financial Officer must certify the accuracy of the consolidated financial statements contained in our periodic reports;
- Pursuant to Item 307 of Regulation S-K, our periodic reports must disclose our conclusions about the effectiveness of our disclosure controls and procedures;
- Pursuant to Rule 13a-15 of the 1934 Act, our management must prepare an annual report regarding its assessment of the effectiveness of internal controls over financial reporting and obtain an audit of the effectiveness of internal controls over financial reporting performed by our independent registered public accounting firm; and
- Pursuant to Item 308 of Regulation S-K and Rule 13a-15 of the 1934 Act, our periodic reports must disclose whether there were significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

The Sarbanes-Oxley Act of 2002 requires us to review our current policies and procedures to determine whether we comply with the Sarbanes-Oxley Act of 2002 and the regulations promulgated thereunder. We will continue to monitor our compliance with all regulations that are adopted under the Sarbanes-Oxley Act of 2002 and will take actions necessary to ensure that we are in compliance therewith.

Available Information

You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549, on official business days during the hours of 10:00 am to 3:00 pm. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The address of that site is (<http://www.sec.gov>).

Our internet address is www.solarseniorcap.com. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our website is not incorporated by reference into this annual report on Form 10-K, and you should not consider information contained on our website to be part of this annual report on Form 10-K.

[Table of Contents](#)

Item 1A. Risk Factors

An investment in our securities involves certain risks relating to our structure and investment objectives. The risks set forth below are not the only risks we face, and we face other risks which we have not yet identified, which we do not currently deem material or which are not yet predictable. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value and the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Investments

We operate in a highly competitive market for investment opportunities.

A number of entities compete with us to make the types of investments that we target in leveraged companies. We compete with other BDCs, public and private funds, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we do, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us. If we are unable to source attractive investments, we may hold a greater percentage of our assets in cash than anticipated, which could impact potential returns on our portfolio. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We do not seek to compete primarily based on the interest rates we offer, and we believe that some of our competitors may make loans with interest rates that may be comparable to or lower than the rates we may offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

Our investments are very risky and highly speculative.

We invest primarily in senior secured loans, including first lien and second lien debt instruments, made to middle-market companies whose debt is rated below investment grade. Securities rated below investment grade are often referred to as "leveraged loans," "high yield" or "junk" securities, and may be considered "high risk" compared to debt instruments that are rated investment grade.

When we make a senior secured term loan investment in a portfolio company, we generally take a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which we expect to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

[Table of Contents](#)

In addition, investing in middle-market companies involves a number of significant risks, including:

- these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;
- they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;
- they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;
- they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and
- they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

The lack of liquidity in our investments may adversely affect our business.

We generally make investments in private companies. We invest and expect to continue investing in companies whose securities have no established trading market and whose securities are and will be subject to legal and other restrictions on resale or whose securities are and will be less liquid than are publicly-traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. As a result, we do not expect to achieve liquidity in our investments in the near-term. However, to maintain our qualification as a business development company and as a RIC, we may have to dispose of investments if we do not satisfy one or more of the applicable criteria under the respective regulatory frameworks. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies performs poorly or defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.

Our portfolio may be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with our qualification as a RIC under Subchapter M of the Code, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, our investments may be concentrated in relatively few industries or portfolio companies. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

[Table of Contents](#)

Our investments in securities rated below investment grade are speculative in nature and are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on changes in interest rates.

The securities that we invest in are typically rated below investment grade. Securities rated below investment grade are often referred to as “leveraged loans,” “high yield” or “junk” securities, and may be considered “high risk” compared to debt instruments that are rated investment grade. High yield securities are regarded as having predominantly speculative characteristics with respect to the issuer’s capacity to pay interest and repay principal in accordance with the terms of the obligations and involve major risk exposure to adverse conditions. In addition, high yield securities generally offer a higher current yield than that available from higher grade issues, but typically involve greater risk. These securities are especially sensitive to adverse changes in general economic conditions, to changes in the financial condition of their issuers and to price fluctuation in response to changes in interest rates. During periods of economic downturn or rising interest rates, issuers of below investment grade instruments may experience financial stress that could adversely affect their ability to make payments of principal and interest and increase the possibility of default. The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities. In addition, many of our debt investments are not scheduled to fully amortize over their stated terms, which could cause us to suffer losses if the respective issuer of such debt investment is unable to refinance or repay their remaining indebtedness at maturity.

Price declines and illiquidity in the corporate debt markets may adversely affect, and may continue to adversely affect, the fair value of our portfolio investments, reducing our net asset value through increased net unrealized depreciation. Any unrealized depreciation that we experience on our loan portfolio may be an indication of future realized losses, which could reduce our income available for distribution and could adversely affect our ability to service our outstanding borrowings.

As a BDC, we are required to carry our investments at market value or, if no market value is ascertainable, at fair value as determined in good faith by or under the direction of our board of directors. Decreases in the market values or fair values of our investments are recorded as unrealized depreciation. Any unrealized depreciation in our loan portfolio could be an indication of a portfolio company’s inability to meet its repayment obligations to us with respect to the affected loans. This could result in realized losses in the future and ultimately in reductions of our income available for distribution in future periods and could materially adversely affect our ability to service our outstanding borrowings. The unprecedented declines in prices and liquidity in the corporate debt markets from 2008 through mid-2010 resulted in significant declines in the fair value of loans and other debt investments. Depending on market conditions, we could incur substantial losses in future periods, which could further reduce our net asset value and have a material adverse impact on our business, financial condition and results of operations.

Capital markets have recently been in a period of disruption and instability. These market conditions have materially and adversely affected the global debt and equity capital markets, which may in the future have a negative impact on our business and operations.

The global capital markets have recently been in a period of disruption as evidenced by a lack of liquidity in the debt capital markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and the failure of certain major financial institutions. Despite actions of the United States federal government and foreign governments, these events contributed to worsening general economic conditions that materially and adversely impacted the broader financial and credit markets and reduced the availability of debt and equity capital for the market as a whole and financial services firms in particular.

These conditions could continue for a prolonged period of time or worsen in the future. While these conditions persist, we and other companies in the financial services sector may have to access, if available, alternative markets for debt and equity capital. Equity capital may be difficult to raise because, subject to some

[Table of Contents](#)

limited exceptions which apply to us, as a BDC we are generally not able to issue additional shares of our common stock at a price less than net asset value without first obtaining approval for such issuance from our stockholders and our independent directors. At our 2014 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on May 6, 2014 and expiring on the earlier of the one-year anniversary of the date of the 2014 Annual Stockholders Meeting and the date of our 2015 Annual Stockholders Meeting, which is expected to be held in June 2015. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock at a price below our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval. In addition, our ability to incur indebtedness (including by issuing preferred stock) is limited by applicable regulations such that our asset coverage, as defined in the 1940 Act, must equal at least 200% immediately after each time we incur indebtedness. The debt capital that will be available, if at all, may be at a higher cost and on less favorable terms and conditions in the future. Any inability to raise capital could have a negative effect on our business, financial condition and results of operations.

The illiquidity of our investments may make it difficult for us to sell such investments if required. As a result, we may realize significantly less than the value at which we have recorded our investments. In addition, significant changes in the capital markets, including the recent extreme volatility and disruption, have had, and may in the future have, a negative effect on the valuations of our investments and on the potential for liquidity events involving our investments. An inability to raise capital, and any required sale of our investments for liquidity purposes, could have a material adverse impact on our business, financial condition or results of operations.

If we cannot obtain additional capital because of either regulatory or market price constraints, we could be forced to curtail or cease our new lending and investment activities, our net asset value could decrease and our level of distributions and liquidity could be affected adversely.

Our ability to secure additional financing and satisfy our financial obligations under indebtedness outstanding from time to time will depend upon our future operating performance, which is subject to the prevailing general economic and credit market conditions, including interest rate levels and the availability of credit generally, and financial, business and other factors, many of which are beyond our control. The prolonged continuation or worsening of current economic and capital market conditions could have a material adverse effect on our ability to secure financing on favorable terms, if at all.

If we are unable to obtain debt capital, then our equity investors will not benefit from the potential for increased returns on equity resulting from leverage to the extent that our investment strategy is successful and we may be limited in our ability to make new commitments or fundings to our portfolio companies.

Uncertainty about the financial stability of the United States and of several countries in the European Union (EU) could have a significant adverse effect on our business, results of operations and financial condition.

Due to federal budget deficit concerns, S&P downgraded the federal government's credit rating from AAA to AA+ for the first time in history on August 5, 2011. Further, Moody's and Fitch have warned that they may downgrade the federal government's credit rating. Further downgrades or warnings by S&P or other rating agencies, and the government's credit and deficit concerns in general, could cause interest rates and borrowing costs to rise, which may negatively impact both the perception of credit risk associated with our debt portfolio and our ability to access the debt markets on favorable terms. In addition, a decreased credit rating could create broader financial turmoil and uncertainty, which may weigh heavily on our financial performance and the value of our common stock.

[Table of Contents](#)

In 2010, a financial crisis emerged in Europe, triggered by high budget deficits and rising direct and contingent sovereign debt in Greece, Ireland, Italy, Portugal and Spain, which created concerns about the ability of these nations to continue to service their sovereign debt obligations. Risks and ongoing concerns resulting from the debt crisis in Europe could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in these countries and the financial condition of European financial institutions. Market and economic disruptions have affected, and may continue to affect, consumer confidence levels and spending, personal bankruptcy rates, levels of incurrence and default on consumer debt and home prices, among other factors. We cannot assure you that the market disruptions in Europe, including the increased cost of funding for certain governments and financial institutions, will not spread, and we cannot assure you that future assistance packages will be available, or if available, sufficient to stabilize the affected countries and markets in Europe or elsewhere. To the extent uncertainty regarding any economic recovery in Europe continues to negatively impact consumer confidence and consumer credit factors, our business and results of operations could be significantly and adversely affected.

In October 2014, the U.S. Federal Reserve announced that it has terminated its bond-buying program, or quantitative easing, which was designed to stimulate the economy and expand the Federal Reserve's holdings of long-term securities until key economic indicators, such as the unemployment rate, showed signs of improvement. It is unclear what effect, if any, the Federal Reserve's termination of quantitative easing will have on the value of our investments. However, it is possible that without quantitative easing by the Federal Reserve, these developments, along with the European sovereign debt crisis, could cause interest rates and borrowing costs to rise, which may negatively impact our ability to access the debt markets on favorable terms.

Uncertainty relating to the LIBOR calculation process may adversely affect the value of our portfolio of the LIBOR-indexed, floating-rate debt securities.

Concerns have been publicized that some of the member banks surveyed by the British Bankers' Association ("BBA") in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivatives positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks have entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of such potential changes may adversely affect the market for LIBOR-based securities, including our portfolio of LIBOR-indexed, floating-rate debt securities. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market for LIBOR-based securities or the value of our portfolio of LIBOR-indexed, floating-rate debt securities.

Economic recessions or downturns could impair our portfolio companies and harm our operating results.

Many of our potential portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets may increase and the value of our portfolio may decrease during these periods as we are required to record the values of our investments. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments at fair value. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

[Table of Contents](#)

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, acceleration of the time when the loans are due and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize the portfolio company's ability to meet its obligations under the debt that we hold. We may incur additional expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, depending on the facts and circumstances, including the extent to which we actually provided significant managerial assistance to that portfolio company, a bankruptcy court might re-characterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

These portfolio companies may face intense competition, including competition from companies with greater financial resources, more extensive research and development, manufacturing, marketing and service capabilities and greater number of qualified and experienced managerial and technical personnel. They may need additional financing which they are unable to secure and which we are unable or unwilling to provide, or they may be subject to adverse developments unrelated to the technologies they acquire.

We may suffer a loss if a portfolio company defaults on a loan and the underlying collateral is not sufficient.

In the event of a default by a portfolio company on a secured loan, we will only have recourse to the assets collateralizing the loan. If the underlying collateral value is less than the loan amount, we will suffer a loss. In addition, we sometimes make loans that are unsecured, which are subject to the risk that other lenders may be directly secured by the assets of the portfolio company. In the event of a default, those collateralized lenders would have priority over us with respect to the proceeds of a sale of the underlying assets. In cases described above, we may lack control over the underlying asset collateralizing our loan or the underlying assets of the portfolio company prior to a default, and as a result the value of the collateral may be reduced by acts or omissions by owners or managers of the assets.

In the event of bankruptcy of a portfolio company, we may not have full recourse to its assets in order to satisfy our loan, or our loan may be subject to equitable subordination. In addition, certain of our loans are subordinate to other debt of the portfolio company. If a portfolio company defaults on our loan or on debt senior to our loan, or in the event of a portfolio company bankruptcy, our loan will be satisfied only after the senior debt receives payment. Where debt senior to our loan exists, the presence of inter-creditor arrangements may limit our ability to amend our loan documents, assign our loans, accept prepayments, exercise our remedies (through "standstill" periods) and control decisions made in bankruptcy proceedings relating to the portfolio company. Bankruptcy and portfolio company litigation can significantly increase collection losses and the time needed for us to acquire the underlying collateral in the event of a default, during which time the collateral may decline in value, causing us to suffer further losses.

If the value of collateral underlying our loan declines or interest rates increase during the term of our loan, a portfolio company may not be able to obtain the necessary funds to repay our loan at maturity through refinancing. Decreasing collateral value and/or increasing interest rates may hinder a portfolio company's ability to refinance our loan because the underlying collateral cannot satisfy the debt service coverage requirements necessary to obtain new financing. If a borrower is unable to repay our loan at maturity, we could suffer a loss which may adversely impact our financial performance.

The business, financial condition and results of operations of our portfolio companies could be adversely affected by worldwide economic conditions, as well as political and economic conditions in the countries in which they conduct business.

The business and operating results of our portfolio companies may be impacted by worldwide economic conditions. Although the U.S. economy has in recent quarters shown signs of recovery from the 2008–2009

[Table of Contents](#)

global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. For instance, a number of recent reports indicate that growth in China and other emerging markets may be slowing relative to historical growth rates. The significant debt in U.S. and European countries is expected to hinder growth in those countries for the foreseeable future. Multiple factors relating to the international operations of some of our portfolio companies and to particular countries in which they operate could negatively impact their business, financial condition and results of operations.

Some of the products of our portfolio companies are developed, manufactured, assembled, tested or marketed outside the U.S. Any conflict or uncertainty in these countries, including due to natural disasters, public health concerns, political unrest or safety concerns, could harm their business, financial condition and results of operations. In addition, if the government of any country in which their products are developed, manufactured or sold sets technical or regulatory standards for products developed or manufactured in or imported into their country that are not widely shared, it may lead some of their customers to suspend imports of their products into that country, require manufacturers or developers in that country to manufacture or develop products with different technical or regulatory standards and disrupt cross-border manufacturing, marketing or business relationships which, in each case, could harm their businesses.

The effect of global climate change may impact the operations of our portfolio companies.

There may be evidence of global climate change. Climate change creates physical and financial risk and some of our portfolio companies may be adversely affected by climate change. For example, the needs of customers of energy companies vary with weather conditions, primarily temperature and humidity. To the extent weather conditions are affected by climate change, energy use could increase or decrease depending on the duration and magnitude of any changes. Increases in the cost of energy could adversely affect the cost of operations of our portfolio companies if the use of energy products or services is material to their business. A decrease in energy use due to weather changes may affect some of our portfolio companies' financial condition, through decreased revenues. Extreme weather conditions in general require more system backup, adding to costs, and can contribute to increased system stresses, including service interruptions.

Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as "follow-on" investments, in order to: (i) increase or maintain in whole or in part our ownership percentage; (ii) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (iii) attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We will have the discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, either because we prefer other opportunities or because we are subject to BDC requirements that would prevent such follow-on investments, or the desire to maintain our RIC tax status.

Where we do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.

Although we hold controlling equity positions in some of our portfolio companies, we do not currently hold controlling equity positions in the majority of our portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or

[Table of Contents](#)

stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

Prepayments of our debt investments by our portfolio companies could adversely impact our results of operations and reduce our return on equity.

We are subject to the risk that the investments we make in our portfolio companies may be repaid prior to maturity. When this occurs, we may reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments will typically have substantially lower yields than the debt being prepaid and we could experience significant delays in reinvesting these amounts. Any future investment in a new portfolio company may also be at lower yields than the debt that was repaid. As a result, our results of operations could be materially adversely affected if one or more of our portfolio companies elect to prepay amounts owed to us. Additionally, prepayments could negatively impact our return on equity, which could result in a decline in the market price of our common stock.

We may choose to waive or defer enforcement of covenants in the debt securities held in our portfolio, which may cause us to lose all or part of our investment in these companies.

We structure the debt investments in our portfolio companies to include business and financial covenants placing affirmative and negative obligations on the operation of the company's business and its financial condition. However, from time to time we may elect to waive breaches of these covenants, including our right to payment, or waive or defer enforcement of remedies, such as acceleration of obligations or foreclosure on collateral, depending upon the financial condition and prospects of the particular portfolio company. These actions may reduce the likelihood of our receiving the full amount of future payments of interest or principal and be accompanied by a deterioration in the value of the underlying collateral as many of these companies may have limited financial resources, may be unable to meet future obligations and may go bankrupt. This could negatively impact our ability to pay distributions, could adversely affect our results of operation and financial condition and cause the loss of all or part of your investment.

Our loans could be subject to equitable subordination by a court which would increase our risk of loss with respect to such loans.

Courts may apply the doctrine of equitable subordination to subordinate the claim or lien of a lender against a borrower to claims or liens of other creditors of the borrower, when the lender or its affiliates is found to have engaged in unfair, inequitable or fraudulent conduct. The courts have also applied the doctrine of equitable subordination when a lender or its affiliates is found to have exerted inappropriate control over a client, including control resulting from the ownership of equity interests in a client. Payments on one or more of our loans, particularly a loan to a client in which we may also hold an equity interest, may be subject to claims of equitable subordination. If we were deemed to have the ability to control or otherwise exercise influence over the business and affairs of one or more of our portfolio companies resulting in economic hardship to other creditors of that company, this control or influence may constitute grounds for equitable subordination and a court may treat one or more of our loans as if it were unsecured or common equity in the portfolio company. In that case, if the portfolio company were to liquidate, we would be entitled to repayment of our loan on a pro-rata basis with other unsecured debt or, if the effect of subordination was to place us at the level of common equity, then on an equal basis with other holders of the portfolio company's common equity only after all of its obligations relating to its debt and preferred securities had been satisfied.

[Table of Contents](#)

An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.

We invest primarily in privately held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of Solar Capital Partners' investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we will be unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

Our portfolio companies may incur debt that ranks equally with, or senior to, some of our investments in such companies.

We invest primarily in senior secured loans, including second lien, as well as unsecured debt instruments issued by our portfolio companies. If we invest in second lien, or unsecured debt instruments, our portfolio companies typically may be permitted to incur other debt that ranks equally with, or senior to, such debt instruments. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we will invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. In such cases, after repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company. Any such limitations on the ability of our portfolio companies to make principal or interest payments to us, if at all, may reduce our net asset value and have a negative material adverse impact to our business, financial condition and results of operation.

Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates potential investments in debt securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk, or that if we do, such strategies will be effective.

We may expose ourselves to risks if we engage in hedging transactions.

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and

[Table of Contents](#)

floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transactions may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. It may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements in currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations. To the extent we engage in hedging transactions, we also face the risk that counterparties to the derivative instruments we hold may default, which may expose us to unexpected losses from positions where we believed that our risk had been appropriately hedged.

Our investment adviser may not be able to achieve the same or similar returns as those achieved by our senior investment professionals while they were employed at prior positions.

Although in the past our senior investment professionals held senior positions at a number of investment firms, their track record and achievements are not necessarily indicative of future results that will be achieved by our investment adviser. In their roles at such other firms, our senior investment professionals were part of investment teams, and they were not solely responsible for generating investment ideas. In addition, such investment teams arrived at investment decisions by consensus.

Risks Relating to an Investment in Our Securities

Our shares may trade at a substantial discount from net asset value and may continue to do so over the long term.

Shares of closed-end investment companies have frequently traded at a market price that is less than the net asset value that is attributable to those shares. The possibility that our shares of common stock will trade at a substantial discount from net asset value over the long term is separate and distinct from the risk that our net asset value will decrease. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. If our common stock trades below its net asset value, we will generally not be able to issue additional shares or sell our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. At our 2014 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on May 6, 2014 and expiring on the earlier of the one-year anniversary of the date of the 2014 Annual Stockholders Meeting and the date of our 2015 Annual Stockholders Meeting, which is expected to be held in June 2015. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock at a price below our then current net asset value per share. Any offering of our common stock that requires stockholder approval must

[Table of Contents](#)

occur, if at all, within one year after receiving such stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease our new lending and investment activities, and our net asset value could decrease and our level of distributions could be impacted.

Our common stock price may be volatile and may decrease substantially.

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- investor demand for our shares;
- significant volatility in the market price and trading volume of securities of BDCs or other companies in our sector, which are not necessarily related to the operating performance of these companies;
- exclusion of our common stock from certain market indices, such as the Russell 2000 Financial Services Index, which could reduce the ability of certain investment funds to own our common stock and put short-term selling pressure on our common stock;
- changes in regulatory policies or tax guidelines with respect to RICs or BDCs;
- failure to qualify as a RIC, or the loss of RIC status;
- any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;
- changes, or perceived changes, in the value of our portfolio investments;
- departures of Solar Capital Partners' key personnel;
- operating performance of companies comparable to us; or
- general economic conditions and trends and other external factors.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price once a market for our stock is established, we may become the target of securities litigation in the future. Securities litigation could result in substantial costs and divert management's attention and resources from our business.

There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time.

We intend to make distributions on a monthly basis to our stockholders out of assets legally available for distribution. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a BDC, we may be limited in our ability to make distributions. As a RIC, if we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including failure to obtain, or possible loss of, the U.S. federal income tax benefits allowable to RICs. We cannot assure you that you will receive distributions at a particular level or at all.

We may choose to pay distributions in our own common stock, in which case our stockholders may be required to pay U.S. federal income taxes in excess of the cash distributions they receive.

We may distribute taxable distributions that are payable in cash or shares of our common stock at the election of each stockholder. Under certain applicable provisions of the Code and the Treasury regulations,

[Table of Contents](#)

distributions payable in cash or in shares of stock at the election of stockholders are treated as taxable distributions. The Internal Revenue Service has issued private rulings indicating that this rule will apply even where the total amount of cash that may be distributed is limited to no more than 20% of the total distribution. Under these rulings, if too many stockholders elect to receive their distributions in cash, each such stockholder would receive a pro rata share of the total cash to be distributed and would receive the remainder of their distribution in shares of stock. If we decide to make any distributions consistent with these rulings that are payable in part in our stock, taxable stockholders receiving such distributions will be required to include the full amount of the distribution (whether received in cash, our stock, or a combination thereof) as ordinary income (or as long-term capital gain to the extent such distribution is properly reported as a capital gain distribution) to the extent of our current and accumulated earnings and profits for U.S. federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such distributions in excess of any cash received. If a U.S. stockholder sells the stock it receives as a distribution in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the distribution, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such distributions, including in respect of all or a portion of such distribution that is payable in stock. In addition, if a significant number of our stockholders determine to sell shares of our stock in order to pay taxes owed on distributions, it may put downward pressure on the trading price of our stock.

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock.

The 500,000 shares that were originally issued to Solar Senior Capital Investors LLC in the Concurrent Private Placement pursuant to the exemption from registration provided by Section 4(2) under the Securities Act were subject to a 180 day lock-up period. Upon expiration of this lock-up period, such shares became generally freely tradable in the public market, subject to the provisions of Rule 144 promulgated under the Securities Act. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

We have also committed to file a registration statement to register the resale of the shares of common stock that were issued in the Concurrent Private Placement to Solar Senior Capital Investors LLC within 60 days of receiving a request from Solar Senior Capital Investors LLC to do so. We have committed to use our commercially reasonable efforts to obtain effectiveness of such registration statement as soon as reasonably practicable after the filing of such registration statement. Assuming effectiveness of such registration statement, Solar Senior Capital Investors LLC will generally be able to resell its shares of common stock without restriction.

The net asset value per share of our common stock may be diluted if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock.

At our 2014 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on May 6, 2014 and expiring on the earlier of the one-year anniversary of the date of the 2014 Annual Stockholders Meeting and the date of our 2015 Annual Stockholders Meeting, which is expected to be held in June 2015. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock at a price below our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval.

We may also use newly issued shares to implement our dividend reinvestment plan, whether our shares are trading at a premium or at a discount to our then current net asset value per share. To the extent we receive the

[Table of Contents](#)

necessary approval, any decision to sell shares of our common stock below its then current net asset value per share would be subject to the determination by our board of directors that such issuance or sale is in our and our stockholders' best interests.

If we were to sell shares of our common stock below its then current net asset value per share, such sales would result in an immediate dilution to the net asset value per share of our common stock. This dilution would occur as a result of the sale of shares at a price below the then current net asset value per share of our common stock and a proportionately greater decrease in the stockholders' interest in our earnings and assets and their voting interest in us than the increase in our assets resulting from such sale. Because the number of shares of common stock that could be so issued and the timing of any issuance is not currently known, the actual dilutive effect cannot be predicted.

Further, if our current stockholders do not purchase any shares to maintain their percentage interest, regardless of whether such offering is above or below the then current net asset value per share, their voting power will be diluted. For example, if we sell an additional 10% of our common shares at a 5% discount from net asset value, a stockholder who does not participate in that offering for its proportionate interest will suffer net asset value dilution of up to 0.5% or \$5 per \$1000 of net asset value.

Similarly, all distributions declared in cash payable to stockholders that are participants in our distribution reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the distribution payable to a stockholder.

Risks Relating to Our Business and Structure

We are dependent upon Solar Capital Partners' key personnel for our future success.

We depend on the diligence, skill and network of business contacts of Messrs. Gross and Spohler, who serve as the managing member and partner of Solar Capital Partners, respectively, and who lead Solar Capital Partners' investment team. Messrs. Gross and Spohler, together with the other dedicated investment professionals available to Solar Capital Partners, evaluate, negotiate, structure, close and monitor our investments. Our future success will depend on the continued service of Messrs. Gross and Spohler and the other investment professionals available to Solar Capital Partners. We cannot assure you that unforeseen business, medical, personal or other circumstances would not lead any such individual to terminate his relationship with us. The loss of Mr. Gross or Mr. Spohler, or any of the other senior investment professionals who serve on Solar Capital Partners' investment team, could have a material adverse effect on our ability to achieve our investment objective as well as on our financial condition and results of operations. In addition, we can offer no assurance that Solar Capital Partners will remain our investment adviser.

The senior investment professionals of Solar Capital Partners are and may in the future become affiliated with entities engaged in business activities similar to those intended to be conducted by us, and may have conflicts of interest in allocating their time. We expect that Messrs. Gross and Spohler will dedicate a significant portion of their time to the activities of Solar Senior Capital; however, they may be engaged in other business activities which could divert their time and attention in the future. Specifically, each of Messrs. Gross and Spohler serve as chief executive officer and chief operating officer, respectively, of Solar Capital Ltd.

[Table of Contents](#)

Our business model depends to a significant extent upon strong referral relationships with financial sponsors, and the inability of the senior investment professionals of our investment adviser to maintain or develop these relationships, or the failure of these relationships to generate investment opportunities, could adversely affect our business.

We expect that the principals of our investment adviser will maintain and develop their relationships with financial sponsors, and we will rely to a significant extent upon these relationships to provide us with potential investment opportunities. If the senior investment professionals of our investment adviser fail to maintain their existing relationships or to develop new relationships with other sponsors or sources of investment opportunities, we will not be able to grow our investment portfolio. In addition, individuals with whom the senior investment professionals of our investment adviser have relationships are not obligated to provide us with investment opportunities, and, therefore, there is no assurance that such relationships will generate investment opportunities for us. If our investment adviser is unable to source investment opportunities, we may hold a greater percentage of our assets in cash than anticipated, which could impact potential returns on our portfolio.

A disruption in the capital markets and the credit markets could negatively affect our business.

As a BDC, we have to maintain our ability to raise additional capital for investment purposes. Without sufficient access to the capital markets or credit markets, we may be forced to curtail our business operations or we may not be able to pursue new business opportunities. Disruptive conditions in the financial industry and the impact of new legislation in response to those conditions could restrict our business operations and could adversely impact our results of operations and financial condition.

If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratios imposed upon us by the 1940 Act and the Credit Facility. Any such failure could result in an event of default and all of our debt being declared immediately due and payable and would affect our ability to issue senior securities, including borrowings, and pay distributions, which could materially impair our business operations. Our liquidity could be impaired further by an inability to access the capital markets or to draw on the Credit Facility. For example, we cannot be certain that we will be able to renew the Credit Facility as it matures or to consummate new borrowing facilities to provide capital for normal operations, including new originations. Reflecting concern about the stability of the financial markets, many lenders and institutional investors have reduced or ceased providing funding to borrowers. This market turmoil and tightening of credit have led to increased market volatility and widespread reduction of business activity generally.

If we are unable to renew or replace the Credit Facility and consummate new facilities on commercially reasonable terms, our liquidity will be reduced significantly. If we consummate new facilities but are then unable to repay amounts outstanding under such facilities, and are declared in default or are unable to renew or refinance these facilities, we would not be able to initiate significant originations or to operate our business in the normal course. These situations may arise due to circumstances that we may be unable to control, such as inaccessibility to the credit markets, a severe decline in the value of the U.S. dollar, a further economic downturn or an operational problem that affects third parties or us, and could materially damage our business. Moreover, we are unable to predict when economic and market conditions may become more favorable. Even if such conditions improve broadly and significantly over the long term, adverse conditions in particular sectors of the financial markets could adversely impact our business.

Our financial condition and results of operations will depend on our ability to manage future growth effectively.

Our ability to achieve our investment objective and to grow depends on Solar Capital Partners' ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Solar Capital Partners' structuring of the investment process, its ability to provide competent, attentive and efficient services to us and its ability to

[Table of Contents](#)

access financing for us on acceptable terms. The investment team of Solar Capital Partners has substantial responsibilities under the Investment Advisory and Management Agreement, and they may also be called upon to provide managerial assistance to our portfolio companies as the principals of our administrator. In addition, the members of Solar Capital Partners' investment team have similar responsibilities with respect to the management of Solar Capital's investment portfolio. Such demands on their time may distract them or slow our rate of investment. In order to grow, we and Solar Capital Partners will need to retain, train, supervise and manage new investment professionals. However, we can offer no assurance that any such investment professionals will contribute effectively to the work of the investment adviser. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

We may need to raise additional capital to grow because we must distribute most of our income.

We may need additional capital to fund growth in our investments. We expect to issue equity securities and expect to borrow from financial institutions in the future. A reduction in the availability of new capital could limit our ability to grow. We must distribute at least 90% of our investment company taxable income to our stockholders to maintain our regulated investment company status. As a result, any such cash earnings may not be available to fund investment originations. We expect to borrow from financial institutions and issue additional debt and equity securities. If we fail to obtain funds from such sources or from other sources to fund our investments, it could limit our ability to grow, which may have an adverse effect on the value of our securities. In addition, as a BDC, our ability to borrow or issue preferred stock may be restricted if our total assets are less than 200% of our total borrowings and preferred stock.

Any failure on our part to maintain our status as a BDC would reduce our operating flexibility and we may be limited in our investment choices as a BDC.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly-traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a BDC. If we decide to withdraw our election, or if we otherwise fail to qualify, or maintain our qualification, as a BDC, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business.

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as "senior securities," up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we are permitted, as a BDC, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would

[Table of Contents](#)

not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss.

As of December 31, 2014, we had \$143.2 million outstanding under the Credit Facility. If we issue preferred stock, the preferred stock would rank “senior” to common stock in our capital structure, preferred stockholders would generally vote together with common stockholders but would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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

At our 2014 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on May 6, 2014 and expiring on the earlier of the one-year anniversary of the date of the 2014 Annual Stockholders Meeting and the date of our 2015 Annual Stockholders Meeting, which is expected to be held in June 2015. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock at a price below our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval.

Our stockholders may experience dilution in their ownership percentage if they do not participate in our dividend reinvestment plan.

All distributions declared in cash payable to stockholders that are participants in our dividend reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the distribution payable to a stockholder.

[Table of Contents](#)

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

The use of leverage magnifies the potential for loss on amounts invested and, therefore, increases the risks associated with investing in our securities. As of December 31, 2014, we had \$143.2 million outstanding under the Credit Facility. We may borrow from and/or issue senior debt securities to banks, insurance companies and other lenders in the future. Lenders of these senior securities, including the Credit Facility, will have fixed dollar claims on our assets that are superior to the claims of our common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make distribution payments on our common stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, as the management fee payable to our investment adviser, Solar Capital Partners, will be payable based on our gross assets, including those assets acquired through the use of leverage, Solar Capital Partners will have a financial incentive to incur leverage which may not be consistent with our stockholders' interests. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to Solar Capital Partners.

As a BDC, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. Additionally, the Credit Facility requires us to comply with certain financial and other restriction covenants, including maintaining an asset coverage ratio of at least 200% at any time. Failure to maintain compliance with these covenants could result in an event of default and all of our debt being declared immediately due and payable. If this ratio declines below 200%, we may not be able to incur additional debt and could be required by law to sell a portion of our investments to repay some debt when it is disadvantageous to do so, which could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

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

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

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

	Assumed total return (net of interest expense)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholder(1)	(20.4)%	(11.0)%	(1.5)%	7.9%	17.4%

(1) Assumes \$384.8 million in total assets and \$143.2 million in total debt outstanding, which reflects our total assets and total debt outstanding as of December 31, 2014, and a cost of funds of 2.18%. Excludes non-leverage related expenses.

[Table of Contents](#)

It is likely that the terms of any current or future long-term or revolving credit or warehouse facility we may enter into in the future could constrain our ability to grow our business.

Under our borrowings and the Credit Facility, current lenders have, and any future lender or lenders may have, fixed dollar claims on our assets that are senior to the claims of our stockholders and, thus, will have a preference over our stockholders with respect to our assets in the collateral pool. The Credit Facility and borrowings also subject us to various financial and operating covenants, including, but not limited to, maintaining certain financial ratios and minimum tangible net worth amounts. Future credit facilities and borrowings will likely subject us to similar or additional covenants. In addition, we may grant a securities interest in our assets in connection with any such credit facilities and borrowings.

The Credit Facility contains customary default provisions such as a minimum net worth amount, a profitability test, and a restriction on changing our business and loan quality standards. In addition, the Credit Facility requires the repayment of all outstanding debt on the maturity which may disrupt our business and potentially the business of our portfolio companies that are financed through the credit facility. An event of default under the Credit Facility would likely result, among other things, in termination of the availability of further funds under the Credit Facility and accelerated maturity dates for all amounts outstanding under the Credit Facility, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through the Credit Facility. This could reduce our revenues and, by delaying any cash payment allowed to us under our the Credit Facility until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain our status as a RIC.

The terms of future available financing may place limits on our financial and operation flexibility. If we are unable to obtain sufficient capital in the future, we may be forced to reduce or discontinue our operations, not be able to make new investments, or otherwise respond to changing business conditions or competitive pressures.

To the extent we use debt or preferred stock to finance our investments, changes in interest rates will affect our cost of capital and net investment income.

To the extent we borrow money, or issue preferred stock, to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds or pay distributions on preferred stock and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, except to the extent we issue fixed rate debt or preferred stock, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

You should also be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates may make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to our pre-incentive fee net investment income.

We may in the future determine to fund a portion of our investments with preferred stock, which would magnify the potential for loss and the risks of investing in us in the same way as our borrowings.

Preferred stock, which is another form of leverage, has the same risks to our common stockholders as borrowings because the distributions on any preferred stock we issue must be cumulative. Payment of such distributions and repayment of the liquidation preference of such preferred stock must take preference over any distributions or other payments to our common stockholders, and preferred stockholders are not subject to any of our expenses or losses and are not entitled to participate in any income or appreciation in excess of their stated preference.

[Table of Contents](#)

If we issue preferred stock, the holders of our common stock may pay higher fees to the extent the proceeds are not used to repay outstanding indebtedness and the common stockholders will have less voting power.

In the event that we decide to issue preferred stock, the holders of our common stock may pay higher fees to the extent the proceeds are not used to repay outstanding indebtedness because they will bear all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher investment advisory fees if our total return exceeds the distribution rate on the preferred stock. The common stockholders will have less voting power if we issue preferred stock because such stock could convey special rights and privileges to its owners. For example, the 1940 Act provides that certain matters require the separate vote of the holders of any issued and outstanding preferred stock and that preferred stockholders are entitled to vote separately from holders of common stock to elect two preferred stock directors.

Pending legislation may allow us to incur additional leverage.

As a business development company, under the 1940 Act generally we are not permitted to incur indebtedness unless immediately after such borrowing we have an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). Recent legislation introduced in Congress, if passed, would modify this section of the 1940 Act and increase the amount of debt that business development companies may incur by modifying the percentage from 200% to 150%. As a result, we may be able to incur additional indebtedness in the future and therefore your risk of an investment in us may increase.

Our quarterly and annual operating results are subject to fluctuation as a result of the nature of our business, and if we fail to achieve our investment objective, the net asset value of our common stock may decline.

We could experience fluctuations in our quarterly and annual operating results due to a number of factors, some of which are beyond our control, including, but not limited to, the interest rate payable on the debt securities that we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, changes in our portfolio composition, the degree to which we encounter competition in our markets, market volatility in our publicly traded securities and the securities of our portfolio companies, and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods. In addition, any of these factors could negatively impact our ability to achieve our investment objectives, which may cause our net asset value of our common stock to decline.

Our investments may be in portfolio companies which may have limited operating histories and financial resources.

Our portfolio companies compete with larger, more established companies with greater access to, and resources for, further development in new technologies. We also expect that our portfolio will continue to consist of investments that may have relatively limited operating histories. These companies may be particularly vulnerable to U.S. and foreign economic downturns such as the current recession and European financial crisis, may have more limited access to capital and higher funding costs, may have a weaker financial position and may need more capital to expand or compete. These businesses also may experience substantial variations in operating results. They may face intense competition, including from companies with greater financial, technical and marketing resources. Furthermore, some of these companies do business in regulated industries and could be affected by changes in government regulation. Accordingly, these factors could impair their cash flow or result in other events, such as bankruptcy, which could limit their ability to repay their obligations to us, and may adversely affect the return on, or the recovery of, our investment in these companies. We cannot assure you that any of our investments in our portfolio companies will be successful. Therefore, we may lose our entire investment in any or all of our portfolio companies.

[Table of Contents](#)

There will be uncertainty as to the value of our portfolio investments.

A large percentage of our portfolio investments are in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these securities and the Credit Facility on a quarterly basis in accordance with our valuation policy, which is at all times consistent with GAAP. Our board of directors utilizes the services of third-party valuation firms to aid it in determining the fair value of these securities and the Credit Facility. The board of directors discusses valuations and determines the fair value in good faith based on the input of our investment adviser and the respective third-party valuation firms. The factors that may be considered in fair value pricing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

Our equity ownership in a portfolio company may represent a control investment. Our ability to exit an investment in a timely manner because we are in a control position or have access to inside information in the portfolio company could result in a realized loss on the investment.

If we obtain a control investment in a portfolio company our ability to divest ourselves from a debt or equity investment could be restricted due to illiquidity in a private stock, limited trading volume on a public company's stock, inside information on a company's performance, insider blackout periods, or other factors that could prohibit us from disposing of the investment as we would if it were not a control investment. Additionally, we may choose not to take certain actions to protect a debt investment in a control investment portfolio company. As a result, we could experience a decrease in the value of our portfolio company holdings and potentially incur a realized loss on the investment.

There are significant potential conflicts of interest, including Solar Capital Partners' management of Solar Capital, which could impact our investment returns; you will not be purchasing an investment in Solar Capital.

Our executive officers and directors, as well as the current and future partners of our investment adviser, Solar Capital Partners, may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Currently, the executive officers and directors, as well as the current partners of our investment adviser, Solar Capital Partners, serve as officers and directors of Solar Capital, a publicly-traded BDC. Accordingly, they may have obligations to investors in those entities, including to investors of Solar Capital, the fulfillment of which obligations might not be in the best interests of us or our stockholders. In addition, we note that any affiliate currently existing, or formed in the future, and managed by our investment adviser or any of its affiliates may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, Solar Capital Partners may face conflicts in allocating investment opportunities between us and such other entities. Although Solar Capital Partners will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by our investment adviser or an investment manager affiliated with our investment adviser. In any such case, when Solar Capital Partners identifies an investment, it will be forced to choose which investment fund should make the investment.

We may co-invest on a concurrent basis with Solar Capital, and any other affiliates that our investment adviser has or forms in the future, subject to compliance with applicable regulations, any exemptive order

[Table of Contents](#)

received and our allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. There can be no assurance that any other such order will be obtained.

In the course of our investing activities, we pay management and incentive fees to Solar Capital Partners and reimburse Solar Capital Partners for certain expenses it incurs. As a result, investors in our common stock will invest on a “gross” basis and receive distributions on a “net” basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of Solar Capital Partners has interests that differ from those of our stockholders, giving rise to a conflict.

We have entered into a royalty-free license agreement with our investment adviser, pursuant to which our investment adviser has granted us a non-exclusive license to use the name “Solar Senior Capital.” Under the License Agreement, we have the right to use the “Solar Senior Capital” name for so long as Solar Capital Partners or one of its affiliates remains our investment adviser. In addition, we pay Solar Capital Management, an affiliate of Solar Capital Partners, 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 compensation of our chief financial officer and any administrative support staff. These arrangements create conflicts of interest that our board of directors must monitor.

We may be obligated to pay our investment adviser incentive compensation even if we incur a loss.

Our investment adviser will be entitled to incentive compensation for each fiscal quarter in an amount equal to a percentage of the excess of our pre-incentive fee net investment income for that quarter (before deducting incentive compensation) above a performance threshold for that quarter. Accordingly, since the performance threshold is based on a percentage of our net asset value, decreases in our net asset value make it easier to achieve the performance threshold. Our pre-incentive fee net investment income for incentive compensation purposes excludes realized and unrealized capital losses or depreciation that we may incur in the fiscal quarter, even if such capital losses or depreciation result in a net loss on our statement of operations for that quarter. Thus, we may be required to pay Solar Capital Partners incentive compensation for a fiscal quarter even if there is a decline in the value of our portfolio or we incur a net loss for that quarter.

Our incentive fee may induce Solar Capital Partners to pursue speculative investments.

The incentive fee payable by us to Solar Capital Partners may create an incentive for Solar Capital Partners to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our investment adviser is calculated based on a percentage of our return on invested capital. This may encourage our investment adviser to use leverage to increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of our common stock. In addition, our investment adviser receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, our investment adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to our investment adviser also may induce Solar Capital Partners to invest on our behalf in instruments that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our shareholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment

[Table of Contents](#)

until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not received in cash. In addition, the “catch-up” portion of the incentive fee may encourage Solar Capital Partners to accelerate or defer interest payable by portfolio companies from one calendar quarter to another, potentially resulting in fluctuations in timing and distribution amounts.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company’s expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Solar Capital Partners with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our stockholders will bear his or her share of the management and incentive fee of Solar Capital Partners as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

We may become subject to corporate-level U.S. federal income tax if we are unable to qualify and maintain our qualification as a regulated investment company under Subchapter M of the Code.

Although we have elected to be treated as a RIC under Subchapter M of the Code, no assurance can be given that we will continue to be able to qualify for and maintain RIC status. To obtain and maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements.

- The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we will be subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level U.S. federal income tax.
- The income source requirement will be satisfied if we obtain at least 90% of our income for each year from distributions, interest, gains from the sale of stock or securities or similar sources.
- The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet those requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for RIC tax treatment for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions. Such a failure would have a material adverse effect on us, the net asset value of our common stock and the total return, if any, obtainable from your investment in our common stock. Any net operating losses that we incur in periods during which we qualify as a RIC will not offset net capital gains (i.e., net realized long-term capital gains in excess of net realized short-term capital losses) that we are otherwise required to distribute, and we cannot pass such net operating losses through to our stockholders. In addition, net operating losses that we carry over to a taxable year in which we qualify as a RIC normally cannot offset ordinary income or capital gains.

[Table of Contents](#)

We may have difficulty satisfying the annual distribution requirement in order to qualify and maintain RIC status if we recognize income before or without receiving cash representing such income.

In accordance with generally accepted accounting principles and tax requirements, we include in income certain amounts that we have not received in cash, such as contractual PIK interest, which represents contractual interest added to a loan balance and due at the end of such loan's term. In addition to the cash yields received on our loans, in some instances, certain loans may also include any of the following: end-of-term payments, exit fees, balloon payment fees or prepayment fees. The increases in loan balances as a result of contractual PIK arrangements are included in income for the period in which such payment-in-kind interest was accrued, which is often in advance of receiving cash payment, and are separately identified on our statements of cash flows. We also may be required to include in income certain other amounts prior to receiving the related cash.

Any warrants that we receive in connection with our debt investments will generally be valued as part of the negotiation process with the particular portfolio company. As a result, a portion of the aggregate purchase price for the debt investments and warrants will be allocated to the warrants that we receive. This will generally result in "original issue discount" for tax purposes, which we must recognize as ordinary income, increasing the amount that we are required to distribute to qualify for the U.S. federal income tax benefits applicable to RICs. Because these warrants generally will not produce distributable cash for us at the same time as we are required to make distributions in respect of the related original issue discount, we would need to obtain cash from other sources or to pay a portion of our distributions using shares of newly issued common stock, consistent with Internal Revenue Service requirements, to satisfy such distribution requirements.

Other features of the debt instruments that we hold may also cause such instruments to generate an original issue discount, resulting in a distribution requirement in excess of current cash interest received. Since in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty meeting the RIC tax requirement to distribute at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Under such circumstances, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investment originations to meet these distribution requirements. If we are unable to obtain cash from other sources and are otherwise unable to satisfy such distribution requirements, we may fail to qualify for the U.S. federal income tax benefits allowable to RICs and, thus, become subject to a corporate-level U.S. federal income tax on all our income.

The higher yields and interest rates on PIK securities reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Adviser based on non-cash accruals that ultimately may not be realized, but the Adviser will be under no obligation to reimburse the Company for these fees.

Our board of directors is authorized to reclassify any unissued shares of common stock into one or more classes of preferred stock, which could convey special rights and privileges to its owners.

Under the Maryland General Corporation Law and our charter, our board of directors is authorized to classify and reclassify any authorized but unissued shares of stock into one or more classes of stock, including preferred stock. Prior to issuance of shares of each class or series, the board of directors is required by Maryland law and our charter to set the preferences, conversion or other rights, voting powers, restrictions, limitations as to other distributions, qualifications and terms or conditions of redemption for each class or series. Thus, the board

[Table of Contents](#)

of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of delaying, deferring or preventing a transaction or a change in control that might involve a premium price for holders of our common stock or otherwise be in their best interest. The cost of any such reclassification would be borne by our existing common stockholders. Certain matters under the 1940 Act require the separate vote of the holders of any issued and outstanding preferred stock. For example, holders of preferred stock would vote separately from the holders of common stock on a proposal to cease operations as a BDC. In addition, the 1940 Act provides that holders of preferred stock are entitled to vote separately from holders of common stock to elect two preferred stock directors. The issuance of shares of preferred stock convertible into shares of common stock might also reduce the net income and net asset value per share of our common stock upon conversion, provided, that we will only be permitted to issue such convertible preferred stock to the extent we comply with the requirements of Section 61 of the 1940 Act, including obtaining common stockholder approval. These effects, among others, could have an adverse effect on your investment in our common stock.

Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.

The Maryland General Corporation Law and our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of Solar Senior Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Maryland Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board of directors does not approve a business combination, the Maryland Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act, the Maryland Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such a transaction. However, we will amend our bylaws to be subject to the Maryland Control Share Act only if our board of directors determines that it would be in our best interests and if the SEC staff does not object to our determination that our being subject to the Maryland Control Share Act does not conflict with the 1940 Act. The SEC staff has issued informal guidance setting forth its position that certain provisions of the Maryland Control Share Act would, if implemented, violate Section 18(i) of the 1940 Act.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock and , to amend our charter without stockholder approval to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

The foregoing provisions are expected to discourage certain coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of us to negotiate first with our board of directors. However, these provisions may deprive a shareholder of the opportunity to sell such shareholder's shares at a premium to a potential acquirer. We believe that the benefits of these provisions outweigh the potential disadvantages of discouraging any such acquisition proposals because, among other things, the negotiation of such proposals may improve their terms. Our board of directors has considered both the positive and negative effects of the foregoing provisions and determined that they are in the best interest of our shareholders.

[Table of Contents](#)

The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning or a support failure from external providers during a disaster could impair our ability to conduct business effectively.

The occurrence of a disaster such as a cyber attack, a natural catastrophe, an industrial accident, a terrorist attack or war, events unanticipated in our disaster recovery systems, or a support failure from external providers, could have an adverse effect on our ability to conduct business and on our results of operations and financial condition, particularly if those events affect our computer-based data processing, transmission, storage, and retrieval systems or destroy data. If a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems could be subject to cyber attacks and unauthorized access, such as physical and electronic break-ins or unauthorized tampering. Like other global companies, we may experience threats to our data and systems, including malware and computer virus attacks, unauthorized access, system failures and disruptions. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our operations, which could result in damage to our reputation, financial losses, litigation, increased costs, regulatory penalties and/or customer dissatisfaction or loss.

We can be highly dependent on information systems and systems failures could significantly disrupt our business, which may, in turn, negatively affect the market price of our common stock and our ability to pay distributions.

Our business is highly dependent on our and third parties' communications and information systems. Any failure or interruption of those systems, including as a result of the termination of an agreement with any third-party service providers, could cause delays or other problems in our activities. Our financial, accounting, data processing, backup or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control and adversely affect our business. There could be:

- sudden electrical or telecommunications outages;
- natural disasters such as earthquakes, tornadoes and hurricanes;
- disease pandemics;
- events arising from local or larger scale political or social matters, including terrorist acts; and
- cyber attacks.

These events, in turn, could have a material adverse effect on our operating results and negatively affect the market price of our common stock and our ability to pay distributions to our stockholders.

Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

[Table of Contents](#)

Our business is subject to increasingly complex corporate governance, public disclosure and accounting requirements that could adversely affect our business and financial results.

We are subject to changing rules and regulations of federal and state government as well as the stock exchange on which our common stock is listed. These entities, including the Public Company Accounting Oversight Board, the SEC and the NASDAQ Stock Market, have issued a significant number of new and increasingly complex requirements and regulations over the course of the last several years and continue to develop additional regulations and requirements in response to laws enacted by Congress. On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, was enacted. There are significant corporate governance-related provisions in the Dodd-Frank Act, and the SEC has adopted additional rules and regulations that may impact us. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities.

Changes in laws or regulations governing our operations may adversely affect our business.

Changes in the laws or regulations, or the interpretations of the laws and regulations, which govern business development companies, RICs or non-depository commercial lenders could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures, and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, then we may have to incur significant expenses in order to comply or we may have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, then we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business results of operations or financial condition.

Our investment adviser can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.

Our investment adviser has the right, under the Investment Advisory and Management Agreement, to resign at any time on 60 days' written notice, whether we have found a replacement or not. If our investment adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single institution or group of executives having the expertise possessed by our investment adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive offices are located at 500 Park Avenue, New York, New York 10022, and are provided by Solar Capital Management in accordance with the terms of the Administration Agreement. We believe that our office facilities are suitable and adequate for our business as it is presently conducted.

[Table of Contents](#)

Item 3. Legal Proceedings

We and our subsidiaries are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or our subsidiaries. From time to time, we and our subsidiaries may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock is traded on the NASDAQ Global Select Market under the symbol “SUNS”. The following table sets forth, for each fiscal quarter during the last two fiscal years, the net asset value (“NAV”) per share of our common stock, the high and low closing sale prices for our common stock, such sale prices as a percentage of NAV per share and quarterly distributions per share.

	<u>Price Range</u>			<u>Premium or (Discount) of High Closing Sale Price to NAV(2)</u>	<u>Premium or (Discount) of Low Closing Sale Price to NAV(2)</u>	<u>Declared Dividends(3)</u>
	<u>NAV(1)</u>	<u>High</u>	<u>Low</u>			
Fiscal 2014						
Fourth Quarter	\$17.65	\$15.68	\$14.63	(11.2)%	(17.1)%	\$ 0.3525
Third Quarter	17.65	17.10	15.39	(3.1)	(12.8)	0.3525
Second Quarter	17.85	17.65	16.29	(1.1)	(8.7)	0.3525
First Quarter	18.04	18.63	17.11	3.3	(5.2)	0.3525
Fiscal 2013						
Fourth Quarter	\$18.04	\$18.87	\$17.73	4.6%	(1.7)%	\$ 0.3525
Third Quarter	17.91	19.30	17.68	7.8	(1.3)	0.3525
Second Quarter	18.03	19.37	17.98	7.4	(0.3)	0.3525
First Quarter	18.25	19.45	18.55	6.6	1.6	0.3525

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
- (2) Calculated as the respective high or low closing sales price divided by NAV and subtracting 1.
- (3) Represents the cash dividends and distributions declared for the specified quarter.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since our initial public offering on February 24, 2011, our shares of common stock have traded at both a discount and a premium to the net assets attributable to those shares.

The last reported closing market price of our common stock on February 20, 2015 was \$15.73 per share. As of February 20, 2015, we had 4 shareholders of record.

DISTRIBUTIONS

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

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

[Table of Contents](#)

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

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

With respect to the distributions to stockholders, income from origination, structuring, closing and certain other upfront fees associated with investments in portfolio companies are treated as taxable income and accordingly, distributed to stockholders.

We cannot assure stockholders that they will receive any distributions at a particular level.

All distributions declared in cash payable to stockholders that are participants in our dividend reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive distributions in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the distribution payable to a stockholder.

[Table of Contents](#)

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

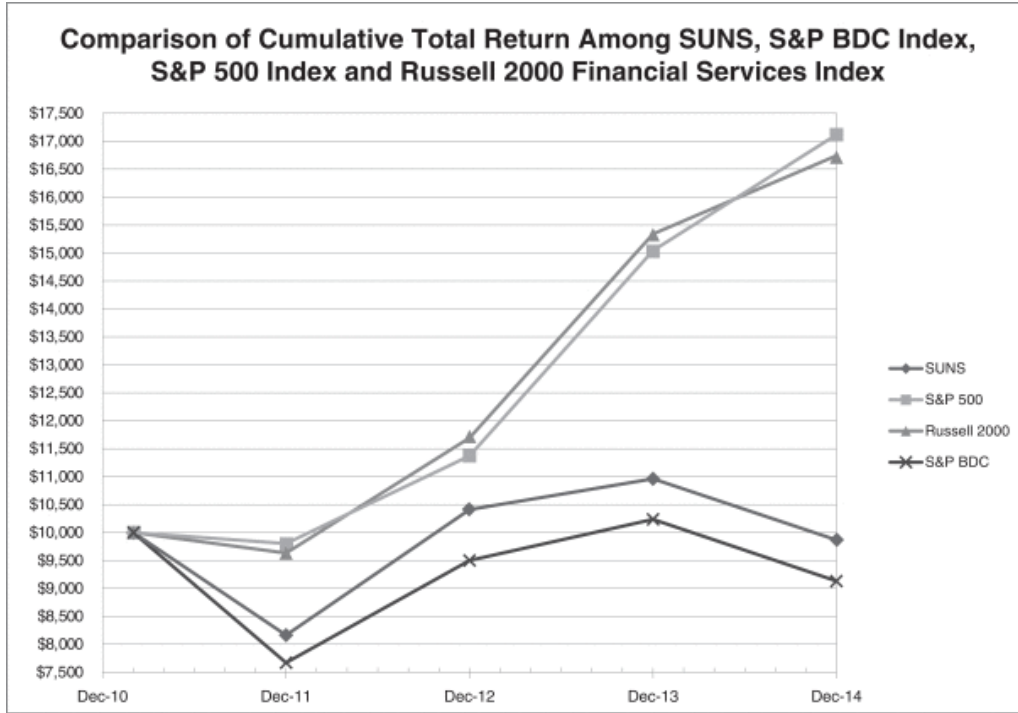
<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
Fiscal 2015			
February 25, 2015	March 19, 2015	April 2, 2015	\$ 0.1175
February 3, 2015	February 19, 2015	February 27, 2015	0.1175
January 8, 2015	January 22, 2015	January 30, 2015	0.1175
<i>YTD Total (2015)</i>			<u>\$ 0.3525</u>
Fiscal 2014			
December 4, 2014	December 18, 2014	January 5, 2015	\$ 0.1175
November 4, 2014	November 20, 2014	December 2, 2014	0.1175
October 8, 2014	October 23, 2014	October 31, 2014	0.1175
September 9, 2014	September 25, 2014	October 2, 2014	0.1175
August 4, 2014	August 21, 2014	September 3, 2014	0.1175
July 9, 2014	July 24, 2014	August 1, 2014	0.1175
June 6, 2014	June 19, 2014	July 1, 2014	0.1175
May 5, 2014	May 22, 2014	May 30, 2014	0.1175
April 8, 2014	April 24, 2014	May 1, 2014	0.1175
February 25, 2014	March 20, 2014	April 1, 2014	0.1175
February 6, 2014	February 20, 2014	February 28, 2014	0.1175
January 9, 2014	January 23, 2014	January 31, 2014	0.1175
<i>Total (2014)</i>			<u>\$ 1.41</u>
Fiscal 2013			
December 5, 2013	December 19, 2013	January 3, 2014	\$ 0.1175
October 30, 2013	November 21, 2013	December 3, 2013	0.1175
October 8, 2013	October 24, 2013	November 1, 2013	0.1175
September 5, 2013	September 19, 2013	October 2, 2013	0.1175
July 31, 2013	August 22, 2013	September 4, 2013	0.1175
July 9, 2013	July 25, 2013	August 1, 2013	0.1175
June 5, 2013	June 20, 2013	July 2, 2013	0.1175
May 7, 2013	May 23, 2013	June 3, 2013	0.1175
April 8, 2013	April 25, 2013	May 1, 2013	0.1175
February 25, 2013	March 21, 2013	April 2, 2013	0.1175
February 5, 2013	February 21, 2013	March 1, 2013	0.1175
January 8, 2013	January 24, 2013	February 1, 2013	0.1175
<i>Total (2013)</i>			<u>\$ 1.41</u>

Recent Sales of Unregistered Securities

There have been no sales of unregistered securities during the past three fiscal years.

STOCK PERFORMANCE GRAPH

This graph compares the return on our common stock with that of the Standard & Poor's BDC Index, Standard & Poor's 500 Stock Index and the Russell 2000 Financial Services Index, for the period from February 24, 2011 (the date that shares of our common stock began trading on the NASDAQ Global Select Market) through December 31, 2014. The graph assumes that a person invested \$10,000 in each of the following: our common stock (SUNS), the S&P BDC Index, the S&P 500 Index, and the Russell 2000 Financial Services Index. The graph measures total stockholder return, which takes into account both changes in stock price and dividends. It assumes that dividends paid are invested in like securities.



The graph and other information furnished under this Part II Item 5 of this Form 10-K shall not be deemed to be “soliciting material” or to be “filed” with the SEC or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the 1934 Act. The stock price performance included in the above graph is not necessarily indicative of future stock price performance.

[Table of Contents](#)

Item 6. Selected Financial Data

The selected financial and other data below should be read in conjunction with our “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and notes thereto. Financial information is presented for the fiscal years ended December 31, 2014, 2013 and 2012 as well as for the period from January 28, 2011 (commencement of operations) through December 31, 2011. Financial information has been derived from our consolidated financial statements that were audited by KPMG LLP (“KPMG”), an independent registered public accounting firm.

(\$ in thousands, except per share data)	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	Period from January 28, 2011 ⁽¹⁾ to December 31, 2011
Income statement data:				
Total investment income	\$ 22,104	\$ 19,765	\$ 20,539	\$ 7,890
Net expenses	\$ 8,290	\$ 6,378	\$ 8,046	\$ 5,290
Net investment income	\$ 13,814	\$ 13,387	\$ 12,493	\$ 2,600
Net realized gain (loss)	\$ (638)	\$ (4,978)	\$ 618	\$ (576)
Net change in unrealized gain (loss).	\$ (1,486)	\$ 4,209	\$ 801	\$ (2,274)
Net increase (decrease) in net assets resulting from operations	\$ 11,690	\$ 12,618	\$ 13,912	\$ (250)
Per share data:				
Net investment income ⁽⁴⁾	\$ 1.20	\$ 1.17	\$ 1.32	\$ 0.30
Net realized and unrealized gain (loss) ⁽⁴⁾	\$ (0.18)	\$ (0.07)	\$ 0.15	\$ (0.33)
Dividends and distributions declared	\$ 1.41	\$ 1.41	\$ 1.29	\$ 0.55
Balance sheet data:				
Total investment portfolio	\$ 340,466	\$ 267,852	\$ 212,602	\$ 177,749
Cash and cash equivalents	\$ 42,471	\$ 2,774	\$ 2,647	\$ 2,934
Total assets	\$ 384,797	\$ 272,561	\$ 217,029	\$ 187,395
Debt	\$ 143,200	\$ 61,400	\$ 39,100	\$ 8,600
Net assets	\$ 203,519	\$ 208,017	\$ 174,103	\$ 172,435
Per share data:				
Net asset value per share	\$ 17.65	\$ 18.04	\$ 18.33	\$ 18.15
Other data (unaudited):				
Weighted average annualized yield on income producing investments:				
On fair value ⁽²⁾	7.0%	7.5%	7.8%	8.5%
On cost ⁽³⁾	7.1%	7.8%	7.7%	8.4%
Number of portfolio companies at period end	43	36	31	21

- (1) Commencement of operations
- (2) Throughout this document, the weighted average yield on income producing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities divided by (b) total income producing investments at fair value. The weighted average yield is computed as of the balance sheet date and excludes assets on non-accrual status or on a cost recovery basis as of such date.
- (3) For this calculation, the weighted average yield on income producing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities divided by (b) total income producing investments at cost. The weighted average yield is computed as of the balance sheet date and excludes assets on non-accrual status or on a cost recovery basis as of such date.
- (4) The per-share calculations are based on weighted average shares of 11,532,985, 11,423,958, 9,500,100 and 8,627,696 for the years ended December 31, 2014, 2013, 2012 and 2011, respectively.

[Table of Contents](#)

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The information contained in this section should be read in conjunction with the Selected Financial and Other Data and 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”, or “we”), a Maryland corporation formed in December 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Furthermore, as the Company is an investment company, it continues to apply the guidance in FASB Accounting Standards Codification (“ASC”) Topic 946. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On February 24, 2011, we priced our initial public offering, selling 9.0 million shares, including the underwriters’ over-allotment, at a price of \$20.00 per share. Concurrent with this offering, management purchased an additional 500,000 shares through a concurrent private placement, also at \$20.00 per share.

[Table of Contents](#)

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 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.

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.

As of December 31, 2014, our adviser, Solar Capital Partners, LLC (the “Investment Adviser”), has invested approximately \$4.7 billion in more than 180 different portfolio companies since it was founded in 2006. Over the same period, the Investment Adviser completed transactions with more than 110 different financial sponsors.

[Table of Contents](#)

Recent Developments

On January 8, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on January 30, 2015 to holders of record as of January 22, 2015.

On February 3, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on February 27, 2015 to holders of record as of February 19, 2015.

On February 25, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on April 2, 2015 to holders of record as of March 19, 2015.

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

- investment advisory and management fees;
- expenses incurred by the Investment Adviser payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- calculation of our net asset value (including the cost and expenses of any independent valuation firm utilized);
- direct costs and expenses of administration, including independent registered public accounting and legal costs;
- costs of preparing and filing reports or other documents with the SEC;
- interest payable on debt, if any, incurred to finance our investments;

[Table of Contents](#)

- offerings of our common stock and other securities;
- registration and listing fees;
- fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;
- taxes;
- independent directors' fees and expenses;
- marketing and distribution-related expenses;
- the costs of any reports, proxy statements or other notices to stockholders, including printing and postage costs;
- our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;
- organizational costs; and
- all other expenses incurred by us or the Administrator in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

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 our fiscal year ended December 31, 2014, we invested \$216.1 million across 35 portfolio companies through a combination of primary and secondary market purchases. This compares to investing \$202.1 million in 26 portfolio companies for the previous fiscal year ended December 31, 2013. Investments sold or prepaid during the fiscal year ended December 31, 2014 totaled \$143.1 million versus \$147.9 million for the fiscal year ended December 31, 2013.

At December 31, 2014, our portfolio consisted of 43 portfolio companies and was invested 88.5% in senior secured loans, 1.1% in unsecured loans and 10.4% in common equity measured at fair value versus 36 portfolio companies invested 84.0% in senior secured loans, 2.6% in unsecured loans and 13.4% in common equity at December 31, 2013.

The weighted average yields on our income producing portfolio of investments were 7.0% and 7.5%, respectively, at December 31, 2014 and December 31, 2013 measured at fair value.

At December 31, 2014, 94.4% or \$320.6 million of our income producing investment portfolio* is floating rate and 5.6% or \$18.9 million is fixed rate, measured at fair value. At December 31, 2013, 92.8% or \$244.1 million of our income producing investment portfolio* is floating rate and 7.2% or \$19.0 million is fixed rate, measured at fair value.

Since the initial public offering of Solar Senior on February 24, 2011 and through December 31, 2014, invested capital totaled approximately \$827 million in 85 portfolio companies. Over the same period, Solar Senior completed transactions with more than 55 different financial sponsors.

* We have included Gemino Healthcare Finance, LLC as 100% floating rate within our income producing investment portfolio.

[Table of Contents](#)

Gemino Healthcare Finance, LLC

Pursuant to a definitive agreement, dated September 30, 2013, we acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) (“Gemino”) from affiliates of EDG Partners, D. E. Shaw AQ-SP Series 5-01, L.L.C. and other members of Gemino. 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 of \$32.8 million was funded from our existing Credit Facility. We have an additional \$5.0 million commitment to Gemino (which may be structured as debt or equity), conditional upon approval of the Gemino board of managers, among other conditions. The management team of Gemino committed to lead Gemino and co-invested in the transaction.

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 is expandable to \$150.0 million under its accordion feature. Effective March 31, 2014, the credit facility was expanded to \$105.0 million and again on June 27, 2014 to \$110.0 million.

On 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 common equity 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 5% of the equity in Gemino. Gemino Senior Secured Healthcare owns approximately 95% 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 December 31, 2014, the portfolio totaled approximately \$204.9 million of commitments, of which \$122.9 million were funded, on total assets of \$129.0 million. As of December 31, 2013, the portfolio totaled approximately \$170.6 million of commitments, of which \$108.6 million were funded, on total assets of \$117.1 million. At December 31, 2014, the portfolio consisted of 38 issuers with an average balance of approximately \$3.2 million versus 34 issuers with an average balance of approximately \$3.2 million at December 31, 2013. 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 \$95.0 million and \$83.0 million of borrowings outstanding at December 31, 2014 and December 31, 2013, respectively. For the years ended December 31, 2014 and December 31, 2013, Gemino had net income of \$3.0 million and \$0.2 million, respectively, on gross income of \$10.9 million and \$12.2 million, respectively. Results for the year ended December 31, 2013 include \$3.2 million of non-recurring costs related to the acquisition. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

First Lien Loan Program LLC

On September 10, 2014, the Company entered into a joint venture agreement to create a First Lien Loan Program (“FLLP”) with Voya Investment Management (“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 term loans to middle market companies predominantly owned by private equity sponsors or entrepreneurs. Solar Senior and Voya have committed to provide \$50 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). As of December 31, 2014, FLLP had not commenced operations. 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

[Table of Contents](#)

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 reinvestment period is scheduled to end on February 13, 2018 and the FLLP Facility is scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus 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.

Critical Accounting Policies

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

Valuation of Portfolio Investments

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

The Company conducts the valuation of its assets in accordance with GAAP and the 1940 Act. The Company generally values its assets on a quarterly basis, or more frequently if required. Investments for which market quotations are readily available on an exchange are valued at the closing price on the date of valuation. The Company may also obtain quotes with respect to certain of its investments from pricing services or brokers or dealers in order to value assets. When doing so, management determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the investment. If determined adequate, the Company uses the quote obtained. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of the Investment Adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of the Company’s board of directors (the “Board”).

Investments for which reliable market quotations are not readily available or for which the pricing sources do not provide a valuation or methodology or provide a valuation or methodology that, in the judgment of the Investment Adviser or the Board does not represent fair value, each shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuations are discussed with senior management of the Investment Adviser; (iii) independent valuation firms engaged by, or on behalf of, the Board will conduct independent appraisals and review the Investment Adviser’s preliminary valuations and make their own independent assessment for (a) each portfolio investment that, when taken together with all other investments in the same portfolio company, exceeds 10% of estimated total assets, plus available borrowings, as of the end of the most recently completed fiscal quarter, and (b) each portfolio investment that is presently in payment default; (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.

[Table of Contents](#)

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. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the fiscal year ended December 31, 2014, 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") Topic 820 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

Valuation of Credit Facility

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.

Revenue Recognition

The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Investments that are expected to pay regularly scheduled interest and/or dividends

[Table of Contents](#)

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

The typically higher yields and interest rates on PIK securities, to the extent we invested, reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Investment Adviser based on non-cash accruals that ultimately may not be realized, but the Investment Adviser will be under no obligation to reimburse the Company for these fees. For the year ended December 31, 2014, capitalized PIK income totaled \$0.1 million.

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

We generally measure realized gain or loss by the difference between the net proceeds from the repayment or sale and the amortized cost basis of the investment, without regard to unrealized appreciation or depreciation previously recognized, but considering unamortized origination or commitment fees and prepayment penalties. The net change in unrealized gain or loss reflects the change in portfolio investment values during the reporting period, including the reversal of previously recorded unrealized gain or loss, when gains or losses are realized.

Income Taxes

Solar Senior Capital, a U.S. corporation, has elected to be treated as a RIC under Subchapter M of the Code, as amended. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. Depending on the level of taxable income earned in a given tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year distributions, the Company accrues an estimated excise tax, if any, on estimated excess taxable income. As of December 31, 2014, the accrual for excise tax was \$0.

RESULTS OF OPERATIONS

Results comparisons are for the fiscal years ended December 31, 2014, December 31, 2013 and December 31, 2012.

Investment Income

For the fiscal years ended December 31, 2014, 2013 and 2012, gross investment income totaled \$22.1 million, \$19.8 million and \$20.5 million, respectively. The increase in gross investment income from fiscal year 2013 to fiscal year 2014 was primarily due to net growth of the income producing portfolio, including from Geminio Healthcare Finance, LLC. The modest decrease in gross investment income in fiscal year 2013 as compared to fiscal year 2012 was primarily due to portfolio yield compression, partially offset by net portfolio growth.

Expenses

Expenses totaled \$8.3 million, \$6.4 million and \$8.0 million, respectively, for the fiscal years ended December 31, 2014, 2013 and 2012, of which \$3.1 million, \$2.7 million and \$2.8 million, respectively, were management fees and net performance-based incentive fees and \$3.1 million, \$1.3 million and \$2.4 million, respectively, were interest and other credit facility expenses. For the fiscal year ended December 31, 2014, \$0.2 million of performance-based incentive fees were waived. No fees were waived in 2013 or 2012. Administrative services, insurance and other general and administrative expenses totaled \$2.1 million, \$2.4 million and \$2.8 million, respectively, for the fiscal years ended December 31, 2014, 2013 and 2012. Expenses generally consist of management fees, performance-based incentive fees, administrative services expenses, insurance, legal expenses, directors' expenses, audit and tax expenses, transfer agent fees and expenses, and other general and administrative expenses. The increase in total expenses for the year ended December 31, 2014 was primarily due to the Credit Facility amendment in June 2014, which accounted for approximately \$1.0 million in expenses as well as higher management, performance-based incentive fees and interest expense on a comparatively larger average portfolio. The decrease in expenses from fiscal 2012 to fiscal 2013 was primarily due to recognizing approximately \$1.0 million in interest costs related to our Credit Facility's amendment in November 2012 as well as from the full fiscal year 2013 benefit of the rate reduction. Additionally, insurance expenses were significantly reduced in 2013 from 2012.

Net Investment Income

The Company's net investment income totaled \$13.8 million or \$1.20 per average share, \$13.4 million or \$1.17 per average share and \$12.5 million or \$1.32 per average share, for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

Net Realized Gain (Loss)

The Company had investment sales and prepayments totaling approximately \$143.1 million, \$147.9 million and \$162.6 million, respectively, for the fiscal years ended December 31, 2014, 2013 and 2012. Net realized gain (loss) for the fiscal years ended December 31, 2014, 2013 and 2012 totaled (\$0.6) million, (\$5.0) million and \$0.6 million, respectively. Net realized loss for the fiscal year ended December 31, 2014 was primarily related to the sale of our investment in SLT Environmental. Net realized losses for fiscal 2013 were primarily related to the restructuring of our investment in Engineering Solutions & Products. Net realized gains for the fiscal year ended 2012 were primarily related to selected sales of assets such as Genesys Telecommunications, KIK Custom Products, and STHI Holdings.

Net Change in Unrealized Gain (Loss)

For the fiscal years ended December 31, 2014, 2013 and 2012, the net change in unrealized gain (loss) on the Company's assets and liabilities totaled (\$1.5) million, \$4.2 million and \$0.8 million, respectively. Net

[Table of Contents](#)

unrealized depreciation for fiscal 2014 was primarily due to a slight decline in market and fundamental conditions of certain investments. Net unrealized appreciation for fiscal 2013 was primarily attributable to the reversal of unrealized depreciation on our investment in Engineering Solutions & Products, as well as market improvements on our equity investment in Gemino Healthcare Finance LLC. Net unrealized appreciation for fiscal 2012 was primarily attributable to general market improvements, modest yield tightening and overall positive net changes in general portfolio company fundamentals.

Net Increase in Net Assets From Operations

For the fiscal years ended December 31, 2014, 2013 and 2012, the Company had a net increase in net assets resulting from operations of \$11.7 million, \$12.6 million and \$13.9 million, respectively. For the fiscal years ended December 31, 2014, 2013 and 2012, earnings per average share were \$1.01, \$1.10 and \$1.46, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital resources are generally available through its Credit Facility, through periodic follow-on equity offerings, as well as from cash flows from operations, investment sales and pre-payments of investments. At December 31, 2014, the Company had \$143.2 million in borrowings outstanding on its Credit Facility and \$31.8 million of unused capacity, subject to borrowing base limits.

On January 18, 2013, the Company closed a follow-on public equity offering of 2.0 million shares of common stock at \$18.85 per share raising approximately \$37.2 million in net proceeds. In the future, the Company may raise additional equity or debt capital, among other considerations. The primary uses of funds will be investments in portfolio companies, reductions in debt outstanding and other general corporate purposes. The issuance of debt or equity securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful.

We currently expect that our liquidity needs will be met with cash flows from operations, borrowings under our Credit Facility, including its accordion feature as well as from other available financing activities.

Cash Equivalents

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held approximately \$35 million in cash equivalents as of December 31, 2014.

Debt

Senior Secured Revolving Credit Facility – On August 26, 2011, the Company established the SUNS SPV which entered into 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 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

Table of Contents

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 February 26, 2014, the Company utilized the Credit Facility's delayed draw feature, expanding immediately available capital from \$150.0 million to \$200.0 million, 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 \$25.0 million to \$175.0 million and may be expanded up to \$600.0 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. At December 31, 2014, the Company was in compliance with all financial and operational covenants required by the Credit Facility.

Contractual Obligations

	Payments due by Period as of December 31, 2014 (dollars in millions)				
	Total	Less than	1-	3-5 years	More than
		1 year	3 years		5 years
Senior Secured Revolving Credit Facility (1)	\$143.2	\$ —	\$ —	\$143.2	\$ —

(1) At December 31, 2014, \$31.8 million remained unused.

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

Class and Year	Total Amount Outstanding (dollars in thousands) (1)	Asset Coverage Per Unit (2)	Involuntary Liquidating Preference Per Unit (3)	Average Market Value Per Unit (4)
Revolving Credit Facility				
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 \$1,000 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.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, we do not have senior securities that are registered for public trading.

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

[Table of Contents](#)

investment adviser, and the Administration Agreement, pursuant to which Solar Capital Management, LLC (the “Administrator”) has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the Investment Advisory and Management Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of the Administrator’s overhead in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate each of the investment advisory and management agreement and administration agreement without penalty upon 60 days’ written notice to the other. See note 3 to our Consolidated Financial Statements.

Off-Balance Sheet Arrangements

The Company had unfunded equity and debt commitments to various revolving and delayed draw loans, as well as to Gemini. The total amount of these unfunded commitments as of December 31, 2014 and December 31, 2013 is \$6.7 million and \$6.7 million, respectively.

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

[Table of Contents](#)**Distributions**

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

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
Fiscal 2015			
February 25, 2015	March 19, 2015	April 2, 2015	\$ 0.1175
February 3, 2015	February 19, 2015	February 27, 2015	0.1175
January 8, 2015	January 22, 2015	January 30, 2015	0.1175
YTD Total (2015)			\$ 0.3525
Fiscal 2014			
December 4, 2014	December 18, 2014	January 5, 2015	\$ 0.1175
November 4, 2014	November 20, 2014	December 2, 2014	0.1175
October 8, 2014	October 23, 2014	October 31, 2014	0.1175
September 9, 2014	September 25, 2014	October 2, 2014	0.1175
August 4, 2014	August 21, 2014	September 3, 2014	0.1175
July 9, 2014	July 24, 2014	August 1, 2014	0.1175
June 6, 2014	June 19, 2014	July 1, 2014	0.1175
May 5, 2014	May 22, 2014	May 30, 2014	0.1175
April 8, 2014	April 24, 2014	May 1, 2014	0.1175
February 25, 2014	March 20, 2014	April 1, 2014	0.1175
February 6, 2014	February 20, 2014	February 28, 2014	0.1175
January 9, 2014	January 23, 2014	January 31, 2014	0.1175
Total (2014)			\$ 1.41
Fiscal 2013			
December 5, 2013	December 19, 2013	January 3, 2014	\$ 0.1175
October 30, 2013	November 21, 2013	December 3, 2013	0.1175
October 8, 2013	October 24, 2013	November 1, 2013	0.1175
September 5, 2013	September 19, 2013	October 2, 2013	0.1175
July 31, 2013	August 22, 2013	September 4, 2013	0.1175
July 9, 2013	July 25, 2013	August 1, 2013	0.1175
June 5, 2013	June 20, 2013	July 2, 2013	0.1175
May 7, 2013	May 23, 2013	June 3, 2013	0.1175
April 8, 2013	April 25, 2013	May 1, 2013	0.1175
February 25, 2013	March 21, 2013	April 2, 2013	0.1175
February 5, 2013	February 21, 2013	March 1, 2013	0.1175
January 8, 2013	January 24, 2013	February 1, 2013	0.1175
Total (2013)			\$ 1.41

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

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

[Table of Contents](#)

capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

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

With respect to the distributions to stockholders, income from origination, structuring, closing and certain other upfront fees associated with investments in portfolio companies are treated as taxable income and accordingly, distributed to stockholders.

Related Parties

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

- We have entered into an Investment Advisory and Management Agreement with the Investment Adviser. Mr. Gross, our chairman and chief executive officer, is a managing member and a senior investment professional of, and has financial and controlling interests in, the Investment Adviser. In addition, Mr. Spohler, our chief operating officer is a partner and a senior investment professional of, and has financial interests in, the Investment Adviser.
- The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff.
- We have entered into a license agreement with the Investment Adviser, pursuant to which the Investment Adviser has granted us a non-exclusive, royalty-free license to use the name “Solar Capital.”

The Investment Adviser and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Investment Adviser presently serves as investment adviser to Solar Capital Ltd., a publicly traded BDC, which focuses on investing primarily in senior secured loans, mezzanine loans and equity securities. In addition, Michael S. Gross, our chairman and chief executive officer, Bruce Spohler, our chief operating officer, and Richard L. Peteka, our chief financial officer, serve in similar capacities for Solar Capital Ltd. The Investment Adviser and certain

[Table of Contents](#)

investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures.

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

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

We are subject to financial market risks, including changes in interest rates. During the fiscal year ended December 31, 2014, all but two of the loans in our portfolio had floating interest rates. Our loans are primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Most of our loans to portfolio companies have LIBOR floors. The Company also has a revolving credit facility that is based on floating LIBOR and commercial paper rates. Assuming no changes to our balance sheet as of December 31, 2014, a hypothetical one-quarter of one percent decrease in LIBOR on our floating rate assets and liabilities would increase our earnings by approximately two cents per average share over the next twelve months. Assuming no changes to our balance sheet as of December 31, 2014, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would decrease our earnings by approximately five cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of certain changes in interest rates with respect to our portfolio of investments.

Increase (Decrease) in LIBOR	(0.25%)	1.00%
Increase (Decrease) in Net Investment Income Per Share Per Year	\$ 0.02	\$(0.05)

[Table of Contents](#)

Item 8. Consolidated Financial Statements and Supplementary Data

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Management's Report on Internal Control over Financial Reporting	72
Report of Independent Registered Public Accounting Firm	73
Report of Independent Registered Public Accounting Firm On Internal Control Over Financial Reporting	74
Consolidated Statements of Assets & Liabilities as of December 31, 2014 and December 31, 2013	75
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	76
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2014, 2013 and 2012	77
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	78
Consolidated Schedule of Investments as of December 31, 2014 and December 31, 2013	79
Notes to Consolidated Financial Statements	85

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, and for performing an assessment of the effectiveness of internal control over financial reporting as of December 31, 2014. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of consolidated financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2014 based upon criteria in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on our assessment, management determined that the Company's internal control over financial reporting was effective as of December 31, 2014 based on the criteria on Internal Control – Integrated Framework issued by COSO.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2014 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Solar Senior Capital Ltd.:

We have audited the accompanying consolidated statements of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd. (and subsidiaries) (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the years in the three-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 2014, by correspondence with the custodian, portfolio companies or agents. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Solar Senior Capital Ltd. (and subsidiaries) as of December 31, 2014 and 2013, and the results of their operations, the changes in their net assets and cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Solar Senior Capital Ltd.'s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 25, 2015 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

New York, New York
February 25, 2015

**Report of Independent Registered Public Accounting Firm
On Internal Control Over Financial Reporting**

The Board of Directors and Shareholders
Solar Senior Capital Ltd.:

We have audited Solar Senior Capital Ltd.'s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Solar Senior Capital Ltd.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Solar Senior Capital Ltd. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of assets and liabilities, including the consolidated schedule of investments of Solar Senior Capital Ltd. (and subsidiaries) as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and cash flows for each of the years in the three-year period ended December 31, 2014, and our report dated February 25, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
New York, New York
February 25, 2015

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(in thousands, except share amounts)

	<u>December 31, 2014</u>	<u>December 31, 2013</u>
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: \$302,343 and \$227,868, respectively)	\$ 302,422	\$ 228,943
Companies 5% to 25% owned (cost: \$4,034 and \$4,409, respectively)	3,623	4,409
Companies more than 25% owned (cost: \$32,839 and \$32,839, respectively)	<u>34,421</u>	<u>34,500</u>
Total investments (cost: \$339,216 and \$265,116, respectively)	340,466	267,852
Cash and cash equivalents	42,471	2,774
Interest receivable	1,029	1,336
Dividends receivable	442	398
Prepaid expenses and other assets	<u>389</u>	<u>201</u>
Total assets	\$ 384,797	\$ 272,561
Liabilities		
Credit facility payable (see note 6 and 7)	\$ 143,200	\$ 61,400
Payable for cash equivalents purchased	35,000	—
Distributions payable	1,355	1,355
Management fee payable (see note 3)	798	703
Performance-based incentive fees payable (see note 3)	—	33
Interest payable	277	139
Administrative services expense payable (see note 3)	444	630
Other liabilities and accrued expenses	<u>204</u>	<u>284</u>
Total liabilities	\$ 181,278	\$ 64,544
Commitments and contingencies (see note 12 and 13)		
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 11,529,303 issued and outstanding, respectively	\$ 115	\$ 115
Paid-in capital in excess of par (see note 2f)	211,449	212,663
Distributions in excess of net investment income (see note 2f)	(3,529)	(2,750)
Accumulated net realized loss (see note 2f)	(5,766)	(4,747)
Net unrealized appreciation	<u>1,250</u>	<u>2,736</u>
Total net assets	\$ 203,519	\$ 208,017
Net Asset Value Per Share	\$ 17.65	\$ 18.04

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
INVESTMENT INCOME:			
Interest:			
Companies less than 5% owned	\$ 18,606	\$ 18,941	\$ 20,539
Companies 5% to 25% owned	221	41	—
Dividends:			
Companies more than 25% owned	3,277	783	—
Total investment income	<u>22,104</u>	<u>19,765</u>	<u>20,539</u>
EXPENSES:			
Management fees (see note 3)	\$ 2,875	\$ 2,575	\$ 2,216
Performance-based incentive fees (see note 3)	440	113	580
Interest and other credit facility expenses (see note 7)	3,140	1,276	2,446
Administrative services expense (see note 3)	1,069	1,174	983
Insurance expense	122	161	403
Other general and administrative expenses	871	1,079	1,418
Total expenses	<u>8,517</u>	<u>6,378</u>	<u>8,046</u>
Performance-based incentive fees waived (see note 3)	(227)	—	—
Net expenses	<u>8,290</u>	<u>6,378</u>	<u>8,046</u>
Net investment income	<u>\$ 13,814</u>	<u>\$ 13,387</u>	<u>\$ 12,493</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CASH EQUIVALENTS:			
Net realized gain (loss) on investments and cash equivalents (companies less than 5% owned)	\$ (638)	\$ (4,978)	\$ 618
Net change in unrealized gain (loss) on investments and cash equivalents	(1,486)	4,209	801
Net realized and unrealized gain (loss) on investments and cash equivalents	<u>(2,124)</u>	<u>(769)</u>	<u>1,419</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$ 11,690</u>	<u>\$ 12,618</u>	<u>\$ 13,912</u>
EARNINGS PER SHARE (see note 5)	<u>\$ 1.01</u>	<u>\$ 1.10</u>	<u>\$ 1.46</u>

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(in thousands, except shares)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Increase in net assets resulting from operations:			
Net investment income	\$ 13,814	\$ 13,387	\$ 12,493
Net realized gain (loss)	(638)	(4,978)	618
Net change in unrealized gain (loss)	(1,486)	4,209	801
Net increase in net assets resulting from operations	<u>11,690</u>	<u>12,618</u>	<u>13,912</u>
Distributions to stockholders (see note 9a):			
From net investment income	(14,842)	(13,674)	(11,830)
From net realized gains	—	—	(425)
From other sources	(1,419)	(2,565)	—
Net distributions to stockholders	<u>(16,261)</u>	<u>(16,239)</u>	<u>(12,255)</u>
Capital transactions:			
Net proceeds from shares sold	—	37,200	—
Less offering costs	—	(206)	11
Reinvestment of distributions	73	541	—
Net increase in net assets resulting from capital transactions	<u>73</u>	<u>37,535</u>	<u>11</u>
Total increase (decrease) in net assets	(4,498)	33,914	1,668
Net assets at beginning of year	<u>208,017</u>	<u>174,103</u>	<u>172,435</u>
Net assets at end of year(1)	<u>\$ 203,519</u>	<u>\$ 208,017</u>	<u>\$ 174,103</u>
Capital share activity:			
Common stock sold	—	2,000,000	—
Common stock issued from reinvestment of distributions	4,012	29,203	—
Net increase from capital share activity	<u>4,012</u>	<u>2,029,203</u>	<u>—</u>

(1) Includes undistributed (overdistributed) net investment income of (\$3,529), (\$2,750) and (\$2,247), respectively.

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
Cash Flows from Operating Activities:			
Net increase in net assets from operations	\$ 11,690	\$ 12,618	\$ 13,912
Adjustments to reconcile net increase in net assets from operations:			
Net realized (gain) loss on investments and cash equivalents	638	4,978	(618)
Net change in unrealized (gain) loss on investments and cash equivalents	1,486	(4,209)	(801)
(Increase) decrease in operating assets:			
Purchase of investments	(216,729)	(202,722)	(194,447)
Proceeds from disposition of investments	142,106	146,703	161,013
Capitalization of payment-in-kind interest	(115)	—	—
Deferred offering costs	—	—	(148)
Receivable for investments sold	—	282	4,649
Interest receivable	307	(42)	393
Dividends receivable	(44)	(398)	—
Prepaid expenses and other assets	(188)	3	38
Increase (decrease) in operating liabilities:			
Payable for investments and cash equivalents purchased	35,000	(995)	(3,917)
Management fee payable	95	122	(363)
Performance-based incentive fees payable	(33)	(51)	84
Administrative services expense payable	(186)	199	290
Interest payable	138	18	68
Other liabilities and accrued expenses	(80)	(214)	188
Net Cash Used In Operating Activities	<u>(25,915)</u>	<u>(43,708)</u>	<u>(19,659)</u>
Cash Flows from Financing Activities:			
Net proceeds from shares sold	—	37,200	—
Common stock offering costs	—	(206)	11
Cash distributions paid	(16,188)	(15,459)	(11,139)
Proceeds from borrowings	206,100	194,000	130,383
Repayments of borrowings	(124,300)	(171,700)	(99,883)
Net Cash Provided by Financing Activities	<u>65,612</u>	<u>43,835</u>	<u>19,372</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	39,697	127	(287)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,774	2,647	2,934
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 42,471</u>	<u>\$ 2,774</u>	<u>\$ 2,647</u>
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 3,002	\$ 1,258	\$ 1,417
Cash paid for income taxes	\$ —	\$ 16	\$ 99

Non-cash financing activities consist of the reinvestment of dividends of \$73, \$541 and \$0 for the fiscal years ended December 31, 2014, 2013 and 2012, respectively.

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2014
(in thousands, except share/unit amounts)

Description	Industry	Interest(1)	Basis Point Spread Above Index(3)	Maturity	Acquisition Date	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans—148.1%								
Advantage Sales and Marketing, Inc	Professional Services	7.50%	L+650	7/21/2022	2/14/2013	\$ 8,000	\$ 7,942	\$ 7,936
Aegis Toxicology Sciences Corporation	Health Care Services	9.50%	L+850	8/24/2021	2/20/2014	4,000	3,945	4,000
ALG B.V. (Apple Leisure)(2)(4)	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	2/28/2013	2,776	2,755	2,776
ALG USA Holdings, LLC (Apple Leisure)(2)	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	2/28/2013	3,679	3,652	3,679
AmeriQual Group, LLC(2)	Food Products	7.50% (6.5% Cash /1% PIK)	L+500	3/28/2016	3/28/2011	11,159	11,112	10,964
Asurion, LLC	Insurance	8.50%	L+750	3/3/2021	2/27/2014	2,500	2,466	2,492
Athletico Management, LLC and Accelerated Holdings, LLC(2)	Health Care Facilities	6.25%	L+550	12/2/2020	12/1/2014	15,000	14,852	14,850
Blue Coat Systems, Inc	Internet Software & Services	9.50%	L+850	6/28/2020	6/28/2013	4,500	4,462	4,433
Blue Ribbon, LLC (Pabst)(2)	Beverages	5.75%	L+475	11/13/2021	11/5/2014	1,500	1,485	1,495
Capstone Logistics Acquisition, Inc.(2)	Professional Services	5.50%	L+450	10/7/2021	10/3/2014	12,968	12,841	12,838
Castle Management Borrower LLC (Highgate Hotels)(2)	Real Estate Management & Development	5.50%	L+450	9/18/2020	10/10/2014	11,970	11,854	11,850
CGSC of Delaware Holdings Corp (Cooper Gay)	Insurance	8.25%	L+700	10/16/2020	4/5/2013	4,000	3,954	3,600
Confie Seguros Holding II Co.(2)	Insurance	5.75%	L+450	11/9/2018	11/9/2012	13,164	13,049	13,123
ConvergeOne Holdings Corp.(2)	Communications Equipment	6.00%	L+500	6/17/2020	6/16/2014	6,965	6,900	6,965
CT Technologies Intermediate Holdings(2)	Health Care Technology	6.00%	L+500	12/1/2021	12/1/2014	5,000	4,950	4,950
Engineering Solutions & Products, LLC(6)	Aerospace & Defense	8.00%	L+600	5/4/2018	11/5/2013	324	324	324
Engineering Solutions & Products, LLC(6)	Aerospace & Defense	8.00%	L+600	11/5/2018	11/5/2013	2,343	2,343	2,343
Epic Health Services, Inc.(2)	Health Care Services	6.50%	L+525	10/18/2018	10/21/2013	6,650	6,599	6,650
Filtration Group Corp	Industrial Conglomerates	8.25%	L+725	11/21/2021	11/15/2013	2,000	1,982	2,002
Fulton Holding Corp.(2)	Specialty Retail	8.50%	—	5/28/2018	5/10/2013	15,000	15,081	15,150
Global Tel*Link Corp	Communications Equipment	9.00%	L+775	11/23/2020	5/21/2013	3,000	2,950	2,945
Hostway Corporation(2)	Internet Software & Services	6.00%	L+475	12/13/2019	6/27/2014	9,750	9,709	9,750
Ikaria, Inc	Health Care Technology	8.75%	L+775	2/12/2022	2/4/2014	4,000	3,972	3,950
Innovative Xcessories & Services, LLC(2)	Automotive Retail	5.25%	L+425	2/21/2020	8/21/2014	7,289	7,220	7,289
IPC Systems, Inc.(2)	Communications Equipment	6.00%	L+500	11/8/2020	5/02/2014	9,950	9,858	9,950
Kellemeyer Bergensons Services, LLC (KBS)(2)	Commercial Services & Supplies	6.00%	L+500	10/29/2021	10/31/2014	7,500	7,426	7,425
KODA Distribution Group, Inc.(2)	Distributors	6.00%	L+500	4/9/2018	9/30/2013	9,712	9,684	9,664
Landslide Holdings, Inc	Software	8.25%	L+725	2/25/2021	2/25/2014	3,310	3,306	3,260
Material Handling Services, LLC (TFS)(2)	Air Freight & Logistics	5.75%	L+475	3/26/2020	3/3/2014	9,775	9,688	9,677
Metamorph US 3, LLC (Metalogix)(2)	Software	6.50%	L+550	12/1/2020	12/1/2014	15,000	14,629	14,625
Miller Heiman, Inc.(2)	Professional Services	6.75%	L+575	9/30/2019	9/30/2013	7,319	7,254	7,172
MYI Acquiror Corp. (McLarens Young)(2)	Insurance	5.75%	L+450	5/28/2019	5/21/2014	3,491	3,460	3,456
MYI Acquiror Ltd. (McLarens Young)(2)(4)	Insurance	5.75%	L+450	5/28/2019	5/21/2014	4,489	4,449	4,444
OH Acquisition, LLC (Trade Monster)(2)	Capital Markets	7.25%	L+625	8/29/2019	9/2/2014	3,990	3,971	3,990
PM Holdings III Corp. (Pro Mach Group, Inc.)(2)	Machinery	5.50%	L+450	10/22/2021	10/17/2014	9,000	8,912	8,910
QBS Holding Company, Inc. (Quorum).(2)	Software	5.75%	L+475	8/7/2021	8/1/2014	10,000	9,904	9,900
QoL Meds, LLC(2)	Health Care Services	5.50%	L+450	7/15/2020	7/14/2014	7,980	7,942	7,920
Richelieu Foods, Inc.(2)	Food Products	5.75%	L+475	5/21/2020	11/21/2014	7,000	6,897	6,895
Securus Technologies, Inc	Communications Equipment	9.00%	L+775	4/30/2021	4/17/2013	10,000	9,921	9,850
Shoes for Crews, Inc.(2)	Footwear	5.50%	L+425	3/27/2017	3/27/2012	3,526	3,523	3,526
SkinnyPop Popcorn, LLC(2)	Food Products	5.50%	L+450	7/17/2019	7/17/2014	5,000	4,954	4,950
Trident USA Health Services (2)	Health Care Services	6.50%	L+525	7/31/2019	7/29/2013	8,993	8,924	8,858
Varsity Brands Holdings Co., Inc.(2)	Diversified Consumer Services	6.00%	L+500	12/11/2021	12/10/2014	6,500	6,435	6,504
WNA Holdings, Inc. (Waddington)	Containers & Packaging	8.50%	L+725	12/7/2020	5/24/2013	4,000	3,969	4,020
Total Bank Debt/Senior Secured Loans							\$301,505	\$301,350
Unsecured Notes—1.8%								
Apollo Investment Corporation(4)	Diversified Financial Services	5.75%	—	1/15/2016	11/10/2011	\$ 3,650	\$ 3,505	\$ 3,739
Common Equity—17.4%								
Engineering Solutions & Products, LLC(6)(7)†	Aerospace & Defense				11/5/2013	Shares/Units 133,668	\$ 1,367	\$ 956
Gemino Healthcare Finance, LLC(4)(5)(8)	Diversified Financial Services				9/30/2013	32,839	32,839	34,421
Total Common Equity							\$ 34,206	\$ 35,377
Total Investments(9)—167.3%							\$339,216	\$340,466
Cash Equivalents—17.2%								
U.S. Treasury Bill	Government	0.000%	—	1/29/2015	12/29/2014	Par Amount 35,000	\$ 35,000	\$ 35,000
Total Investments & Cash Equivalents—184.5%							\$374,216	\$375,466
Liabilities in Excess of Other Assets—(84.5%)								(171,947)
Net Assets—100.0%								\$203,519

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 31, 2014
(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, 2014.
- (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 the creditors, if any, of Solar Senior Capital Ltd. The respective par amounts for investments that are partially held through SUNS SPV LLC are: AmeriQual Group, LLC \$4,722; Athletico Management, LLC and Accelerated Holdings, LLC \$10,000; Capstone Logistics Acquisition, Inc. \$8,479; Castle Management Borrower LLC \$7,980; Kellermeyer Bergensons Services, LLC \$5,000; and Metamorph US 3, LLC \$10,000. Par balances in excess of these stated amounts are held directly by Solar Senior Capital Ltd. All other investments not listed above are wholly held through SUNS SPV LLC.
- (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.
- (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, 2014 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2013	Gross Additions	Gross Reductions	Realized Gain (Loss)	Dividend Income	Fair Value at December 31, 2014
Gemino Healthcare Finance, LLC	\$ 34,500	\$ —	\$ —	\$ —	\$ 3,277	\$ 34,421

- (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, 2014 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2013	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest Income	Fair Value at December 31, 2014
Engineering Solutions & Products, LLC (revolving loan)	\$ —	\$ 231	\$ 231	\$ —	\$ 2	\$ —
Engineering Solutions & Products, LLC (1 st lien)	405	—	81	—	27	324
Engineering Solutions & Products, LLC (2 nd lien)	2,637	—	294	—	192	2,343
Engineering Solutions & Products, LLC (common equity)	1,367	—	—	—	—	956
	<u>\$ 4,409</u>	<u>\$ 231</u>	<u>\$ 606</u>	<u>\$ —</u>	<u>\$ 221</u>	<u>\$ 3,623</u>

- (7) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corporation, a taxable subsidiary.
- (8) Investment represents the operating company after consolidation of the holding company Gemino Senior Secured Healthcare LLC.
- (9) Aggregate net unrealized depreciation for U.S. federal income tax purposes is \$1,496; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$1,822 and \$3,318, respectively, based on a tax cost of \$341,962.
- † Non-income producing security.

See notes to consolidated financial statements.

[Table of Contents](#)

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 31, 2014

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of December 31, 2014</u>
Diversified Financial Services	11.2%
Communications Equipment	8.7%
Professional Services	8.2%
Software	8.2%
Health Care Services	8.1%
Insurance	8.0%
Food Products	6.7%
Specialty Retail	4.4%
Health Care Facilities	4.4%
Internet Software & Services	4.2%
Real Estate Management & Development	3.5%
Air Freight & Logistics	2.8%
Distributors	2.8%
Health Care Technology	2.6%
Machinery	2.6%
Commercial Services & Supplies	2.2%
Automotive Retail	2.1%
Hotels, Restaurants & Leisure	1.9%
Diversified Consumer Services	1.9%
Containers & Packaging	1.2%
Capital Markets	1.2%
Aerospace & Defense	1.1%
Footwear	1.0%
Industrial Conglomerates	0.6%
Beverages	0.4%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2013
(in thousands, except share/unit amounts)

Description(1)	Industry	Interest(2)	Basis Point Spread Above Index(5)	Maturity	Acquisition Date	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans—108.2%								
ABG Intermediate Holdings 2 LLC(4).	Textiles, Apparel & Luxury Goods	6.00%	L+500	6/28/2019	12/16/2013	\$ 10,000	\$ 9,950	\$ 9,950
Aderant North America, Inc.(4).	Software	6.25%	L+500	12/20/2018	12/20/2012	4,963	4,921	4,963
Advantage Sales and Marketing, Inc.	Professional Services	8.25%	L+725	6/17/2018	2/14/2013	8,250	8,250	8,332
ALG B.V(4)(6).	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	2/28/2013	3,201	3,173	3,201
ALG USA Holdings, LLC(4)	Hotels, Restaurants & Leisure	7.00%	L+575	2/28/2019	2/28/2013	4,243	4,205	4,243
AmeriQual Group, LLC	Food Products	7.25%	L+500	3/28/2016	3/28/2011	12,193	12,102	11,950
Attachmate Corporation(4)	Software	7.25%	L+575	11/22/2017	5/15/2012	10,427	10,273	10,642
Blue Coat Systems, Inc.	Internet Software & Services	9.50%	L+850	6/28/2020	6/28/2013	4,500	4,457	4,590
Catapult Learning LLC(4)	Education Services	7.50%	L+600	4/5/2017	4/4/2012	3,547	3,504	3,547
Confie Seguros Holding II Co.(4)	Insurance	5.75%	L+450	11/9/2018	11/9/2012	11,791	11,658	11,791
CGSC of Delaware Holdings Corp.	Insurance	8.25%	L+700	10/16/2020	4/5/2013	4,000	3,946	3,960
CT Technologies Intermediate Holdings	Health Care Technology	9.25%	L+800	10/5/2020	10/2/2013	2,500	2,464	2,500
Engineering Solutions & Products, LLC(8).	Aerospace & Defense	8.00%	L+600	5/4/2018	11/5/2013	405	405	405
Engineering Solutions & Products, LLC(8)	Aerospace & Defense	8.00%	L+600	11/5/2018	11/5/2013	2,637	2,637	2,637
Epic Health Services, Inc(4)	Health Care Services	6.50%	L+525	10/18/2018	10/21/2013	7,000	6,933	6,930
Filtration Group Corp	Industrial Conglomerates	8.25%	L+725	11/21/2021	11/15/2013	2,000	1,980	2,050
Fulton Holding Corp.(4)	Specialty Retail	8.50%	—	5/28/2018	5/10/2013	15,000	15,101	15,112
Global Tel*Link Corp	Communications Equipment	9.00%	L+775	11/23/2020	5/21/2013	3,000	2,944	2,872
Hearthside Food Solutions LLC(4)	Food Products	6.50%	L+525	6/7/2018	12/14/2012	9,922	9,881	9,922
Hoffmaster Group, Inc.(4)	Paper & Forest Products	6.50%	L+525	1/3/2018	12/23/2011	6,263	6,224	6,263
Hoffmaster Group, Inc.	Paper & Forest Products	10.25%	L+900	1/3/2019	5/8/2012	3,000	2,976	2,985
Insight Pharmaceuticals LLC(4)	Personal Products	6.25%	L+500	8/25/2016	10/17/2012	7,535	7,535	7,535
JHCI Acquisition, Inc.(4)	Air Freight & Logistics	7.00%	L+575	7/12/2019	7/9/2013	8,791	8,670	8,791
KODA Distribution Group Inc.(4)	Distributors	6.00%	L+500	4/9/2018	9/30/2013	4,969	4,957	4,969
Landslide Holdings, Inc.(4)	Software	5.25%	L+425	8/9/2019	8/7/2013	4,975	4,929	4,975
Marshall Retail Group, LLC(4)	Specialty Retail	8.00%	L+650	10/19/2016	10/17/2011	4,327	4,288	4,327
Miller Heiman, Inc(4)	Professional Services	6.75%	L+575	9/30/2019	9/30/2013	7,000	6,932	7,000
National Vision, Inc.(4)	Specialty Retail	7.00%	L+575	8/2/2018	8/2/2012	9,733	9,623	9,733
Renaissance Learning, Inc.	Education Services	8.75%	L+775	5/14/2021	10/16/2013	2,000	1,970	2,024
Securus Technologies, Inc	Communications Equipment	9.00%	L+775	4/30/2021	4/17/2013	10,000	9,909	9,947
Shield Finance Co. SARL(3)(4)(6)	IT Services	6.50%	L+525	5/10/2019	5/4/2012	9,850	9,754	9,850
Shoes for Crews, Inc.(4)	Footwear	5.50%	L+425	3/27/2017	3/27/2012	4,571	4,564	4,571
SLT Environmental, Inc.(4)	Chemicals	9.50%	L+800	5/27/2016	3/30/2012	4,874	4,741	3,412
Trident USA Health Services(4)	Health Care Services	6.50%	L+525	7/31/2019	7/29/2013	9,975	9,882	9,975
TriNet HR Corp.	Professional Services	8.75%	L+775	2/20/2021	8/14/2013	5,000	4,903	5,050
WNA Holdings, Inc	Containers & Packaging	8.50%	L+725	12/7/2020	5/25/2013	4,000	3,963	4,000
Total Bank Debt/Senior Secured Loans							\$224,604	\$225,004
Unsecured Notes—3.4%								
Apollo Investment Corporation(6)	Diversified Financial Services	5.75%	—	1/15/2016	11/10/2011	\$ 3,650	\$ 3,378	\$ 3,883
Asurion Holdco	Insurance	11.00%	L+950	3/2/2019		3,000	2,928	3,098
Total Unsecured Notes							\$ 6,306	\$ 6,981
Common Equity—17.2%								
Engineering Solutions & Products, LLC(9).	Aerospace & Defense				11/5/2013	133,668	\$ 1,367	\$ 1,367
Gemino Healthcare Finance, LLC(6)(7)(8)	Diversified Financial Services				9/30/2013	32,839	32,839	34,500
Total Common Equity							\$ 34,206	\$ 35,867
Total Investments(10)—128.8%							\$265,116	\$267,852
Liabilities in Excess of Other Assets—(28.8%)								(59,835)
Net Assets—100.0%								\$208,017

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 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 December 31, 2013.
- (3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars.
- (4) Indicates an investment that is wholly held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC. Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to the creditors, if any, of Solar Senior Capital Ltd.
- (5) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (6) Indicates assets that the Company believes may not represent "qualifying assets" under Section 55(a) of the Investment Company Act of 1940 ("1940 Act"), as amended.
- (7) 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 fiscal year ended December 31, 2013 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2012	Gross Additions	Gross Reductions	Realized Gain (Loss)	Dividend Income	Fair Value at December 31, 2013
Gemino Healthcare Finance, LLC	\$ —	\$ 32,839	\$ —	\$ —	\$ 783	\$ 34,500

- (8) Investment represents the operating company after consolidation of the holding company Gemino Senior Secured Healthcare LLC.
- (9) 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, 2013 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2012	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest Income	Fair Value at December 31, 2013
Engineering Solutions & Products, LLC	\$ —	\$ 468	\$ 63	\$ —	\$ 6	\$ 405
Engineering Solutions & Products, LLC 2 nd lien	—	3,542	905	—	35	2,637
Engineering Solutions & Products, LLC (common equity)	—	1,367	—	—	—	1,367
	\$ —	\$ 5,377	\$ 968	\$ —	\$ 41	\$ 4,409

- (10) Aggregate net unrealized appreciation for U.S. federal income tax purposes is \$826; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$2,888 and \$2,062, respectively, based on a tax cost of \$267,026.

See notes to consolidated financial statements.

[Table of Contents](#)

SOLAR SENIOR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 31, 2013

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of December 31, 2013</u>
Diversified Financial Services	14.3%
Specialty Retail	10.9%
Food Products	8.2%
Software	7.7%
Professional Services	7.6%
Insurance	7.0%
Health Care Services	6.3%
Communications Equipment	4.8%
Textiles, Apparel & Luxury Goods	3.7%
IT Services	3.7%
Paper & Forest Products	3.4%
Air Freight & Logistics	3.3%
Personal Products	2.8%
Hotels, Restaurants & Leisure	2.8%
Education Services	2.1%
Distributors	1.9%
Internet Software & Services	1.7%
Footwear	1.7%
Aerospace & Defense	1.6%
Containers & Packaging	1.5%
Chemicals	1.3%
Health Care Technology	0.9%
Industrial Conglomerates	0.8%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014
(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 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, 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 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 accounting principles generally accepted in the United States of America (“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.

The preparation of consolidated financial statements in conformity with GAAP and pursuant to the requirements for reporting on Form 10-K and Regulation S-X, as appropriate, also requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

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;
- (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

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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 fiscal year ended December 31, 2014, 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 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. We typically record prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring and certain other fees for services rendered are recorded as income when earned.
- (e) The Company intends to comply with the applicable provisions of the Internal Revenue Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all 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. As of December 31, 2014 the accrual for excise tax was \$0.
- (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. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP; accordingly at December 31, 2014, \$1,287 was reclassified on our balance sheet between distributions in excess of net investment income and paid-in capital in excess of par; and \$381 was reclassified on our balance sheet between accumulated net realized loss and distributions in excess of net investment income. Total earnings and net asset value are not affected.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810—*Consolidation*, the Company consolidates its interest in 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 and uses an independent third-party valuation firm to assist in measuring its fair value.
- (k) The Company may record origination and other expenses related to certain debt issuances as prepaid assets. 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 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.
- (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 from the date of issue 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.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

Note 3. Agreements

Solar Senior has an Investment Advisory and Management Agreement with the Investment Adviser, under which the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, Solar Senior. For providing these services, the Investment Adviser receives a fee from Solar Senior, consisting of two components – a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Investment Advisory and Management Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. Base management fees for any partial month or quarter will be appropriately pro-rated. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. From time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined.

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 fiscal years ended December 31, 2014, 2013 and 2012, the Company recognized \$2,875, \$2,575 and \$2,216, respectively, in management fees and \$440, \$113 and \$580, respectively, in performance-based incentive fees. For the fiscal years ended December 31, 2014, 2013 and 2012, \$227, \$0 and \$0, respectively, of such performance-based incentive fees were waived.

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

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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 years ended December 31, 2014, 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 fiscal years ended December 31, 2014, 2013 and 2012, the Company recognized expenses under the Administration Agreement of \$1,069, \$1,174 and \$983, respectively. No managerial assistance fees were accrued or collected for the fiscal years ended December 31, 2014, 2013 and 2012.

Note 4. Net Asset Value Per Share

At December 31, 2014, the Company’s total net assets and net asset value per share were \$203,519 and \$17.65, respectively. This compares to total net assets and net asset value per share at December 31, 2013 of \$208,017 and \$18.04, 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 years ended December 31, 2014, 2013 and 2012:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012
<u>Earnings per share (basic & diluted)</u>			
Numerator – net increase in net assets resulting from operations:	\$ 11,690	\$ 12,618	\$ 13,912
Denominator – weighted average shares:	11,532,985	11,423,958	9,500,100
Earnings per share:	\$ 1.01	\$ 1.10	\$ 1.46

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.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

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

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 as of December 31, 2014 and 2013:

Fair Value Measurements
As of December 31, 2014

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets:				
Bank Debt/Senior Secured Loans	\$ —	\$49,527	\$251,823	\$301,350
Unsecured Notes	—	3,739	—	3,739
Common Equity	—	—	35,377	35,377
Total Investments	<u>\$ —</u>	<u>\$53,266</u>	<u>\$287,200</u>	<u>\$340,466</u>
Liabilities:				
Credit Facility	<u>\$ —</u>	<u>\$ —</u>	<u>\$143,200</u>	<u>\$143,200</u>

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

Fair Value Measurements
As of December 31, 2013

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$ —	\$39,674	\$185,330	\$225,004
Unsecured Notes	—	6,981	—	6,981
Common Equity	—	—	35,867	35,867
Total Investments	\$ —	\$46,655	\$221,197	\$267,852
Liabilities:				
Credit Facility	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 61,400</u>	<u>\$ 61,400</u>

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 31, 2014, 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, 2014:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/Senior Secured Loans	Common Equity
Fair value, December 31, 2013	<u>\$ 185,330</u>	<u>\$ 35,867</u>
Total gains or losses included in earnings:		
Net realized gain (loss)	(644)	—
Net change in unrealized gain (loss)	146	(490)
Purchase of investment securities	184,392	—
Proceeds from dispositions of investment securities	(121,941)	—
Transfers in/out of Level 3	4,540	—
Fair value, December 31, 2014	<u>\$ 251,823</u>	<u>\$ 35,377</u>
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):	<u>\$ (465)</u>	<u>\$ (490)</u>

During the fiscal year ended December 31, 2014, investments with a fair value of \$4,540 were transferred from Level 2 to Level 3. These transfers were a result of changes in the quantity and quality of information used as valuation inputs by the Investment Adviser. 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, 2014:

Beginning fair value at December 31, 2013	\$ 61,400
Borrowings	206,100
Repayments	(124,300)
Transfers in/out of Level 3	—
Ending fair value at December 31, 2014	<u>\$ 143,200</u>

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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, 2014, there were borrowings of \$143,200 on the Credit Facility. For the year ended December 31, 2014, the Credit Facility had no net change in unrealized (appreciation) depreciation. The Company uses an independent third-party valuation firm to assist in measuring the fair value of our Credit Facility.

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the year ended December 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 December 31, 2013:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/Senior Secured Loans	Common Equity
Fair value, December 31, 2012	\$ 183,850	\$ —
Total gains or losses included in earnings:		
Net realized gain (loss)	(5,034)	—
Net change in unrealized gain	2,615	1,661
Purchase of investment securities	134,865	34,206
Proceeds from dispositions of investment securities	(121,066)	—
Transfers in/out of Level 3	(9,900)	—
Fair value, December 31, 2013	\$ 185,330	\$ 35,867
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):	\$ (814)	\$ 1,661

During the fiscal year ended December 31, 2013, our investment in Securus Technologies, Inc. was transferred from Level 3 to Level 2 as a quoted price deemed representative of fair value became available.

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, 2013:

Beginning fair value at December 31, 2012	\$ 39,100
Borrowings	194,000
Repayments	(171,700)
Transfers in/out of Level 3	—
Ending fair value at December 31, 2013	<u>\$ 61,400</u>

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, 2013, there were borrowings of \$61,400 on the Credit Facility. For the year ended December 31, 2013, the Credit Facility had no net change in unrealized (appreciation) depreciation. The Company uses an independent third-party valuation firm to assist in measuring the fair value of our Credit Facility.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except 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 December 31, 2014 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2014	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 251,823	Yield Analysis	Market Yield	5.3% – 10.7% (6.7%)
Common Equity	Asset	\$ 956	Enterprise Value	EBITDA Multiple	7.9x – 10.3x (6.9x)
	Asset	\$ 34,421	Enterprise Value	Return on Equity	7.1% – 20.9% (11.3%)
Credit Facility	Liability	\$ 143,200	Yield Analysis	Market Yield	L+0.5% – L+4.75% (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, 2013 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2013	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 181,918	Yield Analysis	Market Yield	5.3% – 10.5% (7.2%)
	Asset	\$ 3,412	Enterprise value	EBITDA Multiple	6.3x – 21.5x (10.7x)
Common Equity	Asset	\$ 1,367	Enterprise Value	EBITDA Multiple	6.8x – 10.1x (8.8x)
	Asset	\$ 34,500	Enterprise Value	Return on Equity	5.1% – 15.4% (11.6%)
Credit Facility	Liability	\$ 61,400	Yield Analysis	Market Yield	L+0.5% – L+5.5% (L+2.6%)

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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 significantly lower or higher fair value measurements for such assets and liabilities.

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 million 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 extends the final maturity date to June 28, 2019. The stated interest rate remains LIBOR plus 2.00% with no LIBOR floor requirement.

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

The average annualized interest cost for all borrowings for the year ended December 31, 2014 and the year ended December 31, 2013 was 2.18% and 2.20%, 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 year ended December 31, 2014, the Company expensed \$972 in conjunction with the June 30, 2014 amendment of the Credit Facility. The maximum amount borrowed on the Credit Facility during the year ended December 31, 2014 and the year ended December 31, 2013, was \$143,200 and \$84,600, respectively.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

Note 8. Financial Highlights and Senior Securities Table

The following is a schedule of financial highlights for the respective periods:

	Year ended December 31, 2014	Year ended December 31, 2013	Year ended December 31, 2012	For the period January 28, 2011(a) to December 31, 2011
Per Share Data:(b)				
Net asset value, beginning of year	\$ 18.04	\$ 18.33	\$ 18.15	\$ —
Net investment income	1.20	1.17	1.31	0.30
Net realized and unrealized gain (loss)	(0.18)	(0.07)	0.15	(0.33)
Net increase (decrease) in net assets resulting from operations	1.02	1.10	1.46	(0.03)
Issuance of common stock	—	—	—	20.00
Distributions to stockholders (see note 9a):				
From net investment income	(1.29)	(1.20)	(1.24)	(0.55)
From net realized gains	—	—	(0.05)	—
From other sources	(0.12)	(0.22)	—	—
Anti-dilution	—	0.05	—	—
Offering costs and other	—	(0.02)	0.01	(1.27)
Net asset value, end of period	<u>\$ 17.65</u>	<u>\$ 18.04</u>	<u>\$ 18.33</u>	<u>\$ 18.15</u>
Per share market value, end of period	\$ 14.97	\$ 18.22	\$ 18.66	\$ 15.75
Total Return(c)(d)	(10.47%)	5.39%	27.65%	(18.49)%
Net assets, end of period	\$ 203,519	\$ 208,017	\$ 174,103	\$ 172,435
Shares outstanding, end of period	<u>11,533,315</u>	<u>11,529,303</u>	<u>9,500,100</u>	<u>9,500,100</u>
Ratios to average net assets:				
Net investment income	6.69%	6.46%	7.14%	1.51%
Operating expenses(d)	2.50%*	2.46%	3.20%	1.31%
Interest and other credit facility expenses(d)	1.52%	0.62%	1.40%	1.77%
Total expenses(d)	<u>4.02%*</u>	<u>3.08%</u>	<u>4.60%</u>	<u>3.08%</u>
Average debt outstanding	\$ 72,132	\$ 41,261	\$ 41,439	\$ 7,123
Portfolio turnover ratio	47.5%	56.8%	74.5%	37.0%

(a) Commencement of operations

(b) Calculated using the average shares outstanding method.

(c) Total return is based on the change in market price per share during the period and takes into account any dividends, if any, reinvested in accordance with the dividend reinvestment plan.

(d) 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). The ratios of operating expenses to average net assets and total expenses to average net assets would be 2.61% and 4.13%, respectively, without the voluntary incentive fee waiver.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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

<u>Class and Year</u>	<u>Total Amount Outstanding(1)</u>	<u>Asset Coverage Per Unit(2)</u>	<u>Involuntary Liquidating Preference Per Unit(3)</u>	<u>Average Market Value Per Unit(4)</u>
Revolving Credit Facility				
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.
- (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(a). Income Tax Information and Distributions to Stockholders

The tax character of distributions for the fiscal years ended December 31, 2014, 2013 and 2012 were as follows:

	<u>2014</u>		<u>2013</u>		<u>2012</u>	
Ordinary income	\$14,842	91.3%	\$13,674	84.2%	\$11,830	96.5%
Capital gains	—	0.0%	—	0.0%	425	3.5%
Return of capital	1,419	8.7%	2,565	15.8%	—	0.0%
Total distributions	<u>\$16,261</u>	<u>100.0%</u>	<u>\$16,239</u>	<u>100.0%</u>	<u>\$12,255</u>	<u>100.0%</u>

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

As of December 31, 2014, 2013 and 2012 the components of accumulated gain and losses on a tax basis were as follows (1):

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Undistributed ordinary income	\$ —	\$ —	\$ 1,014
Undistributed long-term net capital gains	—	—	—
Total undistributed net earnings	—	—	1,014
Other book/tax temporary differences	(781)	(406)	867
Post-October capital losses(2)	—	(4,747)	—
Capital loss carryforward	(5,766)	—	—
Net unrealized appreciation (depreciation) investments	(1,497)	826	(3,918)
Total taxable income (loss)	<u>\$ (8,044)</u>	<u>\$ (4,327)</u>	<u>\$ (2,037)</u>

- (1) Tax information for the fiscal years ended December 31, 2014, 2013 and 2012 are/were estimates and are not final until the Company files its tax returns, typically in September each year.
- (2) As of December 31, 2013 we had a post-October capital loss deferral of \$4,747.

The Company recognizes in its consolidated financial statements the tax effect of a tax position when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. To the best of our knowledge, we did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein. Although we file federal and state tax returns, our major tax jurisdiction is federal. Our tax returns for each of our federal tax years since 2011 remain subject to examination by the Internal Revenue Service and the state department of revenue.

Note 9(b). Other Tax Information (unaudited)

No distributions paid during the fiscal years ended December 31, 2014, 2013 or 2012 were eligible for qualified dividend income treatment or were eligible for the 70% dividends received deduction for corporate stockholders.

Note 10. Gemino Healthcare Finance, LLC

Pursuant to a definitive agreement, dated September 30, 2013, we acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) ("Gemino") from affiliates of EDG Partners, D. E. Shaw AQ-SP Series 5-01, L.L.C. and other members of Gemino. 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 of \$32,839 was funded from our existing Credit Facility. We have an additional \$5,000 commitment to Gemino (which may be structured as debt or equity), conditional upon approval of the Gemino board of managers, among other conditions. The management team of Gemino committed to lead Gemino and co-invested in the transaction.

Concurrent with the closing of the transaction, Gemino entered into a new, four-year, non-recourse, \$100,000 credit facility with non-affiliates, which is 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.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

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 common equity 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 5% of the equity in Gemino. Gemino Senior Secured Healthcare owns approximately 95% 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 December 31, 2014, the portfolio totaled approximately \$204,926 of commitments, of which \$122,909 were funded, on total assets of \$129,024. As of December 31, 2013, the portfolio totaled approximately \$170,559 of commitments, of which \$108,559 were funded, on total assets of \$117,083. At December 31, 2014, the portfolio consisted of 38 issuers with an average balance of approximately \$3,234 versus 34 issuers with an average balance of approximately \$3,193 at December 31, 2013. 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 \$95,000 and \$83,000 of borrowings outstanding at December 31, 2014 and December 31, 2013, respectively. For the years ended December 31, 2014 and December 31, 2013, Gemino had net income of \$2,990 and \$202, respectively, on gross income of \$10,906 and \$12,232, respectively. The results for the year ended December 31, 2013 include non-recurring costs of \$3,222 related to the acquisition. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

Note 11. Selected Quarterly Financial Data (unaudited)

Quarter Ended	Investment Income		Net Investment Income		Net Realized And Unrealized Gain (Loss) on Assets		Net Increase In Net Assets From Operations	
	Total	Per Share	Total	Per Share	Total	Per Share	Total	Per Share
	December 31, 2014	\$5,912	\$0.51	\$4,018	\$0.35	\$ (1)	\$(0.00)	\$4,017
September 30, 2014	5,322	0.46	3,528	0.31	(1,782)	(0.15)	1,746	0.15
June 30, 2014	5,134	0.45	2,415	0.21	(475)	(0.04)	1,940	0.17
March 31, 2014	5,736	0.50	3,853	0.33	135	0.02	3,988	0.35
December 31, 2013	\$5,654	\$0.49	\$3,644	\$0.32	\$ 1,981	\$ 0.17	\$5,624	\$0.49
September 30, 2013	4,915	0.43	3,288	0.29	(684)	(0.06)	2,604	0.23
June 30, 2013	4,735	0.41	3,328	0.29	(1,843)	(0.16)	1,485	0.13
March 31, 2013	4,461	0.40	3,127	0.28	(223)	(0.02)	2,904	0.26

Note 12. Commitments and Contingencies

The Company had unfunded equity and debt commitments to various revolving and delayed draw loans, as well as to Gemino. The total amount of these unfunded commitments as of December 31, 2014 and December 31, 2013 is \$6,736 and \$6,736, respectively.

SOLAR SENIOR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)
December 31, 2014
(in thousands, except share amounts)

Note 13. First Lien Loan Program LLC

On September 10, 2014, the Company entered into a joint venture agreement to create a First Lien Loan Program (“FLLP”) with Voya Investment Management (“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 term loans to middle market companies predominantly owned by private equity sponsors or entrepreneurs. Solar Senior and Voya have committed to provide \$50,000 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). As of December 31, 2014, FLLP had not commenced operations. On February 13, 2015, FLLP commenced operations. On February 13, 2015 FFLP as transferor and FLLP 2015-1, LLC, a newly formed wholly owned subsidiary of FLLP, as borrower entered into a \$75,000 senior secured revolving credit facility (the “FLLP Facility”) with Wells Fargo Securities, LLC acting as administrative agent. Solar Senior Capital Ltd. acts as servicer under the FLLP Facility. The FLLP Facility reinvestment period is scheduled to end on February 13, 2018 and the FLLP Facility is scheduled to mature on February 13, 2020. The FLLP Facility generally bears interest at a rate of LIBOR plus 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.

Note 14. 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 January 8, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on January 30, 2015 to holders of record as of January 22, 2015.

On February 3, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on February 27, 2015 to holders of record as of February 19, 2015.

On February 25, 2015, our board of directors declared a monthly dividend of \$0.1175 per share payable on April 2, 2015 to holders of record as of March 19, 2015.

[Table of Contents](#)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of December 31, 2014 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Management's Report on Internal Control Over Financial Reporting

Management's Report on Internal Control Over Financial Reporting, which appears on page 72 of this Form 10-K, is incorporated by reference herein.

(c) Attestation Report of the Independent Registered Public Accounting Firm

Our independent registered public accounting firm, KPMG LLP, has issued an attestation report on the Company's internal control over financial reporting, which is set forth above under the heading "Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting" in Item 8.

(d) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company's internal control over financial reporting that occurred during the fourth fiscal quarter of 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III

We will file a definitive Proxy Statement for our 2015 Annual Meeting of Stockholders with the SEC, pursuant to Regulation 14A, not later than 120 days after the end of our fiscal year. Accordingly, certain information required by Part III has been omitted under General Instruction G(3) to Form 10-K. Only those sections of our definitive Proxy Statement that specifically address the items set forth herein are incorporated by reference.

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

Item 11. Executive Compensation

The information required by Item 11 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Item 12 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 13 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

Item 14. Principal Accounting Fees and Services

The information required by Item 14 is hereby incorporated by reference from our definitive Proxy Statement relating to our 2015 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission within 120 days following the end of our fiscal year.

PART IV

Item 15. Exhibits, Financial Statement Schedules

a. Documents Filed as Part of this Report

The following reports and consolidated financial statements are set forth in Item 8:

Management's Report on Internal Control over Financial Reporting	72
Report of Independent Registered Public Accounting Firm	73
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	74
Consolidated Statements of Assets & Liabilities as of December 31, 2014 and December 31, 2013	75
Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012	76
Consolidated Statements of Changes in Net Assets for the years ended December 31, 2014, 2013 and 2012	77
Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012	78
Consolidated Schedules of Investments as of December 31, 2014 and December 31, 2013	79
Notes to Consolidated Financial Statements	85

b. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement(1)
3.2	Amended and Restated Bylaws(1)
4.1	Form of Common Stock Certificate(1)
10.1	Dividend Reinvestment Plan(1)
10.2	Investment Advisory and Management Agreement by and between Registrant and Solar Capital Partners, LLC(1)
10.3	Form of Custody Agreement(5)
10.4	Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC(5)
10.5	Form of Indemnification Agreement by and between Registrant and each of its directors(1)
10.6	Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC(1)
10.7	Form of Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(1)
10.8	Amendment No. 1 to Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(2)
10.9	Form of Contribution Agreement, dated as of August 26, 2011, by and between SUNS SPV LLC, as the contributee, and Solar Senior Capital Ltd., as the contributor.(3)
10.10	Third Amendment to the Loan and Servicing Agreement, dated as of June 30, 2014 by and among the Registrant, as the transferor and the servicer, SUNS SPV LLC, as the borrower, Citibank, N.A., as the administrative agent and collateral agent, each of the conduit lenders from time to time party thereto, each of the lender agents from time to time party thereto, each of the liquidity banks from time to time party thereto, each of the institutional lenders from time to time party thereto, and Wells Fargo Bank, N.A., as the account bank, the collateral custodian and the backup servicer(6)

Table of Contents

10.11	Form of Loan and Servicing Agreement, dated as of August 26, 2011 (as amended through June 30, 2014), by and among the Registrant, as the servicer and the transferor, SUNS SPV LLC, as the borrower, each of the conduit lenders from time to time party thereto, each of the liquidity banks from time to time party thereto, each of the lender agents from time to time party thereto, Citibank, N.A., as the administrative agent and collateral agent, and Wells Fargo Bank, N.A., as the account bank, the backup servicer and the collateral custodian(6)
10.12	Form of Limited Liability Company Agreement, dated as of September 10, 2014, by and among the Registrant, Voya Retirement Insurance and Annuity Company, ReliaStar Life Insurance Company, and Voya Insurance and Annuity Company, by and through Voya Investment Management LLC, as agent and investment manager(7)
11.1	Computation of Per Share Earnings*
14.1	Code of Ethics(1)
14.2	Code of Business Conduct(5)
21.1	Subsidiaries of Solar Senior Capital Ltd.*
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*
99.1	Gemino Healthcare Finance, LLC and Subsidiary Consolidated Financial Statements year ended December 31, 2014*
99.2	Gemino Senior Secured Healthcare, LLC and Subsidiaries Consolidated Financial Statements for the period September 30, 2013 (inception) through December 31, 2013*

- (1) Previously filed in connection with Solar Senior Capital Ltd.'s registration statement on Form N-2 (File No. 333-171330) filed on February 14, 2011.
 - (2) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-K filed on February 22, 2012.
 - (3) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 8-K filed on August 31, 2011.
 - (4) Previously filed in connection with Post-Effective Amendment No. 1 to Solar Senior Capital Ltd.'s Registration Statement on Form N-2 (File No. 333-179433) on January 16, 2013.
 - (5) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-K filed on February 25, 2014.
 - (6) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-Q filed on August 4, 2014.
 - (7) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-Q filed on November 4, 2014.
- * Filed herewith.

c. Consolidated Financial Statement Schedules

Separate Financial Statements of Subsidiaries Not Consolidated:

Consolidated Financial Statements for Gemino Healthcare Finance, LLC and Subsidiary year ended December 31, 2014 and December 31, 2013 are attached as Exhibit 99.1 to our Form 10-K. Consolidated Financial Statements for Gemino Senior Secured Healthcare, LLC and Subsidiaries for the period September 30, 2013 (inception) through December 31, 2013 are attached as Exhibit 99.2 to our Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLAR SENIOR CAPITAL LTD.

By: /s/ MICHAEL S. GROSS
Michael S. Gross
Chief Executive Officer, President, Chairman of the Board and Director

Date: February 25, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacity and on the dates indicated.

<u>Date</u>	<u>Signature</u>	<u>Title</u>
February 25, 2015	<u> </u> /s/ MICHAEL S. GROSS Michael S. Gross	Chief Executive Officer, President, Chairman of the Board and Director (Principal Executive Officer)
February 25, 2015	<u> </u> /s/ STEVEN HOCHBERG Steven Hochberg	Director
February 25, 2015	<u> </u> /s/ DAVID S. WACHTER David S. Wachter	Director
February 25, 2015	<u> </u> /s/ LEONARD A. POTTER Leonard A. Potter	Director
February 25, 2015	<u> </u> /s/ BRUCE SPOHLER Bruce Spohler	Chief Operating Officer and Director
February 25, 2015	<u> </u> /s/ RICHARD L. PETEKA Richard L. Peteka	Chief Financial Officer (Principal Financial Officer) and Secretary

STATEMENT REGARDING COMPUTATION OF PER SHARE EARNINGS

The following information sets forth the computation of basic and diluted net increase in net assets per share resulting from operations for the year ended December 31, 2014

Numerator for increase in net assets per share – basic and diluted:	\$	11,690
Denominator for basic weighted average shares:		11,532,985
Earnings per share – basic and diluted:	\$	1.01

The following list sets forth each of our consolidated subsidiaries, the state or country under whose laws the subsidiary is organized, and the percentage of voting securities or membership interests owned by us in such subsidiary:

ESP SSC Corporation (Delaware) – 100%

Gemino Senior Secured Healthcare LLC (Delaware) – 100%

SUNS SPV LLC (Delaware) – 100%

The subsidiaries listed above are consolidated for financial reporting purposes.

Certification Pursuant to Section 302
Certification of Chief Executive Officer

I, Michael S. Gross, Chief Executive Officer of Solar Senior Capital Ltd., certify that:

1. I have reviewed this annual report on Form 10-K of Solar Senior Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2015

/s/ MICHAEL S. GROSS

Michael S. Gross
Chief Executive Officer

Certification Pursuant to Section 302
Certification of Chief Financial Officer

I, Richard L. Peteka, Chief Financial Officer of Solar Senior Capital Ltd., certify that:

1. I have reviewed this annual report on Form 10-K of Solar Senior Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 25, 2015

/s/ RICHARD L. PETEKA
Richard L. Peteka
Chief Financial Officer

Certification Pursuant to Section 906
Certification of Chief Financial Officer
Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. 1350)

In connection with the Annual Report on Form 10-K for the fiscal year ended December 31, 2014 (the "Report") of Solar Senior Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Richard L. Peteka, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ RICHARD L. PETEKA

Name: Richard L. Peteka
Date: February 25, 2015

**Gemino Healthcare Finance, LLC
and Subsidiary**

Consolidated Financial Statements

December 31, 2014 and 2013

Gemino Healthcare Finance, LLC and Subsidiary

Table of Contents

December 31, 2014 and 2013

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Balance Sheet	2
Consolidated Statement of Operations	3
Consolidated Statement of Members' Equity	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6

Independent Auditors' Report

Board of Managers
Gemino Healthcare Finance, LLC

We have audited the accompanying consolidated financial statements of Gemino Healthcare Finance, LLC and Subsidiary (collectively, the Company), which comprise the consolidated balance sheet as of December 31, 2014 and 2013, and the related consolidated statements of operations, changes in members' equity, and cash flows for the year ended December 31, 2014 and the period from September 30, 2013 (Acquisition Date) through December 31, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gemino Healthcare Finance, LLC and Subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the year ended December 31, 2014 and the period from September 30, 2013 (Acquisition Date) through December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Viechow Krause, LLP

Philadelphia, Pennsylvania
February 12, 2015

Gemino Healthcare Finance, LLC and Subsidiary

Consolidated Balance Sheet
Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
Assets		
Assets		
Cash and cash equivalents	\$ 6,339,962	\$ 11,699,705
Loans receivable, net of allowance of \$1,147,891 and \$988,745, respectively	112,202,058	94,897,563
Accrued interest receivable	884,351	784,679
Deferred financing costs, net	1,010,803	1,093,316
Intangible asset—trade name	2,800,000	2,800,000
Goodwill	5,663,531	5,663,531
Other assets	83,937	88,299
Furniture and equipment, net	<u>39,222</u>	<u>56,284</u>
Total assets	<u>\$ 129,023,864</u>	<u>\$ 117,083,377</u>
Liabilities and Members' Equity		
Liabilities		
Advances due under credit facility	\$ 95,000,000	\$ 83,000,000
Accrued dividend payable	466,734	416,465
Accounts payable and accrued expenses	<u>1,239,197</u>	<u>1,234,165</u>
Total liabilities	<u>96,705,931</u>	<u>84,650,630</u>
Members' Equity		
Units, \$1,000 par value, issued and outstanding 34,711 and 34,374, respectively	33,725,600	33,375,307
Retained deficit	<u>(1,407,667)</u>	<u>(942,560)</u>
Total members' equity	<u>32,317,933</u>	<u>32,432,747</u>
Total liabilities and members' equity	<u>\$ 129,023,864</u>	<u>\$ 117,083,377</u>

See notes to consolidated financial statements

Gemino Healthcare Finance, LLC and Subsidiary

Consolidated Statement of Operations
Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)
through December 31, 2013

	<u>2014</u>	<u>2013</u>
Interest Income		
Interest income on loans	\$ 8,204,737	\$ 2,114,228
Interest expense	<u>(2,839,139)</u>	<u>(700,137)</u>
Net interest income	5,365,598	1,414,091
Provision for Loan Losses	<u>(566,397)</u>	<u>(988,745)</u>
Net interest income after provision for loan losses	4,799,201	425,346
Other Income	2,701,518	830,245
General and Administrative Expenses	<u>(4,511,203)</u>	<u>(1,381,686)</u>
Net income (loss)	<u>\$ 2,989,516</u>	<u>\$ (126,095)</u>

See notes to consolidated financial statements

Gemino Healthcare Finance, LLC and Subsidiary

Consolidated Statement of Changes in Members' Equity
Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)
through December 31, 2013

Balance at September 30, 2013	\$ 34,012,532
Additional capital contributions	361,685
Member expenses paid	(998,910)
Dividends declared	(816,465)
Net loss	<u>(126,095)</u>
Balance at December 31, 2013	32,432,747
Additional capital contributions	350,293
Dividends declared	(3,454,623)
Net income	<u>2,989,516</u>
Balance at December 31, 2014	<u>\$ 32,317,933</u>

See notes to consolidated financial statements

Gemino Healthcare Finance, LLC and Subsidiary

Consolidated Statement of Cash Flows

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)
through December 31, 2013

	2014	2013
Cash Flows from Operating Activities		
Net income (loss)	\$ 2,989,516	\$ (126,095)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	27,576	7,336
Amortization of discount on loans	(45,766)	(11,536)
Amortization of deferred origination fees and costs	(164,792)	(10,918)
Amortization of deferred financing costs	255,725	57,543
Provision for loan losses	566,397	988,745
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(99,672)	36,171
Decrease in other assets	4,362	52,370
Increase in deferred origination fees and costs, net	518,225	188,610
Increase in accounts payable and accrued expenses	5,032	750,648
Net cash provided by operating activities	<u>4,056,603</u>	<u>1,932,874</u>
Cash Flows from Investing Activities		
Increase in loans receivable, net	(18,178,559)	(161,073)
Purchase of furniture and equipment	<u>(10,514)</u>	<u>(4,787)</u>
Net cash used in investing activities	<u>(18,189,073)</u>	<u>(165,860)</u>
Cash Flows from Financing Activities		
Repayments of debt and other payables related to the acquisition	—	(78,355,009)
Net proceeds from credit facility	12,000,000	78,368,082
Financing costs paid and deferred for credit facility	(173,212)	(1,150,859)
Deemed distribution for member expenses paid	—	(998,910)
Dividends paid	(3,404,354)	(400,000)
Proceeds from contributed capital	<u>350,293</u>	<u>361,685</u>
Net cash provided by (used in) financing activities	<u>8,772,727</u>	<u>(2,175,011)</u>
Net decrease in cash and cash equivalents	(5,359,743)	(407,997)
Cash and Cash Equivalents, Beginning	<u>11,699,705</u>	<u>12,107,702</u>
Cash and Cash Equivalents, Ending	<u>\$ 6,339,962</u>	<u>\$ 11,699,705</u>
Supplemental Disclosure of Cash Flow Information		
Interest paid	<u>\$ 2,720,187</u>	<u>\$ 1,578,001</u>
Supplemental Disclosure of Non-Cash Financing Information		
Conversion of subordinated debt to equity	<u>\$ —</u>	<u>\$ 52,289</u>

See notes to consolidated financial statements

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

1. Description of Business

Gemino Healthcare Finance, LLC (“Gemino”), a Delaware limited liability company formed in December 2006, is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized U.S. companies operating in the healthcare industry. Gemino’s loans are primarily in the form of revolving lines of credit, secured by accounts receivable of the borrowers. The accounts receivable serving as collateral are primarily third party obligations from government payers, such as Medicare or Medicaid, and commercial insurers.

In certain cases, Gemino may provide senior term loan financing to qualified borrowers in addition to a revolving line of credit. Senior term loans are typically secured by accounts receivable, all other assets of the borrowers and a pledge of the stock of the borrowers.

Gemino Healthcare Funding, LLC (“Gemino Funding”), is a wholly-owned special purpose limited liability company, that purchases and holds certain eligible loans and related property from Gemino.

Pursuant to a definitive agreement dated September 30, 2013 (Acquisition Date), Solar Senior Capital Ltd., a Maryland corporation (“Solar”), acquired a controlling interest in Gemino. Gemino Management Investment, LLC (“GMI”), whose members include certain management employees of Gemino and who had an interest in Gemino before the transaction, co-invested in the transaction.

On December 31, 2013, Solar contributed all of its limited liability company interests in Gemino to Gemino Senior Secured Healthcare LLC (“Gemino Senior”), a holding company that was formed as a limited liability company under the laws of the State of Delaware in December 2013 for the purpose of holding the controlling interest of Gemino. Solar is the sole member of Gemino Senior. This change in legal ownership had no accounting or reporting impact on Gemino.

2. Summary of Significant Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the accounts of Gemino and Gemino Funding (collectively, the “Company”). All significant intercompany balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and to report amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan loss represents an estimate that is particularly susceptible to material change.

Cash and Cash Equivalents

Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less.

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

Loans Receivable and Income Recognition

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances less the allowance for loan loss and any deferred fees or costs.

Commitment terms of the Company's financing agreements generally range from two to five years with interest charged on a floating rate basis. Funding under revolving loan commitments is subject to the Company's estimation of the accounts receivable pledged as collateral.

Income on loans receivable is recognized using the simple interest method. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and/or in the process of collection. Typically, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. When a loan is placed on non-accrual status, all interest previously accrued, but not collected, is reversed against current interest income and all future proceeds received will generally be applied against principal or interest, in the judgment of management. Loans are returned to accrual status when all principal and interest amounts contractually due are reasonably assured.

Revolving loan origination fees and costs are deferred and amortized on a straight-line basis over the terms of the related loan commitments as an adjustment to interest income on loans. Term loan origination fees are deferred and amortized using either the effective interest method or the straight-line method over the life of the loan. The straight-line method may be used for term loan facilities when it approximates the effective interest method. Other fees, such as collateral monitoring fees, unused balance fees and collateral examination fees, are recognized when the services are provided. Termination fees are recognized when a loan is terminated. These other fees are included in other income.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due in accordance with the contractual terms of the loan agreement. Loans are evaluated for impairment by the Company based on ongoing analysis of the borrower's repayment capacity, the value of the collateral support and the strength of any guarantees. Loans identified as impaired are further evaluated to determine the estimated extent of impairment.

Allowance for Loan Loss

The allowance for loan loss represents the Company's recognition of the assumed risks of extending credit. The allowance is maintained at a level considered adequate to provide for probable losses inherent in the loan portfolio. Management establishes a general portfolio reserve for unimpaired loans based on various factors including historical loss experience, the overall credit quality of the loan portfolio, economic trends and conditions and the regulatory environment.

The overall credit quality of the Company's borrowers is reflected in the individual and weighted average credit risk ratings of the loans in the portfolio. Credit risk ratings for each borrower are established based on a number of qualitative and quantitative factors including an assessment of management and strategy, historical and projected repayment capacity, collateral coverage and performance, financial condition and sponsorship, strength of guarantees and any contingencies.

Specific allowances for loan losses on impaired loans are typically measured based on a comparison of the recorded carrying value of the loan to the present value of the loan's expected cash flow using the loan's effective interest rate, the loan's estimated market price or the estimated fair value of the

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

underlying collateral, if the loan is collateral-dependent combined with the strength of any guarantee arrangements. Specific allowances are recorded when management deems the loan to be permanently impaired.

Loans are charged off when collection is sufficiently questionable and when the Company can no longer justify maintaining the loan as an asset on the balance sheet. Loans qualify for charge off when, after thorough analysis, all possible sources of collection are determined to be insufficient to repay the loan. These include impairment of potential future cash flow, value of collateral and/or financial strength of guarantors.

Goodwill and Intangible Asset

Goodwill represents the excess of consideration paid for an acquired business over the fair value of the related assets acquired and liabilities assumed. Intangible asset—trade name has an indefinite life. Goodwill and intangible asset—trade name arose from the acquisition of the Company on September 30, 2013 (Note 3).

The Company is required to assess its goodwill and indefinite-lived intangible asset for impairment annually, or more frequently if events or changes in circumstances indicate impairment may have occurred. The Company performs its annual impairment assessment on the last day of the year.

The Company assesses its indefinite-lived intangible asset for impairment by comparing the carrying value of the asset to its fair value, and assesses goodwill for impairment by comparing the carrying value of the Company to its fair value. The fair values of intangible asset—trade name and the Company are estimated using the present value of expected future cash flows. If the fair value is less than the carrying value, an impairment loss would be recorded. For the year ended December 31, 2014 and the period ended December 31, 2013, there was no impairment.

Furniture and Equipment

Furniture and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives.

Deferred Financing Costs

The Company incurred and capitalized \$173,212 and \$1,150,859 in 2014 and 2013, in connection with its credit facility (Note 7). These costs are being amortized on a straight-line basis over the life of the agreement as an adjustment to interest expense.

Income Taxes

The Company is not subject to federal or state income taxes. Members of the Company have elected to report the taxable income or loss on their individual tax returns. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

The Company applies authoritative guidance relating to the accounting for uncertain tax positions. Accordingly, a provision for uncertain tax positions and related penalties and interest is recognized when it is more likely than not, based on the technical merits, that the tax position will be realized or

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

sustained upon examination. The term more-likely-than-not means a likelihood or more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. The Company files both federal and state income tax returns; Gemino Funding is a disregarded entity for tax purposes. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2011.

3. Business Acquisition

In connection with a Unit Purchase Agreement dated September 30, 2013, Solar and GMI (together, "Buyers") acquired all of the equity interests in Gemino from its selling members ("Seller"). The total consideration for the acquisition was \$38,592,161, which was financed by \$4,599,568 of Company debt and from Buyers' contributed capital.

The Company has applied push down accounting and recognized the assets acquired, including identifiable intangible assets, and liabilities assumed in the acquisition at their respective fair values. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The allocation of the purchase consideration to the assets acquired and liabilities assumed at the date of acquisition is as follows:

Consideration	<u>\$ 38,592,161</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	12,107,702
Loans receivable	95,891,391
Accrued interest receivable	820,850
Other assets	140,669
Furniture and equipment	58,833
Trade name	2,800,000
Account payable and accrued expenses	(2,260,277)
Debt	<u>(76,630,538)</u>
Total identifiable net assets	<u>32,928,630</u>
Goodwill	<u>\$ 5,663,531</u>

The fair value of loans receivable, which includes secured revolving lines of credit and term loans of approximately \$95,972,000, was determined based on an independent valuation that considered industry risk, and the interest rate, liquidity, credit and event risks of each loan. The valuation resulted in a discount of approximately \$81,000 from par as of the acquisition date.

The fair value of trade name is based on an independent valuation that considers brand recognition and uses a relief from royalty method, which is an income approach. That measure is based on significant inputs not observable in the market. The trade name asset has an indefinite useful life.

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

Goodwill of \$5,663,531 was recorded in connection with the acquisition, which is not deductible for tax purposes.

4. Loans Receivable

The following table shows loans receivable, net as of December 31, 2014 and 2013:

	2014	2013
Revolving loans receivable	\$ 103,428,730	\$ 85,523,989
Term loans receivable	10,476,042	10,609,475
Total loans receivable	113,904,772	96,133,464
Less allowance for loan losses	(1,147,891)	(988,745)
Less deferred origination fees and costs, net	(531,125)	(177,692)
Less discount on loans, net	(23,698)	(69,464)
Loans receivable, net	\$ 112,202,058	\$ 94,897,563

5. Allowance for Loan Losses and Recorded Investment in Loans Receivables

The following table summarizes the activity in the allowance for loan losses by loan class for the respective periods ended December 31, 2014 and 2013:

	Beginning Balance	Charge-Offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
Allowance for Loan Losses - December 31, 2014							
Revolving loans	\$ 879,625	\$ (407,251)	\$ —	\$ 570,757	\$ 1,043,131	\$ —	\$ 1,043,131
Term loans	109,120	—	—	(4,360)	104,760	—	104,760
	<u>\$ 988,745</u>	<u>\$ (407,251)</u>	<u>\$ —</u>	<u>\$ 566,397</u>	<u>\$ 1,147,891</u>	<u>\$ —</u>	<u>\$ 1,147,891</u>
Allowance for Loan Losses - December 31, 2013							
Revolving loans	\$ —	\$ —	\$ —	\$ 879,625	\$ 879,625	\$ —	\$ 879,625
Term loans	—	—	—	109,120	109,120	—	109,120
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 988,745</u>	<u>\$ 988,745</u>	<u>\$ —</u>	<u>\$ 988,745</u>

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

The following table summarizes the activity in the recorded investment in loans receivable by loan class at December 31, 2014 and 2013:

	<u>Ending Balance</u>	<u>Ending Balance Individually Evaluated for Impairment</u>	<u>Ending Balance Collectively Evaluated for Impairment</u>
Loans Receivables - December 31, 2014			
Revolving loans	\$103,428,730	\$ 127,392	\$103,301,338
Term loans	<u>10,476,042</u>	<u>—</u>	<u>10,476,042</u>
Total	<u>\$113,904,772</u>	<u>\$ 127,392</u>	<u>\$113,777,380</u>
Loans Receivables - December 31, 2013			
Revolving loans	\$ 85,523,989	\$ —	\$ 85,523,989
Term loans	<u>10,609,475</u>	<u>—</u>	<u>10,609,475</u>
Total	<u>\$ 96,133,464</u>	<u>\$ —</u>	<u>\$ 96,133,464</u>

As of December 31, 2014, there was a single non-accrual loan with a balance of \$127,392. The loan is deemed to be impaired. The loan is fully collateralized and does not have a specific allowance against it.

Credit Quality Indicators

The following table summarizes the loan portfolio by the Company's internal credit rating (scale: 1 to 7) as of December 31, 2014 and 2013: Loans with a rating of 4 or better generally pose minimal risk to the Company as they exhibit, among other things, one or more of the following attributes: (1) well-secured collateral position; (2) satisfactory cash flows; and (3) history of timely payment of debt obligations. Loans credit rated below 4 are considered "Watchlist" loans; an overall degree of risk exists such that management's review is warranted each quarter.

	<u>December 31, 2014</u>	
	<u>Revolving Loans</u>	<u>Term Loans</u>
Rated 4 or better	\$ 96,608,941	\$ 10,476,042
Rated 5	6,692,397	—
Rated 6	<u>127,392</u>	<u>—</u>
Total	<u>\$ 103,428,730</u>	<u>\$ 10,476,042</u>

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

	December 31, 2013	
	Revolving Loans	Term Loans
Rated 4 or better	\$ 77,900,445	\$ 9,909,475
Rated 5	6,106,291	700,000
Rated 6	1,517,253	—
Total	<u>\$ 85,523,989</u>	<u>\$ 10,609,475</u>

6. Furniture and Equipment

Furniture and equipment are comprised of the following at December 31, 2014 and 2013:

	2014	2013
Computer software and equipment	\$ 48,838	\$38,324
Furniture and fixtures	13,270	13,270
Leasehold improvement	12,026	12,026
Total	74,134	63,620
Less accumulated depreciation	(34,912)	(7,336)
Furniture and equipment, net	<u>\$ 39,222</u>	<u>\$56,284</u>

Depreciation expense was \$27,576 and \$7,336 for the year ended December 31, 2014 and the period ended December 31, 2013, respectively.

7. Debt

The Company entered into a four-year \$100,000,000 secured revolving credit facility in September 2013, which is expandable to \$150,000,000 under an accordion feature. In March 2014 and June 2014, the credit facility was expanded to \$105,000,000 and \$110,000,000, respectively. The credit facility matures September 2017 and may be extended upon agreement by all parties. Under the terms of the credit facility, Gemino and Gemino Funding, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including financial and reporting requirements and other customary conditions for similar credit facilities. The credit facility also includes customary events of default for credit facilities of this nature.

Under the terms of the credit facility, the lender has agreed to make advances to Gemino Funding, as the issuer, to enable it to purchase eligible loans from Gemino, as the originator and servicer. At December 31, 2014 and 2013, the advances due under the credit facility amounted to \$95,000,000 and \$83,000,000, respectively. Gemino Funding pledged approximately \$119,574,000 and \$100,494,000 of eligible loans and related security at December 31, 2014 and 2013, respectively.

Interest on the credit facility accrues at a variable rate per annum of one-month LIBOR plus 2.75% (2.92% at December 31, 2014 and 2013, respectively), payable monthly. The Company also pays customary loan fees for the credit facility.

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)

through December 31, 2013

8. Commitments and Concentrations

At December 31, 2014 and 2013, the Company has committed facilities to its borrowers totaling approximately \$204,926,000 and \$170,559,000, respectively, of which approximately \$91,021,000 and \$74,426,000, respectively was unused. Borrowers may borrow up to the lesser of (i) the committed facility or (ii) the underlying collateral value multiplied by the advance rate. Of the \$91,021,000 and \$74,426,000 unused committed facility amounts at December 31, 2014 and 2013, borrowers could borrow up to approximately \$27,811,000 and \$15,626,000, respectively.

At December 31, 2014, the Company had one loan approximating 13% of the total loans receivable. No other loans exceeded 10% of total loans receivable at either December 31, 2014 or 2013, respectively.

9. Lease Commitments

The Company leases its headquarters, regional sales offices and equipment under non-cancelable operating leases, which expire at various dates through 2016. As of December 31, 2014, future lease payments under non-cancelable operating leases, are as follows:

Years ending December 31:	
2015	\$148,595
2016	<u>13,729</u>
Total	<u>\$162,324</u>

Total rent expense for all leases amounted to approximately \$147,000 and \$43,000 for the year ended December 31, 2014 and the period ended December 31, 2013, respectively.

10. 401(k) Savings Plan

The Company has a savings incentive plan covering substantially all employees of the Company. Contributions are currently made by the Company in an amount equal to 100% of the first 5% of employee contributions after the employee has completed three months of continued employment. The Company's contribution for the year ended December 31, 2014 and the period ended December 31, 2013 was approximately \$131,000 and \$25,000, respectively.

11. Long-Term Incentive Plan

The Company has a Long-Term Incentive Plan ("LTIP Plan") that provides for an annual bonus pool to employees based on the Company achieving certain performance criteria. For the year ended December 31, 2014 and the period ended December 31, 2013, the Company has expensed \$0- and \$42,000 for the LTIP pool, respectively.

12. Fair Value Disclosure

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of the Company's year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to that date. As such, the estimated fair value of these consolidated financial instruments subsequent to the reporting date may be different than the amounts

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)
through December 31, 2013

reported at year-end. These estimates are subjective in nature and include uncertainties and matters of significant judgment and, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of December 31, 2014 and 2013:

Cash and cash equivalents – The carrying value approximates fair value for cash and cash equivalents.

Loan receivables, net – Fair values for loans are estimated using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable, accrued interest payable - Due to the short-term nature of these amounts, their carrying amounts approximate fair value.

Advances due under credit facility – The fair value of the notes payable is determined from market sources based on current interest rates at the balance sheet date for borrowers with similar credit ratings as the Company.

The estimated fair values of the Company's financial instruments as of December 31, 2014 and 2013 are as follows:

	2014	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 6,339,962	\$ 6,339,962
Loan receivables, net	112,202,085	112,756,881
Accrued interest receivable	884,351	884,351
Financial liabilities:		
Notes payable	95,000,000	95,000,000
Accrued interest payable	251,891	251,891

	2013	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 11,699,705	\$ 11,699,705
Loan receivables, net	94,897,563	95,144,719
Accrued interest receivable	784,679	784,679
Financial liabilities:		
Advances due under Credit Facility	83,000,000	83,000,000
Accrued interest payable	215,452	215,452

13. Contingencies

In August 2012, the Company agreed to indemnify the buyer of a distressed business to which the Company had provided a loan. The agreement provides an indemnification up to \$4.5 million for acts of gross negligence or willful misconduct by the prior operators of the business, which has no expiration. The Seller has agreed to indemnify the Company for any related losses. The Company believes it is unlikely that any

Gemino Healthcare Finance, LLC and Subsidiary

Notes to Consolidated Financial Statements

Year Ended December 31, 2014 and the Period September 30, 2013 (Acquisition Date)
through December 31, 2013

claims will be made by the buyer and, therefore, no liability has been recorded for this contingency. In the event the Company's assumptions used to evaluate this matter change in future periods, it may be required to record a liability to reflect a potential adverse outcome.

14. Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through February 12, 2015, which was the date the consolidated financial statements were available to be issued.

**Gemino Senior Secured Healthcare LLC
and Subsidiaries**

Consolidated Financial Statements

December 31, 2013



Gemino Senior Secured Healthcare LLC and Subsidiaries

Table of Contents
December 31, 2013

	<u>Page</u>
Independent Auditors' Report	1
Consolidated Financial Statements	
Consolidated Balance Sheet	2
Consolidated Statement of Operations	3
Consolidated Statement of Changes in Members' Equity	4
Consolidated Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6



Independent Auditors' Report

Manager
Gemino Senior Secured Healthcare LLC

We have audited the accompanying consolidated financial statements of Gemino Senior Secured Healthcare LLC and Subsidiaries (collectively, the "Company") which comprise the consolidated balance sheet as of December 31, 2013, and the related consolidated statements of operations, changes in members' equity, and cash flows for the period from September 30, 2013 (Inception) through December 31, 2013, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Gemino Senior Secured Healthcare LLC and Subsidiaries as of December 31, 2013, and the results of their operations and their cash flows for the period from September 30, 2013 (Inception) through December 31, 2013 in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "ParenteBeard LLC".

Philadelphia, Pennsylvania
February 14, 2014

Gemino Senior Secured Healthcare LLC and Subsidiaries

Consolidated Balance Sheet
December 31, 2013

	<u>2013</u>
Assets	
Assets	
Cash and cash equivalents	\$ 11,699,705
Loans receivable, net of allowance of \$988,745	94,897,563
Accrued interest receivable	784,679
Deferred financing costs, net	1,093,316
Intangible asset	2,800,000
Goodwill	5,663,531
Other assets	88,299
Furniture and equipment, net	<u>56,284</u>
Total assets	<u>\$ 117,083,377</u>
Liabilities and Equity	
Liabilities	
Advances due under credit facility	\$ 83,000,000
Related party debt	13,000,000
Accrued dividend	416,465
Accounts payable and accrued expenses	<u>1,234,165</u>
Total liabilities	<u>97,650,630</u>
Equity	
Gemino Senior Secured Healthcare LLC:	
Units, \$1,000 par, issued and outstanding 19,839	18,840,090
Retained deficit	<u>(900,464)</u>
Total Gemino Senior Secured Healthcare LLC equity	17,939,626
Non-controlling interest in subsidiary	<u>1,493,121</u>
Total equity	<u>19,432,747</u>
Total liabilities and equity	<u>\$ 117,083,377</u>

See notes to consolidated financial statements

Gemino Senior Secured Healthcare LLC and Subsidiaries

Consolidated Statement of Operations

For the period September 30, 2013 (Inception) through December 31, 2013

	<u>2013</u>
Interest Income	
Interest income on loans	\$ 2,114,228
Interest expense	<u>(700,137)</u>
Net interest income	1,414,091
Provision for Loan Losses	<u>(988,745)</u>
Net interest income after provision for loan losses	425,346
Other Income	830,245
General and Administrative Expenses	<u>(1,381,686)</u>
Net loss	(126,095)
Less: net loss attributable to the non-controlling interest in subsidiary	<u>(5,631)</u>
Net loss attributable to Gemino Senior Secured Healthcare LLC	<u>\$ (120,464)</u>

See notes to consolidated financial statements

Gemino Senior Secured Healthcare LLC and Subsidiaries

Consolidated Statement of Changes in Members' Equity
For the period September 30, 2013 (Inception) through December 31, 2013

	Gemino Senior Secured Healthcare LLC	Non-Controlling Interest In Subsidiary	Total
Balance at September 30, 2013	\$ —	\$ —	\$ —
Initial capital contributions	32,839,000	1,173,532	34,012,532
Additional capital contributions	—	361,685	361,685
Member expenses paid	(998,910)	—	(998,910)
Units exchanged for senior secured promissory note	(13,000,000)	—	(13,000,000)
Dividends declared	(780,000)	(36,465)	(816,465)
Net loss	(120,464)	(5,631)	(126,095)
Balance at December 31, 2013	<u>\$ 17,939,626</u>	<u>\$ 1,493,121</u>	<u>\$ 19,432,747</u>

See notes to consolidated financial statements

Gemino Senior Secured Healthcare LLC and Subsidiaries

Consolidated Statement of Cash Flows

For the period September 30, 2013 (Inception) through December 31, 2013

	<u>2013</u>
Cash Flows from Operating Activities	
Net loss	\$ (126,095)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	7,336
Amortization of discount on loans	(11,536)
Amortization of deferred origination fees and costs	(10,918)
Amortization of deferred financing cost	57,543
Provision for loan losses	988,745
Changes in assets and liabilities:	
Decrease in accrued interest receivable	36,171
Decrease in other assets	52,370
Increase in deferred origination fees and costs, net	188,610
Increase in accounts payable and accrued expenses	750,648
Net cash provided by operating activities	<u>1,932,874</u>
Cash Flows from Investing Activities	
Acquisition of Gemino Healthcare Finance, LLC (net of cash acquired)	(25,847,108)
Increase in loans receivable, net	(161,073)
Purchase of furniture and equipment	(4,787)
Net cash used in investing activities	<u>(26,012,968)</u>
Cash Flows from Financing Activities	
Repayments of debt and other payables related to the acquisition	(78,355,009)
Proceeds from credit facility	83,000,000
Financing costs paid and deferred for credit facility	(1,150,859)
Dividends paid	(400,000)
Member distribution for member expenses paid	(998,910)
Proceeds from contributed capital	33,684,577
Net cash provided by financing activities	<u>35,779,799</u>
Net increase in cash and cash equivalents	11,699,705
Cash and Cash Equivalents, Beginning	<u>—</u>
Cash and Cash Equivalents, Ending	<u>\$ 11,699,705</u>
Supplemental Disclosure of Cash Flow Information	
Interest paid	<u>\$ 1,578,001</u>
Supplemental Disclosure of Non-Cash Financing Information	
Conversion of subordinated debt to equity of non-controlling interest	<u>\$ 52,289</u>
Exchange of units for senior secured promissory note with related party	<u>\$ 13,000,000</u>

See notes to consolidated financial statements

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

1. Description of Business**Gemino Senior Secured Healthcare LLC**

Gemino Senior Secured Healthcare LLC (“Gemino Senior”) is a holding company that was formed as a limited liability company under the laws of the State of Delaware in December 2013 for the purpose of holding the controlling interest of Gemino Healthcare Finance, LLC (“Gemino Finance”).

Pursuant to a definitive agreement dated September 30, 2013, Solar Senior Capital Ltd., a Maryland corporation (“Solar”), acquired a controlling interest in Gemino Finance. Gemino Management Investment, LLC (“GMI”), whose members comprise certain management employees of Gemino Finance and who had an interest in Gemino Finance before the transaction, co-invested in the transaction. On December 31, 2013, Solar contributed all of its limited liability company interests in Gemino Finance to Gemino Senior in exchange for all of the limited liability company interests in Gemino Senior and a \$13,000,000 senior secured promissory note. Solar is the sole member of Gemino Senior. GMI has a non-controlling interest in Gemino Finance.

Gemino Healthcare Finance, LLC

Gemino Finance, a Delaware limited liability company formed in December 2006, is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized U.S. companies operating in the healthcare industry. Gemino Finance’s loans are primarily in the form of revolving lines of credit, secured by accounts receivable of the borrowers. The accounts receivable serving as collateral are primarily third party obligations from government payers, such as Medicare or Medicaid, and commercial insurers.

In certain cases, Gemino Finance may provide senior term loan financing to qualified borrowers in addition to a revolving line of credit. Senior term loans are typically secured by accounts receivable and all other assets of the borrowers, and a pledge of the stock of the borrowers.

In April 2007, Gemino Finance formed Gemino Healthcare Funding, LLC (“Gemino Funding”), a consolidated wholly-owned special purpose limited liability company, to purchase certain eligible loans and related property from Gemino Finance under a \$100,000,000 Indenture (Note 8).

2. Summary of Significant Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the accounts of Gemino Senior, Gemino Finance and Gemino Funding (collectively, the “Company”). All significant intercompany balances have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. The allowance for loan loss represents an estimate that is particularly susceptible to material change.

Cash Equivalents

Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less. As of December 31, 2013, the Company had no cash equivalents.

Loans Receivable and Income Recognition

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances less the allowance for loan loss and any deferred fees or costs.

Commitment terms of the Company's financing agreements generally range from two to five years with interest charged on a floating rate basis based on the underlying credit quality of the borrower and other factors. For the Company's revolving loans, the ability for a borrower to borrow under the commitment is subject to an advance rate calculated as a percentage of the borrower's estimated net value of eligible accounts receivable, which secures the revolving loan commitment.

Income on loans receivable is recognized using the simple interest method. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is well secured and/or in the process of collection. Typically, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Uncollected interest accrued on loans that are placed on non-accrual or charged off, is reversed against interest income. Any collections received on these loans may be recognized as interest income on a cash basis, or as a reduction in the outstanding principal, at management's discretion. Loans are returned to accrual status when all principal and interest amounts contractually due are reasonably assured.

Revolving loan origination fees and costs are deferred and amortized on a straight-line basis over the terms of the related loan commitments as an adjustment to interest income on loans. Term loan origination fees are deferred and amortized using either the effective interest method or the straight-line method over the life of the loan. The straight-line method may be used for term loan facilities when it approximates the effective yield method. Other fees, such as collateral monitoring fees, unused balance fees and inspection fees, are recognized when the services are provided. Termination fees are recognized when a loan is terminated. These other fees are included in other income.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal and interest in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for revolving and term loans and is calculated based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent.

Allowance for Loan Loss

The allowance for loan loss represents the Company's recognition of the assumed risks of extending credit and the quality of collateral securing the Company's loans receivable portfolio. The allowance is maintained at a level considered adequate to provide for probable losses inherent in the loans receivable portfolio.

The allowance for loan loss is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available. Management's assessment of the various factors affecting the quality of the portfolio includes historical loss experience, specific review of problem accounts and loans that are considered impaired, the value of the underlying collateral and general business conditions.

Loans are charged off when collection is sufficiently questionable and when the Company can no longer justify maintaining the loan as an asset on the balance sheet. Loans qualify for charge off when, after thorough analysis, all possible sources of repayment are insufficient. These include impairment of: (1) potential future cash flow, (2) value of collateral and/or (3) financial strength of guarantors.

The allowance consists of a specific and a general component. The specific component relates to loans that are classified as impaired. For loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers pools of loans by loan class including revolving loans and term loans. These pools of loans are evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors.

These qualitative risk factors include:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
6. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

The Company may grant a concession or modification for economic or legal reasons related to a borrower's financial condition that it would not otherwise consider. The Company may modify loans through rate reductions, extensions of maturity, interest only payments, or payment modifications to better match the timing of cash flows due under the modified terms with the cash flows from the borrowers' operations. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions or any of the other factors used in management's determination.

Goodwill and Intangible Asset

Goodwill relates to the price paid for an acquired business in excess of the fair value of assets acquired and liabilities assumed. Intangible assets are segregated into amortizable intangibles and unamortizable intangibles. Amortizable intangibles are amortized on a straight-line basis over their useful lives. Unamortizable intangibles, which have an indefinite life, like goodwill and trade name, require an assessment of their valuation at least annually.

Goodwill and the intangible asset relate to the acquisition of Gemino Finance on September 30, 2013 (Note 3). There has been no impairment of goodwill or the intangible asset as of December 31, 2013.

Furniture and Equipment

Furniture and equipment are recorded at cost and are depreciated on a straight-line basis over their estimated useful lives.

Deferred Financing Costs

The Company incurred and capitalized \$1,150,859 in 2013, in connection with a new credit facility (Note 8). These costs are being amortized on a straight-line basis over the life of the agreement as an adjustment to interest expense.

Income Taxes

The Company is not subject to federal or state income taxes. Members of the Company have elected to report the taxable income or loss on their individual tax returns. Accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

The Company applies authoritative guidance relating to the accounting for uncertain tax positions. Accordingly, a provision for uncertain tax positions and related penalties and interest is recognized when it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood or more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Gemino Finance files both federal and state

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

income tax returns; Gemino Senior and Gemino Funding are disregarded entities for tax purposes. The Company is no longer subject to examination by taxing authorities for the years before January 1, 2010.

Non-Controlling Interest in Subsidiary

Limited liability company interests of Gemino Finance held by GMI, referred to as member units, along with net income (loss) allocated to these units, net of dividends, are recorded as non-controlling interest in subsidiary in the accompanying consolidated financial statements.

In the event of termination of employment at Gemino Finance of an employee who is a member of GMI, the terminated employee may effectively put his or her member units back to Gemino Finance or Gemino Finance may call the terminated employee's member units. The redemption price for the put or called member units is fair value on the date of exercise.

3. Business Acquisition

In connection with a Unit Purchase Agreement dated September 30, 2013, Solar and GMI ("Buyers") acquired all of the equity interests in Gemino Finance from its selling members ("Seller"). The total consideration for the acquisition was \$38,592,161, which was financed by \$4,499,568 of Company debt and from Buyers' contributed capital.

The assets acquired, including identifiable intangible assets, and liabilities assumed in the acquisition were recorded at their respective fair values. The excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill. The allocation of the purchase price to the assets acquired and liabilities assumed at the date of acquisition is as follows:

Consideration:	
Cash paid	\$ 37,418,629
Fair value of non-controlling interest in Gemino Finance (including previously-owned interest of \$637,351)	<u>1,173,532</u>
Total consideration	<u>38,592,161</u>
Recognized amounts of identifiable assets acquired and liabilities assumed:	
Cash	12,107,702
Loans receivable	95,891,391
Accrued interest receivable	820,850
Other assets	140,669
Furniture and equipment	58,833
Trade name	2,800,000
Account payable and accrued expenses	(2,260,277)
Debt	<u>(76,630,538)</u>
Total identifiable net assets	<u>32,928,630</u>
Goodwill	<u>\$ 5,663,531</u>

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

The fair value of loans receivable, which includes secured revolving lines of credit and term loans of approximately \$95,972,000, was determined based on an independent valuation that considered industry risk, and the interest rate, liquidity, credit and event risks of each loan. The valuation resulted in a discount of approximately \$81,000 from par as of the acquisition date.

The fair value of trade name is based on an independent valuation that considers brand recognition and uses a relief from royalty method, which is an income approach. That measure is based on significant inputs not observable in the market. The trade name asset has an indefinite useful life.

Goodwill of \$5,663,531 was recorded in connection with the acquisition, which is not deductible for tax purposes.

The fair value of the non-controlling interest in subsidiary was estimated using the acquisition value of the controlling interest's units, and considering the significant role of members of Gemino Finance management who effectively hold the non-controlling interest, the fair value put feature exercisable upon termination of employment, and inputs that are not observable, including the lack of control and lack of marketability. The potential discount in value for the lack of control and marketability was determined to be not material.

4. Loans Receivable

The following table shows the loans receivable, net as of December 31, 2013:

Revolving loans receivable	\$ 85,523,989
Term loans receivable	<u>10,609,475</u>
Total loans receivable	96,133,464
Less allowance for loan losses	(988,745)
Less deferred origination fees and costs, net	(177,692)
Less discount on loans, net	<u>(69,464)</u>
Loans receivable, net	<u>\$ 94,897,563</u>

5. Allowance for Loan Losses and Recorded Investment in Loans Receivables

The following table summarizes the activity in the allowance for loan losses by loan class for the period ended December 31, 2013 and information in regards to the allowance for loan losses and the recorded investment in loans receivable by loan class as of December 31, 2013:

Allowance for Loan Losses - December 31, 2013								Ending Balance: Loans Acquired with Deteriorated Credit Quality
	Beginning Balance	Charge-offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	Ending Balance: Loans Acquired with Deteriorated Credit Quality
Revolving loans	\$ —	\$ —	\$ —	\$879,625	\$879,625	\$ —	\$879,625	\$ —
Term loans	—	—	—	109,120	109,120	—	109,120	—
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$988,745</u>	<u>\$988,745</u>	<u>\$ —</u>	<u>\$988,745</u>	<u>\$ —</u>

Gemino Senior Secured Healthcare LLC and SubsidiariesNotes to Consolidated Financial Statements
December 31, 2013

	Loans Receivables - December 31, 2013			Ending Balance: Loans Acquired with Deteriorated Credit Quality
	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment	
Revolving loans	\$85,523,989	\$ —	\$85,523,989	\$ —
Term loans	10,609,475	—	10,609,475	—
	<u>\$96,133,464</u>	<u>\$ —</u>	<u>\$96,133,464</u>	<u>\$ —</u>

There were no impaired loans or loans on nonaccrual status as of December 31, 2013.

Credit Quality Indicators

The following table presents the classes of the loan portfolio summarized by the internal credit rating and the classified numerical ratings of 1 to 7 within the Company's internal risk rating system as of December 31, 2013: Loans with a rating of 4 or better generally pose minimal risk to the Company as they exhibit, among other things, one or more of the following attributes: (1) well-secured collateral position; (2) satisfactory cash flows; and (3) history of timely payment of debt obligations. Loans credit rated below 4 are considered "Watchlist" loans, an overall degree of risk exists such that management's review is warranted each quarter.

	December 31, 2013	
	Revolving Loans	Term Loans
Rated 4 or better	\$ 77,900,445	\$ 9,909,475
Rated 5	6,106,291	700,000
Rated 6	1,517,253	—
Total	<u>\$ 85,523,989</u>	<u>\$ 10,609,475</u>

6. Furniture and Equipment

Furniture and equipment are comprised of the following at December 31, 2013:

Computer software and equipment	\$38,324
Furniture and fixtures	13,270
Leasehold improvements	<u>12,026</u>
Total	63,620
Less accumulated depreciation	<u>(7,336)</u>
Furniture and equipment, net	<u>\$56,284</u>

Depreciation expense was \$7,336 for the period ended December 31, 2013.

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

7. Related Party Debt

On December 31, 2013, Gemino Senior entered into a \$13,000,000 senior secured promissory note (“Note”) with Solar, the sole member of Gemino Senior. The Note matures on December 31, 2018 and bears interest at a rate of LIBOR plus 7.50%, payable monthly beginning in February 2014.

8. Debt

Gemino Finance and Gemino Funding entered into a five-year \$100,000,000 secured revolving credit facility, which is expandable to \$150,000,000 under an accordion feature. The credit facility matures September 2018 and may be extended upon agreement by all parties. Under the terms of the credit facility, Gemino Finance and Gemino Funding, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including financial and reporting requirements and other customary conditions for similar credit facilities. The Company was in compliance with all covenants as of December 31, 2013. The credit facility also includes customary events of default for credit facilities of this nature.

The credit facility is in the form of an Indenture Agreement (the “Indenture”). Under the Indenture, the lender has agreed to make advances to Gemino Funding, as the issuer, to enable it to purchase eligible loans from Gemino Finance, as the originator and servicer. At December 31, 2013, the advances due under the credit facility amounted to \$83,000,000. Gemino Funding pledged approximately \$100,494,000 of eligible loans and related security at December 31, 2013.

Interest on the credit facility accrues at a variable rate per annum of one-month LIBOR plus 2.75% (2.92% at December 31, 2013), payable monthly. The Company also pays customary loan fees for the credit facility.

9. Commitments and Concentrations

At December 31, 2013, the Company (through Gemino Finance and Gemino Funding) has committed facilities to its borrowers totaling approximately \$170,559,000, of which approximately \$74,426,000 was unused. Borrowers may borrow up to the lesser of (i) the committed facility or (ii) the underlying collateral value multiplied by the advance rate. Of the \$74,426,000 unused committed facility amounts at December 31, 2013, borrowers could borrow up to approximately \$15,626,000.

At December 31, 2013, the Company had no loans to borrowers with a balance greater than 10% of total loans receivable.

10. Lease Commitments

The Company leases its headquarters, regional sales office and equipment under non-cancelable operating leases, which expire at various dates through 2016. As of December 31, 2013, future lease payments under non-cancelable operating leases, consists of the following:

Years ending December 31:	
2014	\$132,678
2015	134,866
2016	<u>13,728</u>
Total	<u>\$281,272</u>

Total rent expense for all leases amounted to approximately \$43,000 for the period ended December 31, 2013.

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

11. 401(k) Savings Plan

The Company has a savings incentive plan covering substantially all employees of the Company. Contributions are currently made by the Company in an amount equal to 100% of the first 5% of employee contributions after the employee has completed three months of continued employment. The Company's contribution for the period ended December 31, 2013 was approximately \$25,000.

12. Long-Term Incentive Plan

The Company has a Long-Term Incentive Plan ("LTIP Plan") that provides for an annual bonus pool to employees of Gemino Finance based on Gemino Finance achieving certain performance criteria. For the period ended December 31, 2013, the Company has expensed \$42,000 for the bonus pool.

13. Fair Value Disclosure

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent weaknesses in any estimation technique. The estimated fair value amounts have been measured as of the Company's year-end and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to that date. As such, the estimated fair value of these consolidated financial instruments subsequent to the reporting date may be different than the amounts reported at year-end. These estimates are subjective in nature and include uncertainties and matters of significant judgment and, therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments as of December 31, 2013:

Cash and cash equivalents – The carrying value approximates fair value for cash and cash equivalents.

Loan receivables, net – Fair values for loans are estimated using market interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Accrued interest receivable, accrued interest payable – Due to the short-term nature of these amounts, their carrying amounts approximate fair value.

Notes payable - The fair value of the notes payable is determined from market sources based on current interest rates at the balance sheet date for borrowings with similar credit ratings as the Company.

The estimated fair values of the Company's financial instruments as of December 31, 2013 are as follows:

	December 31, 2013	
	Carrying Value	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 11,699,705	\$ 11,699,705
Loan receivables, net	94,897,563	96,060,305
Accrued interest receivable	784,679	784,679
Financial liabilities:		
Notes payable	96,000,000	96,000,000
Accrued interest payable	215,452	215,452

Gemino Senior Secured Healthcare LLC and Subsidiaries

Notes to Consolidated Financial Statements
December 31, 2013

14. Contingencies

In August 2012, Gemino Finance agreed to indemnify the buyer of a distressed business to which Gemino Finance had provided a loan. The agreement provides for two separate indemnification baskets as of December 31, 2013: (i) one at \$1.0 million for any breaches of customary representations and warranties related to the transaction, which steps down to \$0.5 million in February 2014 and expires in August 2014, and (ii) the second of up to \$4.5 million for acts of gross negligence or willful misconduct by the prior operators of the business, which has no expiration. The Seller has agreed to indemnify the Company for any related losses. The Company believes it is unlikely that any claims will be made by the buyer and, therefore, no liability has been recorded for this contingency. In the event the Company's assumptions used to evaluate this matter change in future periods, it may be required to record a liability to reflect a potential adverse outcome.

15. Subsequent Events

The Company evaluated subsequent events for recognition or disclosure through February 14, 2014, which was the date the consolidated financial statements were available to be issued.