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

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**FORM 10-K**

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**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

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

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**SOLAR SENIOR CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State of Incorporation)

**27-4288022**  
(I.R.S. Employer  
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	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	SUNS	The NASDAQ Global Select Market

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

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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 every Interactive Data File required to be submitted 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 such files). Yes  No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of common stock held by non-affiliates of the Registrant on June 28, 2019 based on the closing price on that date of \$15.91 on the NASDAQ Global

Select Market was approximately \$240.7 million. For the purposes of calculating this amount only, all directors and executive officers of the Registrant have been treated as affiliates. There were 16,047,956 shares of the Registrant's common stock outstanding as of February 18, 2020.

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SOLAR SENIOR CAPITAL LTD.  
FORM 10-K  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2019

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**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 regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Furthermore, as the Company is an investment company, it continues to apply the guidance in the Financial Accounting Standard Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. In addition, for U.S. federal income tax purposes, we have elected, and intend to qualify annually, 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 of our common stock, including the underwriters’ over-allotment, raising approximately \$168 million in net proceeds. Concurrent with this offering, Solar Senior Capital Investors LLC, an entity controlled by Michael S. Gross, our Chairman, Co-Chief Executive Officer and President, and Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer, purchased an additional 500,000 shares of our common stock through a private placement transaction exempt from registration under the Securities Act of 1933, as amended, or the Securities Act (the “Concurrent Private Placement”), raising another \$10 million.

We invest primarily in privately held U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. We define “middle market” to refer to companies with annual revenues typically between \$50 million and \$1 billion. Our investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by directly and indirectly investing primarily in senior loans, including first lien, stretch-senior, 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.” Our investments in stretch-senior loans represent loans where the amount of senior debt of the portfolio company is larger than a traditional senior secured loan but is less than a unitranche loan. We may also invest directly in the debt and equity securities of public companies that are thinly traded or in other equity and equity related securities and such investments may not be limited to any minimum or maximum market capitalization. In addition, we may invest in foreign markets, including emerging markets. 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 directly or indirectly in senior loans. Senior loans typically pay interest at rates which are determined periodically on the basis of a floating base lending rate, primarily LIBOR, plus a premium. Senior loans in which we invest are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior loans typically are rated below investment grade. In addition, some of our debt investments will not fully amortize during their lifetime, which means that a borrower may be unable to payoff its debt due to bankruptcy or other reasons and therefore we may write-off such debt investment prior to its scheduled maturity. Upon such an occurrence, we may realize in a loss or a substantial amount of unpaid principal and interest due upon maturity. Securities rated below investment grade are speculative and 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. While the Company does not typically seek to invest in traditional equity securities as part of its investment objective, the Company may occasionally acquire some equity securities in connection with senior loan investments and in certain other unique circumstances, such as the Company’s equity investments in businesses that make senior loans, including Gemino Healthcare Finance, LLC (“Gemino”) and North Mill Holdco LLC (“NM Holdco”).

We invest in senior loans made primarily to private, leveraged middle-market companies with approximately \$20 million to \$100 million of earnings before income taxes, depreciation and amortization (“EBITDA”). Our business model is focused primarily on the direct origination of investments through portfolio

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

As of December 31, 2019, our investment portfolio totaled \$460.3 million and our net asset value was \$261.8 million. Our portfolio was comprised of debt and equity investments in 48 portfolio companies.

During our fiscal year ended December 31, 2019, we invested approximately \$108 million across 25 portfolio companies. Investments sold or prepaid during the fiscal year ended December 31, 2019 totaled approximately \$100 million.

### **Solar Capital Partners**

Solar Capital Partners, our investment adviser, is controlled and led by Michael S. Gross, our Chairman, Co-Chief Executive Officer and President, and Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer. They are supported by a team of 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, at December 31, 2019, Solar Capital Partners serves as investment adviser to private funds and managed accounts as well as to Solar Capital Ltd., another publicly traded BDC that primarily invests in leveraged middle market companies in the form of senior secured loans, stretch-senior loans, financing leases and to a lesser extent, unsecured loans and equity securities, and SCP Private Credit Income BDC LLC, an unlisted BDC that primarily invests in first lien and stretch first lien loans to upper middle market private leveraged companies. Through December 31, 2019, the investment team led by Messrs. Gross and Spohler has invested approximately \$9.0 billion in more than 390 different portfolio companies involving approximately 200 different financial sponsors. As of February 18, 2020, Mr. Gross and Mr. Spohler beneficially owned, either directly or indirectly, approximately 5.4% of our outstanding common stock.

Mr. Gross has over 25 years of experience in the private equity, distressed debt and mezzanine i.e., actually or structurally subordinated lending businesses and has been involved in originating, structuring, negotiating, consummating and managing private equity, distressed debt and mezzanine lending transactions. Prior to his current role as our Chairman, Co-Chief Executive Officer and President, Mr. Gross founded Apollo Investment Corporation, a publicly traded BDC. He served as its chairman from February 2004 to July 2006 and its chief executive officer from February 2004 to February 2006. Under his management, Apollo Investment Corporation raised approximately \$930 million in gross proceeds in an initial public offering in April 2004, built a dedicated investment team and infrastructure and invested approximately \$2.3 billion in over 65 companies in conjunction with 50 different private equity sponsors. Mr. Gross is also a founder and a former senior partner of Apollo Management, L.P., a leading private equity firm. During his tenure at Apollo Management, L.P., Mr. Gross was a member of the investment committee that was responsible for overseeing more than \$13 billion of investments in over 150 companies.

Mr. Gross also currently serves on the boards of directors of three public companies, and in the past has served on the boards of directors of more than 20 public and private companies. As a result, Mr. Gross has

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developed an extensive network of private equity sponsor relationships as well as relationships with management teams of public and private companies, investment bankers, attorneys and accountants that we believe should provide us with significant business opportunities.

We also rely on the over 25 years of experience of Mr. Spohler, who has served as our Chief Operating Officer and a partner of Solar Capital Partners since its inception and as Co-Chief Executive Officer since June 2019. Previously, Mr. Spohler was a managing director and a former co-head of U.S. Leveraged Finance for CIBC World Markets. He held numerous senior roles at CIBC World Markets, including serving on the U.S. Management Committee, Global Executive Committee and the Deals Committee, which approves all of CIBC World Markets' U.S. corporate finance debt capital decisions. During Mr. Spohler's tenure, he was responsible for senior loan, high yield and mezzanine origination and execution, as well as CIBC World Markets' below investment grade loan portfolio in the United States. As a co-head of U.S. Leveraged Finance, Mr. Spohler oversaw over 300 capital raising and merger and acquisition transactions, comprising over \$40 billion in market capitalization.

Solar Capital Partners' senior investment professionals have been active participants in the primary and secondary leveraged credit markets throughout their careers. They have effectively managed portfolios of distressed and mezzanine debt as well as other investment types. The depth of their prior experience and credit market expertise has led them through various stages of the economic cycle as well as several market disruptions.

### **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.

### **License Agreement**

We have entered into a license agreement with Solar Capital Partners pursuant to which Solar Capital Partners has agreed to grant us a non-exclusive, royalty-free license to use the name "Solar Capital." Under this agreement, we have a right to use the Solar Capital name for so long as the Investment Advisory and Management Agreement with our investment adviser is in effect. Other than with respect to this limited license, we will have no legal right to the "Solar Capital" name.

### **Market Opportunity**

Solar Senior Capital invests primarily in senior loans of private middle-market leveraged companies organized and located in the United States. We believe that the size of this market, coupled with leveraged companies' need for flexible sources of capital at attractive terms and rates, creates an attractive investment environment for us.

- *Middle-market companies have faced increasing difficulty in accessing the capital markets.* While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings. In addition, many private finance companies that

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historically financed their lending and investing activities through securitization transactions have lost that source of funding and reduced lending significantly. Moreover, consolidation of lenders and market participants and the illiquid nature of investments have resulted in fewer middle-market lenders and market participants.

- *There is a large pool of uninvested private equity capital likely to seek additional senior debt capital to support their investments.* We believe there is more than \$600 billion of uninvested private equity seeking debt financing to support acquisitions. We expect that middle-market private equity firms will continue to invest in middle-market companies and that those private equity firms will seek to support their investments with senior loans from other sources such as Solar Senior Capital.
- *The significant amount of leveraged loans maturing through 2021 should provide additional demand for senior debt capital.* A high volume of financings are expected to mature over the next few years. We believe that this supply of prospective lending opportunities coupled with a lack of available credit in the middle-market lending space may offer attractive risk-adjusted returns to investors. Risk-adjusted return compares returns against the amount of risk incurred. The term “risk-adjusted return” does not imply that an investment is no risk or low risk.
- *Investing in private middle-market senior secured debt provides an attractive risk reward profile.* In general, terms for illiquid, middle-market subordinated debt have been more attractive than those for larger corporations which are typically more liquid. We believe this is because fewer institutions are able to invest in illiquid asset classes.

Therefore, we believe that there is an opportunity to invest in senior loans of leveraged companies and that we are well positioned to serve this market.

### **Competitive Advantages and Strategy**

We believe that we have the following competitive advantages over other providers of financing to leveraged companies.

#### ***Management Expertise***

As managing partner, Mr. Gross has principal management responsibility for Solar Capital Partners, to which he currently dedicates substantially all of his time. Mr. Gross has over 25 years of experience in leveraged finance, private equity and distressed debt investing. Mr. Spohler, our Co-Chief Executive Officer, Chief Operating Officer and a partner of Solar Capital Partners, has over 25 years of experience in evaluating and executing leverage finance transactions.

#### ***Proprietary Sourcing and Origination***

We believe that Solar Capital Partners’ senior investment professionals’ longstanding relationships with financial sponsors, commercial and investment banks, management teams and other financial intermediaries provide us with a strong pipeline of origination opportunities. We expect to continue leveraging the over 100 relationships with middle-market sponsors that Solar Capital Partners’ investment team established while sourcing and originating investments for Solar Capital, which gives us access to deals that are not available through large syndication processes.

#### ***Versatile Transaction Structuring and Flexibility of Capital***

We believe Solar Capital Partners’ senior investment team’s broad expertise and ability to draw upon its extensive experience enable us to identify, assess and structure investments successfully and to manage potential risk and return at all stages of the economic cycle. The attempt to manage risk does not imply low risk or no risk.

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While we are subject to significant regulation as a BDC, we are not subject to many of the regulatory limitations that govern traditional lending institutions such as banks. As a result, we believe that we can be more flexible than such lending institutions in selecting and structuring investments, adjusting investment criteria and building transaction structures.

### ***Emphasis on Achieving Strong Risk-Adjusted Returns***

Solar Capital Partners uses a structured investment and risk management process that emphasizes research and analysis. Solar Capital Partners seeks to build our portfolio on a “bottom-up” basis, choosing and sizing individual positions based on their relative risk/reward profiles as a function of the associated downside risk, volatility, correlation with the existing portfolio and liquidity. At the same time, Solar Capital Partners takes into consideration a variety of factors in managing our portfolio and imposes portfolio-based risk constraints promoting a more diverse portfolio of investments and limiting issuer and industry concentration. We do not pursue short-term origination targets. We believe this approach enables us to build an attractive investment portfolio that meets our return and value criteria over the long term. We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through Solar Capital Partners, conduct a rigorous due diligence process.

### ***Dedication of Resources to Industries with Substantial Information Flow***

We dedicate our investing resources to industries characterized by strong cash flow and in which Solar Capital Partners’ investment professionals have deep investment experience. As a result of their investment experience, Messrs. Gross and Spohler, together with Solar Capital Partners’ other investment professionals, have long-term relationships with management consultants and management teams in the industries we target, as well as substantial information concerning those industries.

### ***Longer Investment Horizon***

Unlike private equity and venture capital funds, we are not subject to standard periodic capital return requirements. Such requirements typically stipulate that the capital of these funds, together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles enables us to invest in private middle-market senior debt, which we believe provides a more attractive investment profile than the liquid senior debt market for larger companies. We also believe our longer investment horizon enables us to be a better long-term partner for our portfolio companies.

### **Investments**

Solar Senior Capital seeks to create a diverse portfolio of senior loans by investing approximately \$5 million to \$30 million of capital, on average, in the individual securities of leveraged companies, including private middle-market companies. We expect that this investment size will vary proportionately with the size of our capital base and/or strategic initiatives. We may also invest in the debt and equity 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 directly or indirectly 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 spread or premium. Senior loans in which we invest are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior loans typically are rated below investment grade. Securities rated below investment grade are speculative and 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



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grade. Senior loans, however are generally less risky than subordinated debt, bearing lower leverage and higher recovery statistics. In addition, many of our debt investments will not fully amortize during their lifetime, which means that a borrower may be unable to payoff its debt due to bankruptcy or other reasons and therefore we may write-off such debt investment prior to its scheduled maturity. Upon such an occurrence, we may realize a loss or a substantial amount of unpaid principal and interest due upon maturity.

In addition to senior 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 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 our credit facilities 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 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 entirely related to currency fluctuations.

Our principal focus is to provide senior loans, including first lien and stretch-senior loans, to leveraged private middle-market companies in a variety of industries. We generally seek to target companies that generate positive cash flows and/or have substantiated assets that serve our loans. 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
- Hotels, Restaurants & Leisure
- Household & Personal Products

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- Airlines
- Asset Management
- Automobiles
- 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
- Energy Equipment & Services
- Food Products
- Footwear
- Health Care Equipment & Supplies
- Health Care Facilities
- Health Care Providers & Services
- Health Care Technology
- Industrial Conglomerates
- Insurance
- Internet Services & Infrastructure
- IT Services
- Leisure Equipment & Products
- Life Sciences Tools & Services
- Machinery
- Media
- Multiline Retail
- Multi-Sector Holdings
- Oil, Gas & Consumer Fuels
- Paper & Forest Products
- Personal Products
- Pharmaceuticals
- Professional Services
- Research & Consulting Services
- Road & Rail
- Software
- Specialty Retail
- Textiles, Apparel & Luxury Goods
- Thrifts & Mortgage Finance
- Trading Companies & Distributors
- Utilities
- Wireless Telecommunications Services

We may also 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 participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Solar Capital Partners, or an investment adviser controlling, controlled by or under common control with Solar Capital Partners and is registered as an investment adviser under the Advisers Act in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions of the exemptive order obtained from the SEC on June 13, 2017 (the “New Exemptive Order”), which supersedes the exemptive order we originally obtained on July 28, 2014 (the “Prior Exemptive Order”). Pursuant to the New Exemptive Order, we are permitted to co-invest with our affiliates if a “required majority” (as defined in Section 57(o) of the 1940 Act) of our independent directors make certain conclusions in connection with a co-investment transaction, including, but not limited to, that (1) the terms of the potential co-investment transaction, including the consideration to be paid, are reasonable and fair to us and our stockholders and do not involve overreaching in respect of us or our stockholders on the part of any person concerned, and (2) the potential co-investment transaction is consistent with the interests of our stockholders and is consistent with our then-current investment objective and strategies.

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At December 31, 2019, our portfolio consisted of 48 portfolio companies and was invested 78.5% directly in senior secured loans and 21.5% in common equity/equity interests/warrants (of which 7.8% is Gemino and 13.6% is NM Holdco, through which the Company indirectly invests in senior secured loans), in each case, measured at fair value. We expect that our portfolio will continue to primarily include senior secured loans.

While our primary investment objective is to maximize current income through direct and indirect 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, 2019 and 2018:

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF DECEMBER 31, 2019**

<b>Portfolio Company</b>	<b>% of Total Assets</b>
North Mill Holdco LLC*	10.8%
Gemino Healthcare Finance LLC*	6.2%
Edgewood Partners Holdings, LLC	2.9%
Ministry Brands, LLC.	2.4%
Confie Seguros Holding II Co.	2.4%
1A Smart Start LLC	2.4%
On Location Events, LLC & PrimeSport Holdings Inc	2.4%
Solara Medical Supplies, Inc.	2.3%
Unified Physician Management, LLC	2.2%
American Teleconferencing Services, Ltd	2.2%

\* 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.

<b>Industry</b>	<b>% of Total Assets</b>
Diversified Financial Services	17.1%
Health Care Providers & Services	12.9%
Professional Services	9.1%
Insurance	8.4%
Software	5.3%
Communications Equipment	4.1%
Electronic Equipment, Instruments & Components	2.4%
Media	2.4%
Health Care Facilities	2.2%
Commercial Services & Supplies	2.1%
Wireless Telecommunication Services	2.0%

**TOP TEN PORTFOLIO COMPANIES AND INDUSTRIES AS OF DECEMBER 31, 2018**

<b>Portfolio Company</b>	<b>% of Total Assets</b>
North Mill Capital LLC*	14.6%
Gemino Healthcare Finance LLC*	7.1%
Ministry Brands, LLC	3.1%
On Location Events, LLC & PrimeSport Holdings Inc	3.1%
Confie Seguros Holding II Co.	3.1%
American Teleconferencing Services, Ltd	3.0%
1A Smart Start LLC	3.0%
Edgewood Partners Holdings, LLC	2.9%
Capstone Logistics Acquisition, Inc.	2.7%
KORE Wireless Group, Inc.	2.6%

\* 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.

<b>Industry</b>	<b>% of Total Assets</b>
Diversified Financial Services	21.7%
Health Care Providers & Services	15.5%
Professional Services	11.6%
Insurance	11.0%
Software	10.4%
Communications Equipment	5.4%
Media	3.1%
Electronic Equipment, Instruments & Components	3.0%
Wireless Telecommunication Services	2.6%
Chemicals	2.6%

Set forth below is a brief description of each portfolio company in which we have made an investment that represents greater than 5% of our total assets as of December 31, 2019.

**North Mill Capital LLC**

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

**Gemino Healthcare Finance, LLC**

Gemino is a commercial finance business focused on originating, underwriting, and managing financing solutions for small to mid-size companies operating in the healthcare industry. Gemino's primary financing products today include revolving lines of credit secured by the borrower's accounts receivable, including

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receivables from Medicare, Medicaid, and private health insurance companies as well as senior cash flow term loans secured by all other assets, often with a pledge of equity or personal guarantee. The company has processes in place to source, underwrite and monitor portfolio companies. Gemino competes against an assortment of regional and local banks as well as specialized commercial finance companies. The company's performance is susceptible to changes in healthcare regulation and interest rates. The company is headquartered in Philadelphia, Pennsylvania and has a satellite office in Atlanta, Georgia.

### **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 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, is 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 transactions, the company's fundings may be derived from a borrowing base determined by the value of the 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 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.

We generally seek companies that we believe have or 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 our interest, and the repayment of our principal represent 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 and expected future cash flows or cash positions offer attractive exit possibilities. These companies include candidates for strategic acquisition by

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other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction. We underwrite our investments on a held-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 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's 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 a deeper management bench;
- 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. Our coverage approach aims to act proactively, consider all investments in the capital structure, 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;
- 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;

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- 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 stockholder 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 determines 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.

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. In some cases and when available, we seek to structure these loans with prepayment premiums to capture foregone interest.

In the case of our senior secured loan investments, 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

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our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we may be able to limit the downside potential of our investments by:

- requiring a total return on our investments (including both interest and potential capital appreciation) that compensates us for credit risk;
- incorporating “put” rights and call protection into the investment structure; and
- 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.

Our investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Any warrants we receive with our debt securities generally require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. In addition, we may from time to time make direct equity investments in portfolio companies.

We generally seek to hold most of our investments to maturity or repayment, but believe we have the ability to sell our investments earlier, including if a liquidity event takes place such as the sale or recapitalization of a portfolio company.

### ***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 invested 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.



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

<b>Investment Rating</b>	<b>Summary Description</b>
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, 2019 and December 31, 2018, 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 is determined, at all times consistent with GAAP, and the 1940 Act. Our valuation procedures are set forth in more detail below:

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

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

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When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the fiscal year ended December 31, 2019, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

### **Competition**

Our primary competitors provide financing to middle-market companies and include other BDCs, 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. 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

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difficult as implementation of U.S. and international financial reforms 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 Co-Chief Executive Officer, and Mr. Spohler, our Co-Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial and controlling interests in, Solar Capital Partners. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Secretary serves as the Chief Financial Officer for Solar Capital Partners. 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 and the allocable portion of the cost of the Company's chief compliance officer and chief financial officer and their respective staffs.

### **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 Securities Exchange Act of 1934 (the "1934 Act"), our Co-Chief Executive Officers 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

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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.

### **Business Development Company Regulations**

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 150%. 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 SEC.

We are generally not able to issue and sell our common stock at a price below net asset value per share without annual stockholder 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. At our Annual Meeting of Stockholders on October 8, 2019, our stockholders approved a proposal authorizing us to sell up to 25% of our common stock at a price below our then-current asset value per share, subject to the approval by our board of directors for the offering. This authorization expires on the earlier of October 8, 2020 and the date of our 2020 Annual Meeting of Stockholders. 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 were substantially limited in our ability to co-invest in privately negotiated transactions with affiliated funds until we obtained an exemptive order from the SEC on July 28, 2014 (the "Prior Exemptive Order"). The Prior Exemptive Order permitted us to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser was Solar Capital Partners, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other

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pertinent factors, and pursuant to the conditions to the Prior Exemptive Order. On June 13, 2017, the Company, Solar Capital Ltd., and Solar Capital Partners, et al., received an exemptive order that supersedes the Prior Exemptive Order (the “New Exemptive Order”) and extends the relief granted in the Prior Exemptive Order such that it no longer applies to certain affiliates only if their respective investment adviser is Solar Capital Partners, but also applies to certain affiliates whose investment adviser is an investment adviser that controls, is controlled by or is under common control with Solar Capital Partners and is registered as an investment adviser under the Advisers Act. The terms and conditions of the New Exemptive Order are otherwise substantially similar to the Prior Exemptive Order. If we are unable to rely on the New Exemptive Order for a particular opportunity, such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity’s investment strategy, on an alternating basis. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected to the extent investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and members of our investment adviser.

We will be periodically examined by the SEC for compliance with the federal securities laws, including 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 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); 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, which, as defined by the 1940 Act, is presumed to exist where a BDC beneficially owns more than 25% of the outstanding voting securities of the portfolio company.

(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

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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 BDC, deferred organization and operating expenses, and other noninvestment assets necessary and appropriate to its operations as a BDC, including notes of indebtedness of directors, officers, employees, and general partners held by a BDC 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 1934 Act, and shall be determined no less frequently than annually.

### ***Significant Managerial Assistance to Portfolio Companies***

As a BDC, we offer, and must provide upon request, significant 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.

### ***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 or in repurchase agreements, provided that such repurchase agreements are fully collateralized by cash or securities issued by the U.S. government or its agencies. 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 150%

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immediately after each such issuance. In addition, while certain senior securities remain outstanding, we may be required to 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 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. 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](mailto:publicinfo@sec.gov).

### ***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.

As an investment adviser registered under the Advisers Act, 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.

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### **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, 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 generally is 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 (or are deemed to 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.

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



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- 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.”

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 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.

### **Failure to Qualify as a Regulated Investment Company**

If we were unable to qualify for treatment as a RIC, we would be subject to U.S. federal income 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 current 20% maximum rate) to the extent of our current and accumulated earnings and profits. Subject to certain limitations under the Code, corporate distributees 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 requalify 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

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disqualification and that requalify 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 5 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 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 a performance-based incentive fee.

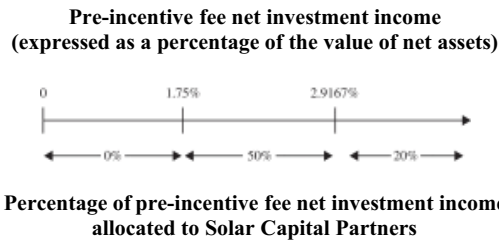
The base management fee is calculated at an annual rate of 1.00% of our gross assets. For services rendered under the Investment Advisory and Management Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets 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. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The performance-based incentive fee has two parts, as follows: one is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (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 distributions paid on any issued and outstanding preferred stock, but excluding the performance-based 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 performance-based 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 a performance-based incentive fee with respect to our pre-incentive fee net investment income in each calendar quarter as follows:

- no performance-based incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle of 1.75%;
- 50% of 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).

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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.

**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 (investment income – (management fee + 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) = 0.25%
- Other expenses (legal, accounting, custodian, transfer agent, etc.) (3) = 0.20%
- Pre-incentive fee net investment income (investment income – (management fee + other expenses)) = 2.25%
- Incentive fee = 50% × pre-incentive fee net investment income, subject to the “catch-up” (4)  
= 50% × (2.25% – 1.75%)  
= 0.25%

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### **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

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)

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### **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<sup>(1)</sup>

\$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)

#### **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 this offering;
- 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;

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<sup>(1)</sup> 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.

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- 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 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 and the allocable portion of the cost of the Company's chief compliance officer and chief financial officer and their respective staffs.

### **Available Information**

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](http://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.

### **Item 1A. Risk Factors**

*Before you invest in our securities, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this annual report on Form 10-K, before you decide whether to make an investment in our securities. The risks described in this document and set out below are not the only risks we face. 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 or the value of our preferred stock, debt securities, subscription rights, or warrants may 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,

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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 have, which could allow them to consider a wider variety of investments and establish more relationships and offer better pricing and more flexible structure than we are able to do. Furthermore, many of our potential competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC. If we are unable to source attractive investments, we may hold a greater percentage of our assets in cash and cash equivalents 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.

Participants in our industry compete on several factors, including price, flexibility in transaction structure, customer service, reputation, market knowledge and speed in decision-making. 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, stretch-senior and second lien debt instruments, made to leveraged private middle-market companies whose debt is rated below investment grade. We may also invest in debt of public companies that are thinly traded or equity securities. Securities rated below investment grade are speculative and 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.** When we make a senior secured term loan investment, including a first lien, stretch-senior or second lien debt 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.

**Equity Investments.** When we invest in senior secured loans we may acquire common equity securities as well. In certain other unique circumstances we may also make equity investments in businesses that make senior loans, such as our investments in Gemino and NMC. In addition, we may invest directly in the equity securities of portfolio companies without limitation as to market capitalization. For instance, we may invest in thinly traded companies, the prices of which may be subject to erratic market movement. Our goal is ultimately to exit such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

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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 make it difficult for us to dispose of our investments at a favorable price, which may adversely affect our ability to meet our investment objectives.***

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. Investments purchased by us that are liquid at the time of purchase may subsequently become illiquid due to events relating to the issuer of the investments, market events, economic conditions or investor perceptions. 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 BDC 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. Domestic and foreign markets are complex and interrelated, so that events in one sector of the world markets or economy, or in one geographical region, can reverberate and have materially negative consequences for other markets, economic or regional sectors in a manner that may not be foreseen and which may negatively impact the liquidity of our investments and materially harm our business. 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. For example, as of December 31, 2019, our investments in NMC and Gemino comprised 10.8% and 6.2%, respectively, of our total assets and our investments in diversified financial services (which includes NMC and Gemino) and healthcare providers & services industries comprised 17.1% and 12.9%, respectively, of our total assets. Beyond the asset diversification requirements associated with our qualification as a RIC under Subchapter M of the Code,



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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.

***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 speculative and 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 will not fully amortize during their lifetime, which means that a borrower may be unable to payoff its debt due to bankruptcy or other reasons and therefore we may write-off such debt investment prior to its scheduled maturity. Upon such an occurrence, we may realize a loss or a substantial amount of unpaid principal and interest due upon maturity.

***Price declines and illiquidity in the corporate debt markets have adversely affected, 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. 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.

***Global economic, political and market conditions may adversely affect our business, results of operations and financial condition, including our revenue growth and profitability.***

The current worldwide financial market situation, as well as various social and political tensions in the United States and around the world, may contribute to increased market volatility, may have long-term effects on the U.S. and worldwide financial markets, and may cause economic uncertainties or deterioration in the United States and worldwide. The U.S. and global capital markets experienced extreme volatility and disruption during the economic downturn that began in mid-2007, and the U.S. economy was in a recession for several consecutive calendar quarters during the same period. In 2010, a financial crisis emerged in Europe, triggered by

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high budget deficits and rising direct and contingent sovereign debt, which created concerns about the ability of certain nations to continue to service their sovereign debt obligations. Risks resulting from such debt crisis, including any austerity measures taken in exchange for bailout of certain nations, and any future debt crisis in Europe or any similar crisis elsewhere could have a detrimental impact on the global economic recovery, sovereign and non-sovereign debt in certain countries and the financial condition of financial institutions generally. In June 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union (“Brexit”) and, subsequently, on March 29, 2017, the U.K. government began the formal process of leaving the European Union. Brexit created political and economic uncertainty and instability in the global markets (including currency and credit markets), and especially in the United Kingdom and the European Union. Under current Prime Minister Boris Johnson, the House of Commons passed the Brexit deal on December 20, 2019 and the U.K. formally left the European Union on January 31, 2020. The U.K. has now entered into a transition period until December 31, 2020, where agreements surrounding trade and other aspects of the U.K.’s future relationship with the European Union will need to be finalized. Failure to come to terms on a free trade deal could result in checks and tariffs on U.K. goods traveling to the European Union and thus prolong the economic uncertainty. There is continued concern about national-level support for the Euro and the accompanying coordination of fiscal and wage policy among European Economic and Monetary Union member countries. In addition, the fiscal and monetary policies of foreign nations, such as Russia and China, may have a severe impact on the worldwide and U.S. financial markets.

The Republican Party currently controls the executive branch and senate portion of the legislative branch of government, which increases the likelihood that legislation may be adopted that could significantly affect the regulation of U.S. financial markets. Areas subject to potential change, amendment or repeal include the Dodd-Frank Wall Street Reform and Consumer Protection Act and the authority of the Federal Reserve and the Financial Stability Oversight Council. For example, in March 2018, the U.S. Senate passed a bill that eased financial regulations and reduced oversight for certain entities. The United States may also potentially withdraw from or renegotiate various trade agreements and take other actions that would change current trade policies of the United States. We cannot predict which, if any, of these actions will be taken or, if taken, their effect on the financial stability of the United States. Such actions could have a significant adverse effect on our business, financial condition and results of operations. We cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on our investments. We monitor developments and seek to manage our investments in a manner consistent with achieving our investment objective, but there can be no assurance that we will be successful in doing so.

On May 24, 2018, President Trump signed into law the Economic Growth, Regulatory Relief, and Consumer Protection Act, which increased from \$50 billion to \$250 billion the asset threshold for designation of “systemically important financial institutions” or “SIFIs” subject to enhanced prudential standards set by the Federal Reserve Board, staggering application of this change based on the size and risk of the covered bank holding company. On May 30, 2018, the Federal Reserve Board voted to consider changes to the Volcker Rule that would loosen compliance requirements for all banks. The effect of this change and any further rules or regulations are and could be complex and far-reaching, and the change and any future laws or regulations or changes thereto could negatively impact our operations, cash flows or financial condition, impose additional costs on us, intensify the regulatory supervision of us or otherwise adversely affect our business, financial condition and results of operations.

### ***Volatility or a prolonged disruption in the credit markets could materially damage our business.***

We are required to record our assets at fair value, as determined in good faith by our board of directors, in accordance with our valuation policy. As a result, volatility in the capital markets may have a material adverse effect on our valuations and our net asset value, even if we hold investments to maturity. Volatility or dislocation in the capital markets may depress our stock price below our net asset value per share and create a challenging environment in which to raise equity and debt capital. 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

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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 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 2019 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 8, 2019 and expiring on the earlier of the one-year anniversary of the date of the 2019 Annual Stockholders Meeting and the date of our 2020 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval. 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 150% 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.

Additionally, our ability to incur indebtedness is limited by the asset coverage ratio for a BDC, as defined under the 1940 Act. Declining portfolio values negatively impact our ability to borrow additional funds because our net asset value is reduced for purposes of the asset coverage ratio. If the fair value of our assets declines substantially, we may fail to maintain the asset coverage ratio stipulated by the 1940 Act, which could, in turn, cause us to lose our status as a BDC and materially impair our business operations. A lengthy disruption in the credit markets could also materially decrease demand for our investments.

The significant disruption in the capital markets experienced in the past has 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. The debt capital that may be available to us in the future may be at a higher cost and have less favorable terms and conditions than those currently in effect. If our financing costs increase and we have no increase in interest income, then our net investment income will decrease. A prolonged inability to raise capital may require us to reduce the volume of investments we originate and could have a material adverse impact on our business, financial condition and results of operations. This may also increase the probability that other structural risks negatively impact us. These situations may arise due to circumstances that we may be unable to control, such as a lengthy disruption in the credit markets, a severe decline in the value of the U.S. dollar, a sharp economic downturn or recession or an operational problem that affects third parties or us, and could materially damage our business, financial condition and results of operations.

### ***Economic sanction laws in the United States and other jurisdictions may prohibit us and our affiliates from transacting with certain countries, individuals and companies.***

Economic sanction laws in the United States and other jurisdictions may prohibit us or our affiliates from transacting with certain countries, individuals and companies. In the United States, the U.S. Department of the Treasury's Office of Foreign Assets Control administers and enforces laws, executive orders and regulations establishing U.S. economic and trade sanctions, which prohibit, among other things, transactions with, and the provision of services to, certain non-U.S. countries, territories, entities and individuals. These types of sanctions may significantly restrict or completely prohibit investment activities in certain jurisdictions, and if we, our portfolio companies or other issuers in which we invest were to violate any such laws or regulations, we may face significant legal and monetary penalties.

The Foreign Corrupt Practices Act, or FCPA, and other anti-corruption laws and regulations, as well as anti-boycott regulations, may also apply to and restrict our activities, our portfolio companies and other issuers of our

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investments. If an issuer or we were to violate any such laws or regulations, such issuer or we may face significant legal and monetary penalties. The U.S. government has indicated that it is particularly focused on FCPA enforcement, which may increase the risk that an issuer or us becomes the subject of such actual or threatened enforcement. In addition, certain commentators have suggested that private investment firms and the funds that they manage may face increased scrutiny and/or liability with respect to the activities of their underlying portfolio companies. As such, a violation of the FCPA or other applicable regulations by us or an issuer of our portfolio investments could have a material adverse effect on us. We are committed to complying with the FCPA and other anti-corruption laws and regulations, as well as anti-boycott regulations, to which it is subject. As a result, we may be adversely affected because of our unwillingness to enter into transactions that violate any such laws or regulations.

***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 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.

***The interest rates of our floating-rate loans to our portfolio companies that extend beyond 2021 might be subject to change based on recent regulatory changes.***

LIBOR, the London Interbank Offered Rate, is the basic rate of interest used in lending transactions between banks on the London interbank market and is widely used as a reference for setting the interest rate on loans globally. We typically use LIBOR as a reference rate in floating-rate loans we extend to portfolio companies such that the interest due to us pursuant to a term loan extended to a portfolio company is calculated using LIBOR. The terms of our debt investments may include minimum interest rate floors which are calculated based on LIBOR.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is expected that a transition away from the widespread use of LIBOR to alternative rates will occur over the course of the next several years. As a result of this transition, interest rates on financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Further, any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our financial instruments tied to LIBOR rates. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short term repurchase agreements, backed by Treasury securities, called the Secured Overnight Financing Rate ("SOFR"). The first publication of SOFR was released in April 2018. Whether or not SOFR attains market traction as a LIBOR replacement remains a questions and the future of LIBOR at this time is uncertain.

Additionally, on June 12, 2019 the Staff of the SEC's Division of Corporate Finance, Division of Investment Management, Division of Trading and Markets, and Office of the Chief Accountant issued a statement about the potentially significant effects on financial markets and market participants when LIBOR is

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discontinued in 2021 and no longer available as a reference benchmark rate. The Staff encouraged all market participants to identify contracts that reference LIBOR and begin transitions to alternative rates. On December 30, 2019, the SEC's Chairman, Division of Corporate Finance and Office of the Chief Accountant issued a statement to encourage audit committees in particular to understand management's plans to identify and address the risks associated with the elimination of LIBOR, and, specifically, the impact on accounting and financial reporting and any related issues associated with financial products and contracts that reference LIBOR, as the risks associated with the discontinuation of LIBOR and transition to an alternative reference rate will be exacerbated if the work is not completed in a timely manner.

The elimination of LIBOR or any other changes or reforms to the determination or supervision of LIBOR could have an adverse impact on the market for or value of any LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us, or on our overall financial condition or results of operations. If LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in determining the interest rate to replace LIBOR with the new standard that is established. In addition, the cessation of LIBOR could:

- Adversely impact the pricing, liquidity, value of, return on and trading for a broad array of financial products, including any LIBOR-linked securities, loans and derivatives that are included in our assets and liabilities;
- Require extensive changes to documentation that governs or references LIBOR or LIBOR-based products, including, for example, pursuant to time-consuming renegotiations of existing documentation to modify the terms of outstanding investments;
- Result in inquiries or other actions from regulators in respect of our preparation and readiness for the replacement of LIBOR with one or more alternative reference rates;
- Result in disputes, litigation or other actions with portfolio companies, or other counterparties, regarding the interpretation and enforceability of provisions in our LIBOR-based investments, such as fallback language or other related provisions, including, in the case of fallbacks to the alternative reference rates, any economic, legal, operational or other impact resulting from the fundamental differences between LIBOR and the various alternative reference rates;
- Require the transition and/or development of appropriate systems and analytics to effectively transition our risk management processes from LIBOR-based products to those based on one or more alternative reference rates, which may prove challenging given the limited history of the proposed alternative reference rates; and
- Cause us to incur additional costs in relation to any of the above factors.

There is no guarantee that a transition from LIBOR to an alternative will not result in financial market disruptions, significant increases in benchmark rates, or borrowing costs to borrowers, any of which could have a material adverse effect on our business, result of operations, financial condition, and unit price.

### ***Economic recessions or downturns could impair the ability of our portfolio companies to repay loans and harm our operating results.***

Many of our 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 result in our receipt of a reduced level of

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interest income from our portfolio companies and/or losses or charge offs related to our investments, and, in turn, may adversely affect distributable income and have material adverse effect on our results of operations.

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 holdings 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 that they are unable to secure and that we are unable or unwilling to provide, or they may be subject to adverse developments unrelated to the technologies they acquire.

***The continued uncertainty related to the sustainability and pace of economic recovery in the U.S. and globally could have a negative impact on our business.***

Our business is directly influenced by the economic cycle, and could be negatively impacted by a downturn in economic activity in the U.S. as well as globally. Fiscal and monetary actions taken by U.S. and non-U.S. government and regulatory authorities could have a material adverse impact on our business. To the extent uncertainty regarding the U.S. or global economy negatively impacts consumer confidence and consumer credit factors, our business, financial condition and results of operations could be adversely affected. Moreover, Federal Reserve policy, including with respect to certain interest rates and the decision to end its quantitative easing policy, along with the general policies of the current Presidential administration, may also adversely affect the value, volatility and liquidity of dividend- and interest-paying securities. Market volatility, rising interest rates and/or a return to unfavorable economic conditions could adversely affect our business.

***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.

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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 years shown signs of recovery from the 2008–2009 global recession, the strength and duration of any economic recovery will be impacted by worldwide economic growth. For instance, concerns of economic slowdown in China and other emerging markets and signs of deteriorating sovereign debt conditions in Europe could lead to disruption and instability in the global financial markets. The significant debt in the United States and European countries is expected to hinder growth in those countries for the foreseeable future. In the future, the U.S. government may not be able to meet its debt payments unless the federal debt ceiling is raised. If legislation increasing the debt ceiling is not enacted, as needed, and the debt ceiling is reached, the U.S. federal government may stop or delay making payments on its obligations. Any default by the U.S. government on its obligations or any prolonged U.S. government shutdown could negatively impact the U.S. economy and our portfolio companies. 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 United States. 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.

***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 RIC tax treatment.

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***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 in which we do not have a controlling interest may make business decisions with which we disagree, and that the management and/or stockholders of such 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 prepaid prior to maturity. When this occurs, we may reduce our borrowings outstanding or reinvest these proceeds in temporary investments, pending their future investment in new portfolio companies. These temporary investments, if any, will typically have substantially lower yields than the debt investment 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 investment that was prepaid. 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.

In addition, some of the loans in which we may invest may be "covenant-lite" loans. We use the term "covenant-lite" loans to refer generally to loans that do not have a complete set of financial maintenance covenants. Generally, "covenant-lite" loans provide borrower companies more freedom to negatively impact lenders because their covenants are incurrence-based, which means they are only tested and can only be breached following an affirmative action of the borrower, rather than by a deterioration in the borrower's financial condition. Accordingly, to the extent we invest in "covenant-lite" loans, we may have fewer rights against a borrower and may have a greater risk of loss on such investments as compared to investments in or exposure to loans with financial maintenance covenants.

***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



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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. We have made direct equity investments or received warrants in connection with loans. 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.

***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 are 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, smaller 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 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 case, 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

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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. These risks may be more pronounced for portfolio companies located or operating primarily in emerging markets, whose economies, markets and legal systems may be less developed.

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 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 for other funds it currently manages or by our senior investment professionals while they were employed at prior positions.***

Our investment adviser manages other funds, including other BDCs, and may manage other entities in the future. The track record and achievements of these other entities are not necessarily indicative of future results that will be achieved by our investment adviser because these other entities may have investment objectives and strategies that differ from ours. Additionally, 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 BDCs may trade 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 in the future. 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 at its market price without first obtaining the approval for such issuance from our stockholders and our independent directors. At our 2019 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 8, 2019 and expiring on the earlier of the one-year anniversary of the date of the 2019 Annual Stockholders Meeting and the date of our 2020 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval. 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 tax treatment;
- 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;
- changes in the prevailing interest rates;
- loss of a major funding source; or
- general economic conditions and trends and other external factors.

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***Our business and operation could be negatively affected if we become subject to any securities litigation or shareholder activism, which could cause us to incur significant expense, hinder execution of investment strategy and impact our stock price.***

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. Shareholder activism, which could take many forms or arise in a variety of situations, has been increasing in the BDC space recently. While we are currently not subject to any securities litigation or shareholder activism, due to the potential volatility of our stock price and for a variety of other reasons, we may in the future become the target of securities litigation or shareholder activism. Securities litigation and shareholder activism, including potential proxy contests, could result in substantial costs and divert management's and our board of directors' attention and resources from our business.

Additionally, such securities litigation and shareholder activism could give rise to perceived uncertainties as to our future, adversely affect our relationships with service providers and make it more difficult to attract and retain qualified personnel. Also, we may be required to incur significant legal fees and other expenses related to any securities litigation and activist shareholder matters. Further, our stock price could be subject to significant fluctuation or otherwise be adversely affected by the events, risks and uncertainties of any securities litigation and shareholder activism.

***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. To the extent we make distributions to stockholders which include a return of capital, that portion of the distribution essentially constitutes a return of the stockholders' investment. Although such return of capital may not be taxable, such distributions may increase an investor's tax liability for capital gains upon the future sale of our common stock.

As a RIC, if we do not distribute a certain percentage of our income annually, we may suffer adverse tax consequences, including possibly losing 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 published guidance, distributions payable of a publicly offered RIC that are in cash or in shares of stock at the election of stockholders may be treated as taxable distributions. The Internal Revenue Service has issued a revenue procedure indicating that this rule will apply if the total amount of cash to be distributed is not less than 20% of the total distribution. Under this guidance, if too many stockholders elect to receive their distributions in cash, the cash available for distribution must be allocated among the stockholders electing to receive cash (with the balance of distributions paid in stock). If we decide to make any distributions consistent with this revenue procedure 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

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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. 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.

***Delays in the government budget process or a government shutdown may adversely affect our operations and may prevent us from conducting a securities offering.***

Each year, the U.S. Congress must pass all spending bills in the federal budget. If any such spending bill is not timely passed, a government shutdown will close many federally run operations, which may include those of the SEC, and halt work for federal employees unless they are considered essential or such work is separately funded by industry. If a government shutdown were to occur, and the SEC were to remain closed for a prolonged period of time, we may not be able to conduct a securities offering. Our ability to raise additional capital through the sale of securities could be materially affected by any prolonged government shutdown.

***We may be unable to invest the net proceeds raised from any offerings on acceptable terms or allocate net proceeds from any offering of our securities in ways with which you may not agree.***

We cannot assure you that we will be able to find enough appropriate investments that meet our investment criteria or that any investment we complete using the proceeds from any securities offering will produce a sufficient return. Until we identify new investment opportunities, we intend to either invest the net proceeds of future offerings in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less or use the net proceeds from such offerings to reduce then-outstanding obligations.

We have significant flexibility in investing the net proceeds of any offering of our securities and may use the net proceeds from an offering in ways with which you may not agree or for purposes other than those contemplated at the time of the offering.

***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 2019 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

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approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 8, 2019 and expiring on the earlier of the one-year anniversary of the date of the 2019 Annual Stockholders Meeting and the date of our 2020 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval.

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 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 stock 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 \$1,000 of net asset value.

Similarly, 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.

***If we issue preferred stock, the net asset value and market value of our common stock may become more volatile.***

We cannot assure you that the issuance of preferred stock would result in a higher yield or return to the holders of the common stock. The issuance of preferred stock would likely cause the net asset value and market value of the common stock to become more volatile. If the distribution rate on the preferred stock were to approach the net rate of return on our investment portfolio, the benefit of leverage to the holders of the common stock would be reduced. If the distribution rate on the preferred stock were to exceed the net rate of return on our portfolio, the leverage would result in a lower rate of return to the holders of common stock than if we had not issued preferred stock. Any decline in the net asset value of our investments would be borne entirely by the holders of common stock. Therefore, if the market value of our portfolio were to decline, the leverage would result in a greater decrease in net asset value to the holders of common stock than if we were not leveraged through the issuance of preferred stock. This greater net asset value decrease would also tend to cause a greater decline in the market price for the common stock. We might be in danger of failing to maintain the required asset coverage of the preferred stock or of losing our ratings on the preferred stock or, in an extreme case, our current

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investment income might not be sufficient to meet the distribution requirements on the preferred stock. In order to counteract such an event, we might need to liquidate investments in order to fund a redemption of some or all of the preferred stock. In addition, we would pay (and the holders of common stock would bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred stock, including higher advisory fees if our total return exceeds the distribution rate on the preferred stock. Holders of preferred stock may have different interests than holders of common stock and may at times have disproportionate influence over our affairs.

***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 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 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. 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.

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. In the event distributions become two full years in arrears, holders of any preferred stock would have the right to elect a majority of the directors until such arrearage is completely eliminated. Preferred stockholders also have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion to open-end status, and accordingly can veto any such changes. Restrictions imposed on the declarations and payment of distributions to the holders of our common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies or the terms of our credit facilities, might impair our ability to maintain our qualification for tax treatment as a RIC for U.S. federal income tax purposes. While we would intend to redeem our preferred stock to the extent necessary to enable us to distribute our income as required to maintain our qualification as a RIC, there can be no assurance that such actions could be effected in time to meet the tax requirements.

***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.

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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 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 our pre-incentive fee net investment income.

Further, rising interest rates could also adversely affect our performance if we hold investments with floating interest rates, subject to specified minimum interest rates (such as a LIBOR floor), while at the same time engaging in borrowings subject to floating interest rates not subject to such minimums. In such a scenario, rising interest rates may increase our interest expense, even though our interest income from Investments is not increasing in a corresponding manner as a result of such minimum interest rates.

***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 a similar 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.

### **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 partners of Solar Capital Partners 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 diligence, skill, network of business contacts and 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, Mr. Gross serves as Co-Chief Executive Officer and President of Solar Senior Capital Ltd. and SCP Private Credit Income BDC LLC. In addition, Mr. Spohler serves as Co-Chief Executive Officer and Chief Operating Officer of Solar Senior Capital Ltd. and SCP Private Credit Income BDC LLC.

***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



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investment opportunities. If the senior investment professionals of our investment adviser fail to maintain their existing relationships or 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 and cash equivalents 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 must 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 our existing credit facilities. 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 our credit facilities. For example, we cannot be certain that we will be able to renew our credit facilities as they mature 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 our credit facilities 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 Solar Capital Partners' ability to manage our future growth effectively by identifying, investing in and monitoring companies that meet our investment criteria.***

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 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 and SCP Private Credit Income BDC LLC'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,

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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 tax treatment as a RIC. 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 additional preferred stock may be restricted if our total assets are less than 150% 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 have a material adverse effect on our business, financial condition and results of operations.

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our 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 had been permitted, as a BDC, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equaled at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. However, our stockholders approved a resolution permitting us to be subject to 150% asset coverage ratio effective as of October 12, 2018. If the value of our assets declines, we may be unable to satisfy the asset coverage test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. In addition, because our management fee is

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calculated as a percentage of our gross assets, which includes any borrowings for investment purposes, the management fee expenses will increase if we incur additional indebtedness.

As of December 31, 2019, we had \$157.6 million outstanding under our senior secured revolving credit facility (the “Credit Facility”) and \$53.6 million outstanding under our FLLP credit facility (the “FLLP Facility”). If we issue preferred stock, the preferred stock would rank “senior” to common stock in our capital structure, preferred stockholders would generally vote together with common stockholders but would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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

At our 2019 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 8, 2019 and expiring on the earlier of the one-year anniversary of the date of the 2019 Annual Stockholders Meeting and the date of our 2020 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 24, 2011, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval.

### ***Our credit ratings may not reflect all risks of an investment in our debt securities.***

Our credit ratings are an assessment by third parties of our ability to pay our obligations. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of our publicly issued debt securities. Our credit ratings, however, may not reflect the potential impact of risks related to market conditions generally or other factors discussed above on the market value of, or trading market for, any publicly issued debt securities.

### ***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. In the event we issue new shares in

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connection with our dividend reinvestment plan, our stockholders that do not elect to receive distributions in shares of common stock may experience dilution in their ownership percentage over time as a result of such issuance.

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

We borrow money as part of our business plan. Borrowings, also known as leverage, magnify the potential for loss on amounts invested and, therefore, increase the risks associated with investing in our securities. As of December 31, 2019, we had \$157.6 million outstanding under the Credit Facility and \$53.6 million outstanding under the FLLP Facility. We may borrow from and issue senior debt securities to banks, insurance companies and other lenders in the future. Lenders of these senior securities, including the Credit Facility and the FLLP 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 increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Also, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make distribution payments on our common stock, scheduled debt payments or other payments relating to our securities. 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 had been required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. However, our stockholders have approved a resolution permitting us to be subject to a 150% asset coverage ratio effective as of October 12, 2018. Even though we are subject to a 150% asset coverage ratio effective as of October 12, 2018, contractual leverage limitations under our existing credit facilities or future borrowings may limit our ability to incur additional indebtedness. Some of our wholly and/or substantially owned portfolio companies, including NMC and Gemino, may incur significantly more leverage than we can but we do not consolidate NMC and Gemino and their leverage is non-recourse to us. Additionally, our credit facilities require us to comply with certain financial and other restrictive covenants, including maintaining an asset coverage ratio of at least 150% 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 150%, 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, our credit facilities impose, and any other debt facility into which we may enter would likely impose financial and operating covenants that restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain RIC tax treatment under Subchapter M of the Code.

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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 common stock assuming various annual returns on our total assets, net of interest expense. The calculations in the table below are hypothetical and actual returns may be higher or lower than those appearing in the table below.

	Assumed total return (net of interest expense)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholder <sup>(1)</sup>	(25.7)%	(14.7)%	(3.6)%	7.4%	18.4%

(1) Assumes \$578.0 million in total assets and \$211.2 million in total debt outstanding, which reflects our total assets and total debt outstanding as of December 31, 2019, and a cost of funds of 4.51%. Excludes non-leverage related expenses.

In order for us to cover our annual interest payments on our outstanding indebtedness at December 31, 2019, we must achieve annual returns on our December 31, 2019 total assets of at least 1.6%.

***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.***

Our 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. Our credit facilities 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 security interest in our assets in connection with any such credit facilities and borrowings.

Our credit facilities generally contain 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, our credit facilities require 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 our credit facilities. An event of default under our credit facilities would likely result, among other things, in termination of the availability of further funds under our credit facilities and accelerated maturity dates for all amounts outstanding under our credit facilities, which would likely disrupt our business and, potentially, the business of the portfolio companies whose loans we finance through our credit facilities. This could reduce our revenues and, by delaying any cash payment allowed to us under our credit facilities until the lender has been paid in full, reduce our liquidity and cash flow and impair our ability to grow our business and maintain RIC tax treatment.

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.

***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

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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 that 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 these 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 U.S. recession that began in mid-2007 and the 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.

***There will be uncertainty as to the value of our portfolio investments, which may impact our net asset value.***

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 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 material assets. The board of directors discusses valuations and determines the fair value in good faith based on the input of our investment adviser and, when utilized, 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

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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 other investment funds such as Solar Capital Ltd. and SCP Private Credit Income BDC LLC, which could impact our investment returns, and an investment in Solar Senior Capital is not an investment in Solar Capital Ltd. or SCP Private Credit Income BDC LLC.***

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. For example, Solar Capital Partners, presently serves as the investment adviser to Solar Capital Ltd., a publicly-traded BDC and SCP Private Credit Income BDC LLC, an unlisted BDC. In addition, Michael S. Gross, our Chairman, Co-Chief Executive Officer and President, Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer and board member, and Richard L. Peteka, our Chief Financial Officer, serve in similar capacities for Solar Capital Ltd and SCP Private Credit Income BDC LLC. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interests of us or our stockholders. In addition, we note that any affiliated investment vehicle formed in the future, and managed by our investment adviser or 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.

As a BDC, we were substantially limited in our ability to co-invest in privately negotiated transactions with affiliated funds until we obtained an exemptive order from the SEC on July 28, 2014 (the "Prior Exemptive Order"). The Prior Exemptive Order permitted us to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Solar Capital Partners, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions to the Prior Exemptive Order. On June 13, 2017, the Company, Solar Capital Ltd., and Solar Capital Partners received an exemptive order (the "New Exemptive Order") for a co-investment order that supersedes the Prior Exemptive Order and extends the relief granted in the Prior Exemptive Order such that it no longer applies to certain affiliates only if their respective investment adviser is Solar Capital Partners, but also applies to certain affiliates whose investment adviser is an investment adviser that controls, is controlled by or is under common control with Solar Capital Partners and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. The terms of the New Exemptive Order are otherwise substantially similar to the Prior Exemptive Order. If we are unable to rely on the New Exemptive Order for a particular opportunity, such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity's investment strategy, on an alternating basis. Although our investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, we and our common stockholders could be adversely affected to the extent investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and members of our investment adviser.

Solar Capital Partners and certain investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners 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 Solar Capital Partners' allocation procedures.

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

In the ordinary 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 Capital.” Under the License Agreement, we have the right to use the “Solar 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 their respective staffs. These arrangements create conflicts of interest that our board of directors must monitor.

### ***Our ability to enter into transactions involving derivatives and financial commitment transactions may be limited.***

In November 2019, the SEC proposed a rule regarding the ability of a BDC (or a registered investment company) to use derivatives and other transactions that create future payment or delivery obligations (except reverse repurchase agreements and similar financing transactions). If adopted as proposed, BDCs that use derivatives would be subject to a value-at-risk (“VaR”) leverage limit, certain other derivatives risk management program and testing requirements and requirements related to board reporting. These new requirements would apply unless the BDC qualified as a “limited derivatives user,” as defined in the SEC’s proposal. A BDC that enters into reverse repurchase agreements or similar financing transactions would need to aggregate the amount of indebtedness associated with the reverse repurchase agreements or similar financing transactions with the aggregate amount of any other senior securities representing indebtedness when calculating the BDC’s asset coverage ratio. Under the proposed rule, a BDC may enter into an unfunded commitment agreement that is not a derivatives transaction, such as an agreement to provide financing to a portfolio company, if the BDC has a reasonable belief, at the time it enters into such an agreement, that it will have sufficient cash and cash equivalents to meet its obligations with respect to all of its unfunded commitment agreements, in each case as it becomes due. If the BDC cannot meet this test, it is required to treat unfunded commitments as a derivatives transaction subject to the requirements of the rule. Collectively, these proposed requirements, if adopted, may limit our ability to use derivatives and/or enter into certain other financial contracts.

### ***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.



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### ***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 stockholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment 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 for tax treatment 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 tax treatment. To 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 are 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, 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 certain passive investments, including interest, dividends gains from the sale of stock or securities or similar sources.

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- 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 tax treatment. 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 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 could 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.

***We may have difficulty satisfying the Annual Distribution Requirement in order to qualify and maintain RIC tax treatment if we recognize income before or without receiving cash representing such income.***

In accordance with GAAP and tax requirements, we include in income certain amounts that we have not yet 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 PIK 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 U.S. federal income 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 the Annual Distribution and Excise Tax Avoidance 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

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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 our investment adviser based on non-cash accruals that ultimately may not be realized, but our investment adviser will be under no obligation to reimburse the Company for these fees.

***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 of directors, 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 “Control Share Act”) acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Act, the Control Share 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 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 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 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 stockholder of the opportunity to sell such stockholder’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 stockholders.

***The failure in cyber security systems, as well as the occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.***

The occurrence of a disaster, such as a cyber-attack against us or against a third-party that has access to our data or networks, a natural catastrophe, an industrial accident, failure of our disaster recovery systems, or

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consequential employee error, could have an adverse effect on our ability to communicate or conduct business, negatively impacting our operations and financial condition. This adverse effect can become particularly acute if those events affect our electronic data processing, transmission, storage, and retrieval systems, or impact the availability, integrity, or confidentiality of our data.

We depend heavily upon computer systems to perform necessary business functions. Despite our implementation of a variety of security measures, our computer systems, networks, and data, like those of other companies, could be subject to cyber-attacks and unauthorized access, use, alteration, or destruction, such as from physical and electronic break-ins or unauthorized tampering. If one or more of these events occurs, it could potentially jeopardize the confidential, proprietary, and other information processed, stored in, and transmitted through our computer systems and networks. Such an attack could cause interruptions or malfunctions in our operations, which could result in financial losses, litigation, regulatory penalties, client dissatisfaction or loss, reputational damage, and increased costs associated with mitigation of damages and remediation. If unauthorized parties gain access to such information and technology systems, they may be able to steal, publish, delete or modify private and sensitive information, including nonpublic personal information related to stockholders (and their beneficial owners) and material nonpublic information. The systems we have implemented to manage risks relating to these types of events could prove to be inadequate and, if compromised, could become inoperable for extended periods of time, cease to function properly or fail to adequately secure private information. Breaches such as those involving covertly introduced malware, impersonation of authorized users and industrial or other espionage may not be identified even with sophisticated prevention and detection systems, potentially resulting in further harm and preventing them from being addressed appropriately. The failure of these systems or of disaster recovery plans for any reason could cause significant interruptions in our and our Adviser's operations and result in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to stockholders, material nonpublic information and other sensitive information in our possession.

A disaster or a disruption in the infrastructure that supports our business, including a disruption involving electronic communications or other services used by us or third parties with whom we conduct business, or directly affecting our headquarters, could have a material adverse impact on our ability to continue to operate our business without interruption. Our disaster recovery programs may not be sufficient to mitigate the harm that may result from such a disaster or disruption. In addition, insurance and other safeguards might only partially reimburse us for our losses, if at all.

Third parties with which we do business may also be sources of cybersecurity or other technological risk. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as client, counterparty, employee, and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss, exposure, destruction, or other cybersecurity incident that affects our data, resulting in increased costs and other consequences as described above.

In addition, cybersecurity has become a top priority for regulators around the world, and some jurisdictions have enacted laws requiring companies to notify individuals of data security breaches involving certain types of personal data. If we fail to comply with the relevant laws and regulations, we could suffer financial losses, a disruption of our businesses, liability to investors, regulatory intervention or reputational damage.

***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

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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;
- 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.

### ***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. Our efforts to comply with these existing requirements, or any revised or amended 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 BDCs, 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.

### ***Uncertainty about presidential administration initiatives could negatively impact our business, financial condition and results of operations.***

The current administration has called for significant changes to U.S. trade, healthcare, immigration, foreign and government regulatory policy. In this regard, there is significant uncertainty with respect to legislation,

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regulation and government policy at the federal level, as well as the state and local levels. Recent events have created a climate of heightened uncertainty and introduced new and difficult-to-quantify macroeconomic and political risks with potentially far-reaching implications. There has been a corresponding meaningful increase in the uncertainty surrounding interest rates, inflation, foreign exchange rates, trade volumes and fiscal and monetary policy. To the extent the U.S. Congress or the current administration implements changes to U.S. policy, those changes may impact, among other things, the U.S. and global economy, international trade and relations, unemployment, immigration, corporate taxes, healthcare, the U.S. regulatory environment, inflation and other areas.

A particular area identified as subject to potential change, amendment or repeal includes the Dodd-Frank Wall Street Reform and Consumer Protection Act, or the “Dodd-Frank Act,” including the Volcker Rule and various swaps and derivatives regulations, credit risk retention requirements and the authorities of the Federal Reserve, the Financial Stability Oversight Council and the SEC. Given the uncertainty associated with the manner in which and whether the provisions of the Dodd-Frank Act will be implemented, repealed, amended, or replaced, the full impact such requirements will have on our business, results of operations or financial condition is unclear. The changes resulting from the Dodd-Frank Act or any changes to the regulations already implemented thereunder may require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements. Failure to comply with any such laws, regulations or principles, or changes thereto, may negatively impact our business, results of operations or financial condition. While we cannot predict what effect any changes in the laws or regulations or their interpretations would have on us as a result of recent financial reform legislation, these changes could be materially adverse to us and our stockholders.

***We cannot predict how tax reform legislation will affect us, our investments, or our stockholders, and any such legislation could adversely affect our business.***

Legislative or other actions relating to taxes could have a negative effect on us. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Treasury Department. In December 2017, the U.S. House of Representatives and U.S. Senate passed tax reform legislation, which the President signed into law. Such legislation has made many changes to the Code, including significant changes to the taxation of business entities, the deductibility of interest expense, and the tax treatment of capital investment. We cannot predict with certainty how any changes in the tax laws might affect us, our stockholders, or our portfolio investments. New legislation and any U.S. Treasury regulations, administrative interpretations or court decisions interpreting such legislation could significantly and negatively affect our ability to qualify for tax treatment as a RIC or the U.S. federal income tax consequences to us and our stockholders of such qualification, or could have other adverse consequences. Stockholders are urged to consult with their tax advisor regarding tax legislative, regulatory, or administrative developments and proposals and their potential effect on an investment in our securities.

***Changes to United States tariff and import/export regulations may have a negative effect on our portfolio companies and, in turn, harm us.***

There has been ongoing discussion and commentary regarding potential significant changes to United States trade policies, treaties and tariffs. The current administration, along with Congress, has created significant uncertainty about the future relationship between the United States and other countries with respect to the trade policies, treaties and tariffs. These developments, or the perception that any of them could occur, may have a material adverse effect on global economic conditions and the stability of global financial markets, and may significantly reduce global trade and, in particular, trade between the impacted nations and the United States. Any of these factors could depress economic activity and restrict our portfolio companies’ access to suppliers or customers and have a material adverse effect on their business, financial condition and results of operations, which in turn would negatively impact us.

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*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 upon 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.

**Item 3. Legal Proceedings**

We and our consolidated subsidiaries are not currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us or our consolidated subsidiaries. From time to time, we and our consolidated 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****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.

	NAV(1)	Price Range		Premium or (Discount) of High Closing Sale Price to NAV(2)	Premium or (Discount) of Low Closing Sale Price to NAV (2)	Declared Distributions(3)
		High	Low			
<b>Fiscal 2019</b>						
Fourth Quarter	\$16.32	\$18.24	\$17.03	11.8%	4.4%	\$ 0.3525
Third Quarter	16.31	17.80	16.10	9.1	(1.3)	0.3525
Second Quarter	16.34	17.53	15.91	7.3	(2.6)	0.3525
First Quarter	16.40	17.36	15.32	5.9	(6.6)	0.3525
<b>Fiscal 2018</b>						
Fourth Quarter	\$16.30	\$16.72	\$14.56	2.6%	(10.7)%	\$ 0.3525
Third Quarter	16.81	17.01	16.47	1.2	(2.0)	0.3525
Second Quarter	16.83	17.37	16.31	3.2	(3.0)	0.3525
First Quarter	16.84	17.98	16.38	6.8	(2.7)	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 distribution declared for the specified quarter.

On February 14, 2020 the last reported sales price of our common stock was \$18.20 per share. As of February 14, 2020, we had 5 shareholders of record.

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 IPO 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. As of February 14, 2020, our shares of common stock traded at a premium equal to approximately 11.5% of the net assets attributable to those shares based upon our net asset value as of December 31, 2019. It is not possible to predict whether the shares offered hereby will trade at, above, or below net asset value.

**DISTRIBUTIONS**

Tax characteristics of all distributions will be reported to stockholders on Form 1099 after the end of the calendar year. Future monthly 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 tax treatment, we must distribute at least 90% of our ordinary income and realized net short-term capital gains in excess of



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realized net long-term capital losses, if any, out of the assets legally available for distribution. In addition, although we currently intend to distribute realized net capital gains (*i.e.*, net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

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

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

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.

### **Recent Sales of Unregistered Securities**

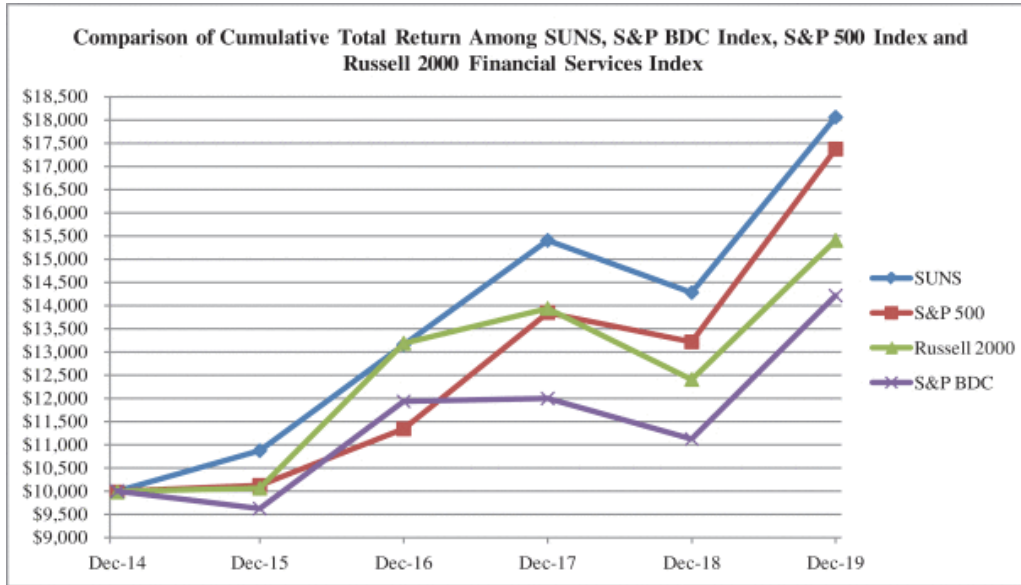
None.

### **Issuer Purchases of Equity Securities**

None.

### STOCK PERFORMANCE GRAPH

This graph compares the cumulative total 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 December 31, 2014 through December 31, 2019. 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 additional shares of the same class of equity securities at the frequency with which dividends are paid of such securities during the applicable fiscal year.



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.

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**FEES AND EXPENSES**

The following table is intended to assist an investor in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this report contains a reference to fees or expenses paid by “us” or “Solar Senior Capital,” or that “we” will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Solar Senior Capital Ltd.

<b>Stockholder transaction expenses:</b>	
Sales load (as a percentage of offering price)	— %(1)
Offering expenses (as a percentage of offering price)	— %(2)
Dividend reinvestment plan expenses	— %(3)
Total stockholder transaction expenses (as a percentage of offering price)	— %(2)
<b>Annual expenses (as a percentage of net assets attributable to common stock):(4)</b>	
Base management fee	1.83%(5)
Incentive fees payable under our Investment Advisory and Management Agreement (up to 20%)	0.57%(6)
Interest payments on borrowed funds	4.10%(7)
Acquired fund fees and expenses	— %
Other expenses (estimated)	1.24%(8)
Total annual expenses	7.74%

- (1) In the event that the shares of common stock are sold to or through underwriters, a corresponding prospectus supplement will disclose the applicable sales load and the “Example” will be updated accordingly.
- (2) The prospectus supplement corresponding to each offering will disclose the applicable offering expenses and total stockholder transaction expenses.
- (3) The expenses of the dividend reinvestment plan are included in “other expenses.”
- (4) Annual Expenses are presented in this manner because common shareholders will bear all costs of running the Company.
- (5) Our 1% base management fee under the Investment Advisory and Management Agreement is based on our gross assets, which is defined as all the assets of Solar Senior Capital, excluding temporary assets, including those acquired using borrowings for investment purposes, and assumes the base management fee remains consistent with fees incurred for the fiscal year ended December 31, 2019.
- (6) Assumes that annual gross incentive fees earned by our investment adviser, Solar Capital Partners, remain consistent with the incentive fees earned by Solar Capital Partners for the fiscal year ended December 31, 2019. The incentive fee expenses provided in the table above do not reflect Solar Capital Partners’ waiver of fees during the fiscal year ended December 31, 2019. The incentive fee consists of two parts:

The first part, which is payable quarterly in arrears, equals 20% of the excess, if any, of our “Pre-Incentive Fee Net Investment Income” that exceeds a 1.75% quarterly (7.00% annualized) hurdle rate, which we refer to as the Hurdle, subject to a “catch-up” provision measured at the end of each calendar quarter. The first part of the incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. The operation of the first part of the incentive fee for each quarter is as follows:

- no incentive fee is payable to our investment adviser 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) is payable to our investment adviser. 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

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20% of our Pre-Incentive Fee Net Investment Income, as if a Hurdle did not apply when our Pre-Incentive Fee 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 our investment adviser (once the Hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Investment Income thereafter is allocated to our investment adviser).

The second part of the incentive fee equals 20% of our “Incentive Fee Capital Gains,” if any, which equals our realized capital gains 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. The second part of the incentive fee is payable, in arrears, at the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date).

- (7) We currently borrow funds under our credit facilities and may borrow additional funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. The costs associated with our outstanding borrowings are indirectly born by our investors. For purposes of this section, we have computed interest expense using the average consolidated balance outstanding for borrowings during the fiscal year ended December 31, 2019. We used the LIBOR or similar base rate on December 31, 2019 and the interest rate on our credit facilities on December 31, 2019. We have also included, as applicable, the estimated amortization of fees incurred in establishing the credit facilities as of December 31, 2019. Additionally, we included the estimated cost of commitment fees for unused balances on our credit facilities. As of December 31, 2019, we had \$211.2 million outstanding and \$88.8 million remaining available to us under our credit facilities. Although we do not have any current plans to issue subscription rights, preferred stock, or warrants, we may issue subscription rights, preferred stock, or warrants, subject to our compliance with applicable requirements under the 1940 Act.
- (8) “Other expenses” are based on estimated amounts for the current fiscal year, which considers the amounts incurred for the fiscal year ended December 31, 2019 and include our overhead expenses, including payments under our Administration Agreement based on our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement. See “Administration Agreement.”

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above and have excluded performance-based incentive fees. As such, the below example is based on an annual expense ratio of 7.17%. See Note 8 below for additional information regarding certain assumptions regarding our level of leverage. In the event that shares are sold to or through underwriters, a corresponding prospectus supplement will restate this example to reflect the applicable sales load.

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 72	\$ 211	\$ 343	\$ 651

**The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.** While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory and Management Agreement, which, assuming a 5% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the example. This illustration assumes that we will not realize any capital gains

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(computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

	<u>1 Year</u>	<u>3 Years</u>	<u>5 Years</u>	<u>10 Years</u>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 82	\$ 237	\$ 384	\$ 710

In addition, the example assumes no sales load. Also, while the example assumes reinvestment of all distributions at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the distribution payable to a participant by the market price per share of our common stock at the close of trading on the distribution payment date, which may be at, above or below net asset value unless the company makes open market purchases and the shares received will be determined based on the average price paid by our agents, plus commissions.

### 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, 2019, 2018, 2017, 2016 and 2015. Financial information has been derived from our consolidated financial statements that were audited by KPMG LLP (“KPMG”), an independent registered public accounting firm.

	<u>Year ended December 31, 2019</u>	<u>Year ended December 31, 2018</u>	<u>Year ended December 31, 2017</u>	<u>Year ended December 31, 2016</u>	<u>Year ended December 31, 2015</u>
(\$ in thousands, except per share data)					
<b>Income statement data:</b>					
Total investment income	\$ 40,091	\$ 39,809	\$ 32,167	\$ 27,196	\$ 25,446
Net expenses	\$ 17,470	\$ 17,189	\$ 9,563	\$ 8,880	\$ 10,073
Net investment income	\$ 22,621	\$ 22,620	\$ 22,604	\$ 18,316	\$ 15,373
Net realized gain (loss)	\$ (4,762)	\$ (8,291)	\$ 233	\$ 81	\$ 18
Net change in unrealized gain (loss).	\$ 5,085	\$ (516)	\$ 549	\$ 5,855	\$ (14,344)
Net increase in net assets resulting from operations	\$ 22,944	\$ 13,813	\$ 23,386	\$ 24,252	\$ 1,047
<b>Per share data:</b>					
Net investment income <sup>(1)</sup>	\$ 1.41	\$ 1.41	\$ 1.41	\$ 1.42	\$ 1.33
Net realized and unrealized gain (loss) <sup>(1)</sup>	\$ 0.02	\$ (0.54)	\$ 0.05	\$ 0.50	\$ (1.24)
Dividends and distributions declared	\$ 1.41	\$ 1.41	\$ 1.41	\$ 1.41	\$ 1.41

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	As of December 31, 2019	As of December 31, 2018	As of December 31, 2017	As of December 31, 2016	As of December 31, 2015
<b>Balance sheet data:</b>					
Total investment portfolio	\$ 460,265	\$ 450,111	\$ 408,081	\$ 365,534	\$ 306,518
Cash and cash equivalents	\$ 106,952	\$ 4,875	\$ 108,600	\$ 151,828	\$ 53,067
Total assets	\$ 577,958	\$ 459,295	\$ 521,941	\$ 521,989	\$ 362,577
Debt	\$ 211,202	\$ 170,571	\$ 124,200	\$ 98,300	\$ 116,200
Net assets	\$ 261,814	\$ 261,392	\$ 270,131	\$ 269,145	\$ 188,304
<b>Per share data:</b>					
Net asset value per share	\$ 16.32	\$ 16.30	\$ 16.84	\$ 16.80	\$ 16.33
<b>Other data (unaudited):</b>					
Total return <sup>(2)</sup>	26.4%	(7.3)%	17.1%	20.7%	8.9%
Number of portfolio companies at period end	48	47	45	51	45

- (1) The per-share calculations are based on weighted average shares of 16,043,542, 16,040,060, 16,031,303, 12,869,937 and 11,533,315 for the years ended December 31, 2019, 2018, 2017, 2016 and 2015, respectively.
- (2) Total return is based on the change in market price per share during the year and takes into account dividends, if any, reinvested in accordance with the dividend reinvestment plan. Total return does not include a sales load.

### 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

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

### **Overview**

Solar Senior Capital Ltd. (“Solar Senior”, the “Company”, “we” or “our”), a Maryland corporation formed in December 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”) under the Investment Company Act of 1940, as amended (the “1940 Act”). Furthermore, as the Company is an investment company, it continues to apply the guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. In addition, for tax purposes, the Company has elected to be treated, and intend to qualify annually, as a regulated investment company (“RIC”) under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”).

On February 24, 2011, we priced our initial public offering, selling 9.0 million shares, including the underwriters’ over-allotment, raising approximately \$168 million in net proceeds. Concurrent with this offering, Solar Senior Capital Investors LLC, an entity controlled by Michael S. Gross, our Chairman, Co-Chief Executive Officer and President, and Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer, purchased an additional 500,000 shares through a concurrent private placement, raising another \$10 million.

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

We invest in senior loans made primarily to private, leveraged middle-market companies with approximately \$20 million to \$100 million of earnings before income taxes, depreciation and amortization (“EBITDA”). Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our direct investments in individual securities will generally range between \$5 million and \$30 million each, although we expect that this investment size will vary proportionately with the size of our capital base and/or strategic initiatives. In addition, we may invest a portion of our portfolio in other types of investments, which we refer to as opportunistic investments, which are not our primary focus but are intended to enhance our overall returns. These opportunistic investments may include, but are not limited

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to, direct investments in public companies that are not thinly traded and securities of leveraged companies located in select countries outside of the United States. We may invest up to 30% of our total assets in such opportunistic investments, including loans issued by non-U.S. issuers, subject to compliance with our regulatory obligations as a BDC under the 1940 Act. Our investment activities are managed by Solar Capital Partners, LLC (“Solar Capital Partners” or “Investment Adviser”) and supervised by our board of directors, a majority of whom are non-interested, as such term is defined in the 1940 Act. Solar Capital Management, LLC (“Solar Capital Management” or “Administrator”) provides the administrative services necessary for us to operate.

As of December 31, 2019, the Investment Adviser has directly invested approximately \$9.0 billion in more than 390 different portfolio companies since 2006. Over the same period, the Investment Adviser completed transactions with approximately 200 different financial sponsors.

### **Recent Developments**

On January 8, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on January 31, 2020 to holders of record as of January 23, 2020.

On February 4, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on February 28, 2020 to holders of record as of February 20, 2020.

On February 20, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on April 3, 2020 to holders of record as of March 19, 2020.

### **Investments**

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

### **Revenue**

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

### **Expenses**

All investment professionals of the Investment Adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead



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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 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, 2019, we invested approximately \$108 million across 25 portfolio companies through a combination of primary and secondary market purchases. This compares to investing approximately \$186 million in 34 portfolio companies for the previous fiscal year ended December 31, 2018. Investments sold or prepaid during the fiscal year ended December 31, 2019 totaled approximately \$100 million versus approximately \$193 million for the fiscal year ended December 31, 2018.

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At December 31, 2019, our portfolio consisted of 48 portfolio companies and was invested 78.5% directly in senior secured loans and 21.5% in common equity/equity interests/warrants (of which 7.8% is Gemino and 13.6% is NM Holdco, through which the Company indirectly invests in senior secured loans), in each case, measured at fair value versus 47 portfolio companies invested 77.8% directly in senior secured loans and 22.2% in common equity/equity interests/warrants (of which 7.2% is Gemino and 14.9% is North Mill Capital LLC) at December 31, 2018.

At December 31, 2019, 98.5% or \$452.9 million of our income producing investment portfolio\* was floating rate and 1.5% or \$7.1 million was fixed rate, measured at fair value. At December 31, 2018, 93.0% or \$418.2 million of our income producing investment portfolio\* was floating rate and 7.0% or \$31.7 million was fixed rate, measured at fair value.

Since the initial public offering of Solar Senior on February 24, 2011 and through December 31, 2019, invested capital totaled over \$1.6 billion in over 145 portfolio companies. Over the same period, Solar Senior completed transactions with more than 75 different financial sponsors.

### **Gemino Healthcare Finance, LLC**

We acquired Gemino (d/b/a Gemino Senior Secured Healthcare Finance) on September 30, 2013. Gemino is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized companies operating in the healthcare industry. Our initial investment in Gemino was \$32.8 million. The management team of Gemino co-invested in the transaction and continues to lead Gemino. As of September 30, 2019, Gemino's management team and Solar Senior own approximately 7% and 93% of the equity in Gemino, respectively.

Concurrent with the closing of the transaction, Gemino entered into a new, four-year, non-recourse, \$100.0 million credit facility with non-affiliates, which was expandable to \$150.0 million under its accordion feature. Effective March 31, 2014, the credit facility was expanded to \$105.0 million and again on June 27, 2014 to \$110.0 million. On May 27, 2016, Gemino entered into a new \$125.0 million credit facility which replaced the previously existing facility. The new facility has similar terms as compared to the previous facility and includes an accordion feature increase to \$200.0 million and had a maturity date of May 27, 2020. On June 28, 2019, this \$125.0 million facility was amended, extending the maturity date to June 28, 2023.

Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of December 31, 2019, the portfolio totaled approximately \$203.8 million of commitments with a total net investment in loans of \$111.0 million on total assets of \$122.1 million. As of December 31, 2018, the portfolio totaled approximately \$174.1 million of commitments with a total net investment in loans of \$89.4 million on total assets of \$107.9 million. At December 31, 2019, the portfolio consisted of 34 issuers with an average balance of approximately \$3.3 million versus 34 issuers with an average balance of approximately \$2.6 million at December 31, 2018. 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 \$89.0 million and \$75.0 million of borrowings outstanding at December 31, 2019 and December 31, 2018, respectively. For the years ended December 31, 2019 and 2018, Gemino had net income of \$3.6 million and \$3.6 million, respectively, on gross income of \$12.7 million and \$11.5 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in Gemino's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that Gemino will be able to maintain consistent dividend payments to us. Gemino's consolidated financial statements for the fiscal years ended December 31, 2019 and December 31, 2018 are attached as an exhibit to this annual report on Form 10-K.

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\* We have included Gemino Healthcare Finance, LLC and North Mill Holdco LLC within our income producing investment portfolio.

### **North Mill Holdco LLC**

We acquired 100% of the equity interests of North Mill Capital LLC (“NMC”) on October 20, 2017. NMC is a leading asset-backed lending commercial finance company that provides senior secured asset-backed financings to U.S. based small-to-medium-sized businesses primarily in the manufacturing, services and distribution industries. We invested approximately \$51 million to effect the transaction. Subsequently, the Company contributed 1% of its equity interest in NMC to ESP SSC Corporation. Immediately thereafter, the Company and ESP SSC Corporation contributed their equity interests to North Mill. On May 1, 2018, North Mill merged with and into NMC, with NMC being the surviving company. The Company and ESP SSC Corporation own 99% and 1% of the equity interests of NMC, respectively. The management team of NMC continues to lead NMC. On June 28, 2019, NM Holdco, a newly formed entity and ESP SSC Corporation acquired Summit Financial Resources, a Salt Lake City-based provider of asset-backed financing to small and medium-sized businesses. As part of this transaction, the Company’s 99% interest in the equity of NMC was contributed to NM Holdco. This approximately \$15.5 million transaction was financed with borrowings on NMC’s credit facility.

NM Holdco currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of December 31, 2019, the portfolio totaled approximately \$383.1 million of commitments, of which \$171.1 million were funded, on total assets of \$199.4 million. As of December 31, 2018, the portfolio totaled approximately \$247.3 million of commitments, of which \$122.3 million were funded, on total assets of \$155.6 million. At December 31, 2019, the portfolio consisted of 159 issuers with an average balance of approximately \$1.1 million versus 80 issuers with an average balance of approximately \$1.5 million at December 31, 2018. NMC has a senior credit facility with a bank lending group for \$160.0 million which expires on October 20, 2020. Borrowings are secured by substantially all of NMC’s assets. NMC’s credit facility, which is non-recourse to us, had approximately \$122.6 million and \$88.9 million of borrowings outstanding at December 31, 2019 and December 31, 2018, respectively. For the years ended December 31, 2019 and December 31, 2018, NMC had net income (loss) of \$2.2 million and (\$2.8) million, respectively on gross income of \$20.2 million and \$21.8 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in NMC’s funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that NMC will be able to maintain consistent dividend payments to us. NMC’s consolidated financial statements for the fiscal years ended December 31, 2019 and 2018 are attached as an exhibit to this annual report on Form 10-K.

### **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

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or dealers in order to value assets. When doing so, management determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the investment. If determined adequate, the Company uses the quote obtained. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of the Investment Adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of the Company's board of directors (the "Board").

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

The recommendation of fair value generally considers the following factors among others, as relevant: applicable market yields; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flow; the markets in which the issuer does business; and comparisons to publicly traded securities, among others.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the fiscal year ended December 31, 2019, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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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.

### ***Revenue Recognition***

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

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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 fiscal years ended December 31, 2019, 2018 and 2017, capitalized PIK income totaled \$0.7 million, \$1.4 million and \$0.5 million, respectively.

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

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

### **Income Taxes**

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

### **Recent Accounting Pronouncements**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify and eliminate certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company will adopt ASU 2018-13 effective in fiscal year 2020.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which will amend FASB ASC 310-20. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium, generally requiring the premium to be amortized to the earliest call date. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company has adopted ASU 2017-08 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

## **RESULTS OF OPERATIONS**

Results comparisons are for the fiscal years ended December 31, 2019 and December 31, 2018. Results for the fiscal year ended December 31, 2017 can be found in Item 7 of the Company's report on Form 10-K filed on February 21, 2019, which is incorporated by reference herein.

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**Investment Income**

For the fiscal years ended December 31, 2019 and 2018, gross investment income totaled \$40.1 million and \$39.8 million, respectively. The increase in gross investment income from fiscal year 2018 to fiscal year 2019 was primarily due to average portfolio growth, partially offset by yield compression.

**Expenses**

Net expenses totaled \$17.5 million and \$17.2 million, respectively, for the fiscal years ended December 31, 2019 and 2018, of which \$6.3 million and \$7.5 million, respectively, were gross base management fees and gross performance-based incentive fees, and \$10.7 million and \$7.8 million, respectively, were interest and other credit facility expenses. Over the same periods, \$1.3 million and \$0.0 million of base management fees were waived and \$1.5 million and \$1.1 million of performance-based incentive fees were waived. Administrative services and other general and administrative expenses totaled \$3.2 million and \$3.0 million, respectively, for the fiscal years ended December 31, 2019 and 2018. Expenses generally consist of management fees, performance-based incentive fees, administrative services expenses, insurance, legal expenses, directors' expenses, audit and tax expenses, transfer agent fees and expenses, and other general and administrative expenses. Interest and other credit facility expenses generally consist of interest, unused fees, agency fees and loan origination fees, if any, among others. The slight increase in net expenses for the year ended December 31, 2019 was primarily due to higher interest expense, including from the increase in LIBOR, partially offset by lower incentive fee expense.

**Net Investment Income**

The Company's net investment income totaled \$22.6 million or \$1.41 per average share and \$22.6 million or \$1.41 per average share, for the fiscal years ended December 31, 2019 and 2018, respectively.

**Net Realized Loss**

The Company had investment sales and prepayments totaling approximately \$100 million and \$193 million, respectively, for the fiscal years ended December 31, 2019 and 2018. Net realized loss for the fiscal years ended December 31, 2019 and 2018 totaled \$4.8 million and \$8.3 million, respectively. Net realized losses for the fiscal year ended December 31, 2019 were primarily related to the Company's exit of Trident USA Health Services partially offset by gains on the exit of Engineering Solutions & Products, LLC. Net realized losses for the fiscal year ended December 31, 2018 were primarily related to the Company's exit from its direct and indirect investments in Metamorph US 3, LLC.

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

For the fiscal years ended December 31, 2019 and 2018, the net change in unrealized gain (loss) on the Company's assets and liabilities totaled \$5.1 million and (\$0.5) million, respectively. Net unrealized gain for the fiscal year ended December 31, 2019 was primarily due to appreciation on our investments in Gemino Healthcare Finance, LLC and TwentyEighty, Inc., among others, as well as the reversal of previously recorded unrealized loss on Trident USA Health Services, partially offset by depreciation in NM Holdco, American Teleconferencing Services, Ltd. and Aegis Toxicology Sciences Corporation, among others. Net unrealized loss for the fiscal year ended December 31, 2018 was primarily due to depreciation in the value of our investments in Trident USA Health Services, Gemino Healthcare Finance, LLC and PPT Management Holdings, LLC, among others, partially offset by the reversal of previously recorded unrealized loss on our direct and indirect investments in Metamorph US 3, LLC and Hostway Corporation.

**Net Increase in Net Assets From Operations**

For the fiscal years ended December 31, 2019 and 2018, the Company had a net increase in net assets resulting from operations of \$22.9 million and \$13.8 million, respectively. For the fiscal years ended December 31, 2019 and 2018, earnings per average share were \$1.43 and \$0.86, respectively.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital resources are generally available through its revolving credit facilities, through periodic follow-on equity offerings, as well as from cash flows from operations, investment sales and pre-payments of investments. At December 31, 2019, the Company had \$211.2 million in borrowings outstanding on its credit facilities and \$88.8 million of unused capacity, subject to borrowing base limits.

On May 31, 2019, the Company as transferor and FLLP2015-1, LLC, a wholly-owned subsidiary of the Company, as borrower entered into amendment number five to the \$75 million credit facility with Wells Fargo Bank, NA acting as administrative agent (the "FLLP Facility"). The Company acts as servicer under the FLLP Facility. The FLLP Facility is scheduled to mature on May 31, 2024. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.15-2.25%.

On June 1, 2018, the \$200 million senior secured revolving credit facility with our wholly-owned subsidiary SUNS SPV LLC as borrower and Citibank, N.A. acting as administrative agent (the "Credit Facility") was refinanced by way of amendment, allowing for greater investment flexibility and the extension of the maturity date, among other changes. On July 13, 2018, commitments to the Credit Facility, as amended, were increased from \$200 million to \$225 million by utilizing the accordion feature.

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

We currently expect that our liquidity needs will be met with cash flows from operations, borrowings under our Credit Facility, including its accordion feature, the FLLP Facility 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. The Company makes purchases that are consistent with its purpose of making investments in securities described in paragraphs 1 through 3 of Section 55(a) of the 1940 Act. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents as temporary assets with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held approximately \$100 million of cash equivalents as of December 31, 2019.

### Debt

*Credit Facility*—On August 26, 2011, the Company established our wholly-owned subsidiary, SUNS SPV LLC (the "SUNS SPV") which entered into the Credit Facility with Citigroup Global Markets Inc. acting as administrative agent. On January 10, 2017, commitments to the Credit Facility, as amended, were increased from \$175 million to \$200 million by utilizing the accordion feature. The commitments can also be expanded up to \$600 million. The stated interest rate on the Credit Facility is LIBOR plus 2.00% with no LIBOR floor



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requirement and the current maturity date is June 1, 2023. The Credit Facility is secured by all of the assets held by SUNS SPV. Under the terms of the Credit Facility, Solar Senior Capital and SUNS SPV, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The Credit Facility also includes usual and customary events of default for credit facilities of this nature. The Credit Facility was amended on November 7, 2012, June 30, 2014 and May 29, 2015 to extend maturities and add greater investment flexibility, among other changes. On June 1, 2018, the Credit Facility was refinanced by way of amendment, allowing for greater investment flexibility and the extension of the maturity date, among other changes. On July 13, 2018, commitments to the Credit Facility, as amended, were increased from \$200 million to \$225 million by utilizing the accordion feature. There were \$157.6 million of borrowings outstanding under the Credit Facility as of December 31, 2019.

*FLLP Facility*—On May 31, 2019, the Company as transferor and FLLP2015-1, LLC, a wholly-owned subsidiary of the Company, as borrower entered into amendment number five to the \$75 million FLLP Facility with Wells Fargo Bank, NA acting as administrative agent. The Company acts as servicer under the FLLP Facility. The FLLP Facility is scheduled to mature on May 31, 2024. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.15-2.25%. The Company and FLLP2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$53.6 million of borrowings outstanding as of December 31, 2019. At December 31, 2019, the Company was in compliance with all financial and operational covenants required by the Credit Facility and FLLP Facility.

### Contractual Obligations

#### Payments due by Period as of December 31, 2019 (dollars in millions)

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Revolving credit facilities <sup>(1)</sup>	\$211.2	\$ —	\$ —	\$ 211.2	\$ —

(1) At December 31, 2019, we had a total of \$88.8 million of unused borrowing capacity under our revolving credit facilities, subject to borrowing base limits.

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 150% 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 the asset coverage test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. Our stockholders approved being subject to a 150% asset coverage ratio effective October 12, 2018.

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**Senior Securities**

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>
<b>Credit Facility</b>				
Fiscal 2019	\$ 157,600	\$ 1,671	\$ —	N/A
Fiscal 2018	119,200	1,770	—	N/A
Fiscal 2017	124,200	3,175	—	N/A
Fiscal 2016	98,300	3,738	—	N/A
Fiscal 2015	116,200	2,621	—	N/A
Fiscal 2014	143,200	2,421	—	N/A
Fiscal 2013	61,400	4,388	—	N/A
Fiscal 2012	39,100	5,453	—	N/A
Fiscal 2011	8,600	21,051	—	N/A
<b>FLLP Facility</b>				
Fiscal 2019	53,602	569	—	N/A
Fiscal 2018	51,371	762	—	N/A
<b>Total Senior Securities</b>				
Fiscal 2019	\$ 211,202	\$ 2,240	\$ —	N/A
Fiscal 2018	170,571	2,532	—	N/A
Fiscal 2017	124,200	3,175	—	N/A
Fiscal 2016	98,300	3,738	—	N/A
Fiscal 2015	116,200	2,621	—	N/A
Fiscal 2014	143,200	2,421	—	N/A
Fiscal 2013	61,400	4,388	—	N/A
Fiscal 2012	39,100	5,453	—	N/A
Fiscal 2011	8,600	21,051	—	N/A

- (1) Total amount of each class of senior securities outstanding (in thousands) at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit was divided based on the amount outstanding at the end of the period for each. As of December 31, 2019, asset coverage was 224.0%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable, we do not have senior securities that are registered for public trading.

We have also entered into two contracts under which we have future commitments: the Advisory Agreement, pursuant to which Solar Capital Partners has agreed to serve as our investment adviser, and the Administration Agreement, pursuant to which Solar Capital Management has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the Advisory Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of the Administrator’s overhead in performing its obligations under the Administration Agreement, including rent, technology systems, insurance and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate

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each of the Advisory Agreement and Administration Agreement without penalty upon 60 days' written notice to the other. See note 3 to our Consolidated Financial Statements.

### Off-Balance Sheet Arrangements

From time-to-time and in the normal course of business, the Company may make unfunded capital commitments to current or prospective portfolio companies. Typically, the Company may agree to provide delayed-draw term loans or, to a lesser extent, revolving loan or equity commitments. These unfunded capital commitments always take into account the Company's liquidity and cash available for investment, portfolio and issuer diversification, and other considerations. Accordingly, the Company had the following unfunded capital commitments at December 31, 2019 and December 31, 2018, respectively:

	December 31, 2019	December 31, 2018
<i>(in millions)</i>		
Solara Medical Supplies, Inc.	\$ 3.2	\$ 2.1
MSHC, Inc.	2.4	3.3
Worldwide Facilities, LLC.	2.3	—
US Radiology Specialists, Inc.	2.2	—
Kindred Biosciences, Inc.	2.1	—
Rubius Therapeutics, Inc.	2.1	4.1
WIRB-Copernicus Group, Inc.	1.7	2.7
Unified Physician Management, LLC.	1.6	—
ENS Holdings III Corp. & ES Opco USA LLC	1.4	—
Gemino Healthcare Finance, LLC*	1.4	1.4
Altern Marketing, LLC.	1.2	—
MRI Software LLC	1.2	2.5
Composite Technology Acquisition Corp.	1.1	—
Cerapedics, Inc.	0.8	—
Alimera Sciences, Inc.	0.2	—
AQA Acquisition Holding, Inc.	0.1	0.1
Centria Healthcare LLC.	—	0.3
The Hilb Group, LLC & Gencorp Insurance Group, Inc.	—	3.2
DISA Holdings Acquisition Corp.	—	2.6
GenMark Diagnostics, Inc.	—	0.7
Engineering Solutions & Products, LLC	—	0.5
TwentyEighty, Inc.	—	0.1
MHE Intermediate Holdings, LLC	—	—
Total Commitments	<u>\$ 25.0</u>	<u>\$ 23.6</u>

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

The credit agreements of the above loan commitments contain customary lending provisions and/or are subject to the portfolio company's achievement of certain milestones that allow relief to the Company from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. Since these commitments may expire without being drawn upon, unfunded commitments do not necessarily represent future cash requirements or future earning assets for the Company. As of December 31, 2019 and December 31, 2018, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

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

### **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>
<b>Fiscal 2020</b>			
February 20, 2020	March 19, 2020	April 3, 2020	\$ 0.1175
February 4, 2020	February 20, 2020	February 28, 2020	0.1175
January 8, 2020	January 23, 2020	January 31, 2020	0.1175
<b>Total (2020)</b>			<u>\$ 0.3525</u>
<b>Fiscal 2019</b>			
December 5, 2019	December 19, 2019	January 3, 2020	\$ 0.1175
November 4, 2019	November 21, 2019	December 3, 2019	0.1175
October 3, 2019	October 17, 2019	November 1, 2019	0.1175
September 3, 2019	September 20, 2019	October 2, 2019	0.1175
August 5, 2019	August 22, 2019	August 30, 2019	0.1175
July 2, 2019	July 25, 2019	August 1, 2019	0.1175
June 5, 2019	June 20, 2019	July 2, 2019	0.1175
May 6, 2019	May 23, 2019	June 4, 2019	0.1175
April 4, 2019	April 18, 2019	May 1, 2019	0.1175
February 21, 2019	March 21, 2019	April 3, 2019	0.1175
February 6, 2019	February 21, 2019	March 1, 2019	0.1175
January 8, 2019	January 24, 2019	February 1, 2019	0.1175
<b>YTD Total (2019)</b>			<u>\$ 1.41</u>
<b>Fiscal 2018</b>			
December 6, 2018	December 20, 2018	January 4, 2019	\$ 0.1175
November 5, 2018	November 21, 2018	December 4, 2018	0.1175
October 4, 2018	October 24, 2018	November 1, 2018	0.1175
September 6, 2018	September 25, 2018	October 2, 2018	0.1175
August 2, 2018	August 23, 2018	August 31, 2018	0.1175
July 3, 2018	July 19, 2018	July 31, 2018	0.1175
June 6, 2018	June 21, 2018	July 3, 2018	0.1175
May 7, 2018	May 23, 2018	June 1, 2018	0.1175
April 3, 2018	April 19, 2018	May 2, 2018	0.1175
February 22, 2018	March 22, 2018	April 3, 2018	0.1175
February 7, 2018	February 22, 2018	March 1, 2018	0.1175
January 5, 2018	January 18, 2018	January 31, 2018	0.1175
<b>Total (2018)</b>			<u>\$ 1.41</u>

Tax characteristics of all distributions will be reported to stockholders 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

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stockholders will generally be from accumulated net investment income, from net realized capital gains or non-taxable return of capital, if any, as applicable.

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

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

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

With respect to the distributions to stockholders, income from origination, structuring, closing and certain other upfront fees associated with investments in portfolio companies are treated as taxable income and accordingly, distributed to stockholders. For the fiscal years ended December 31, 2019 and December 31, 2018, 12.3% and 4.9% of distributions were funded from the waiver of management and/or incentive fees.

### **Related Parties**

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

- We have entered into the Advisory Agreement with Solar Capital Partners. Mr. Gross, our Chairman, Co-Chief Executive Officer and President and Mr. Spohler, our Co-Chief Executive Office, Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial and controlling interests in, the Investment Adviser. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Secretary serves as the Chief Financial Officer for Solar Capital Partners.
- The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and their respective staffs.
- 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.”

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The Investment Adviser may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Investment Adviser presently serves as investment adviser to Solar Capital Ltd., a publicly traded BDC, which focuses on investing in senior secured loans, including stretch-senior loans and to a lesser extent unsecured loans and equity securities. In addition, Michael S. Gross, our Chairman, Co-Chief Executive Officer and President, Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer, and Richard L. Peteka, our Chief Financial Officer, serve in similar capacities for Solar Capital Ltd. and SCP Private Credit Income BDC LLC. The Investment Adviser and certain investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures. On June 13, 2017, the Adviser received an exemptive order that permits the Company to participate in negotiated co-investment transactions with certain affiliates, in a manner consistent with the Company's investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to various conditions (the "Order"). If the Company is unable to rely on the Order for a particular opportunity, such opportunity will be allocated first to the entity whose investment strategy is the most consistent with the opportunity being allocated, and second, if the terms of the opportunity are consistent with more than one entity's investment strategy, on an alternating basis. Although the Adviser's investment professionals will endeavor to allocate investment opportunities in a fair and equitable manner, the Company and its stockholders could be adversely affected to the extent investment opportunities are allocated among us and other investment vehicles managed or sponsored by, or affiliated with, our executive officers, directors and members of the Adviser.

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

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.

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**Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the fiscal year ended December 31, 2019, certain of the investments in our comprehensive investment portfolio had floating interest rates. These floating rate investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has revolving credit facilities that are generally based on floating LIBOR. Assuming no changes to our balance sheet as of December 31, 2019 and no new defaults by portfolio companies, a hypothetical one percent decrease in LIBOR on our comprehensive floating rate assets and liabilities would increase our net investment income by one cent per average share over the next twelve months. Assuming no changes to our balance sheet as of December 31, 2019 and no new defaults by portfolio companies, a hypothetical one percent increase in LIBOR on our comprehensive floating rate assets and liabilities would increase our net investment income by approximately seven cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in any benefits of certain changes in interest rates with respect to our portfolio of investments. At December 31, 2019, we have no interest rate hedging instruments outstanding on our balance sheet.

Increase (Decrease) in LIBOR	(1.00%)	1.00%
Increase (Decrease) in Net Investment Income Per Share Per Year	\$ 0.01	\$ 0.07

**Item 8. Financial Statements and Supplementary Data**

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## 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, 2019. 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 consolidated financial statements.

Management performed an assessment of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2019 based upon criteria in *Internal Control—Integrated Framework (2013)* 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, 2019 based on the criteria on *Internal Control—Integrated Framework (2013)* issued by COSO.

The effectiveness of the Company’s internal control over financial reporting as of December 31, 2019 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**

To the Stockholders and Board of Directors  
Solar Senior Capital Ltd.:

*Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

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, 2019 and 2018, 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, 2019, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, 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 report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our procedures included confirmation of securities owned as of December 31, 2019 and 2018, by correspondence with the custodian, portfolio companies or agents. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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*Definition and Limitations of Internal Control Over Financial Reporting*

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.

[ (signed) KPMG LLP ]

We have served as the auditor of one or more Solar Capital Partners, LLC (the Investment Advisor) investment companies since 2007.

New York, New York  
February 20, 2020

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

	December 31, 2019	December 31, 2018
<b>Assets</b>		
Investments at fair value:		
Companies less than 5% owned (cost: \$363,947 and \$355,354, respectively)	\$ 361,665	\$ 348,211
Companies 5% to 25% owned (cost: \$0 and \$3,524, respectively)	—	2,350
Companies more than 25% owned (cost: \$98,439 and \$98,439, respectively)	98,600	99,550
Cash	7,054	4,875
Cash equivalents (cost: \$99,898 and \$0, respectively)	99,898	—
Interest receivable	1,933	2,141
Dividends receivable	1,893	1,893
Receivable for investments sold	6,667	87
Prepaid expenses and other assets	248	188
<b>Total assets</b>	<b>\$ 577,958</b>	<b>\$ 459,295</b>
<b>Liabilities</b>		
Payable for investments and cash equivalents purchased	\$ 101,811	\$ 22,805
Credit facility (\$157,600 and \$119,200 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,286 and \$1,662, respectively. See note 7)	156,314	117,538
FLLP 2015-1, LLC revolving credit facility (the "FLLP Facility") (\$53,602 and \$51,371 face amounts, respectively, reported net of unamortized debt issuance costs of \$615 and \$0, respectively. See notes 6 and 7)	52,987	51,371
Distributions payable	1,885	1,885
Management fee payable (see note 3)	426	1,189
Performance-based incentive fee payable (see note 3)	—	106
Interest payable (see note 7)	1,172	1,260
Administrative services payable (see note 3)	826	923
Other liabilities and accrued expenses	723	826
<b>Total liabilities</b>	<b>\$ 316,144</b>	<b>\$ 197,903</b>
Commitments and contingencies (see note 12)		
<b>Net Assets</b>		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 16,046,214 and 16,040,485 issued and outstanding, respectively	\$ 160	\$ 160
Paid-in capital in excess of par (see note 2f)	282,181	288,789
Accumulated distributable net loss (see note 2f)	(20,527)	(27,557)
<b>Total net assets</b>	<b>\$ 261,814</b>	<b>\$ 261,392</b>
<b>Net Asset Value Per Share</b>	<b>\$ 16.32</b>	<b>\$ 16.30</b>

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2019	2018	2017
<b>INVESTMENT INCOME:</b>			
Interest:			
Companies less than 5% owned	\$30,496	\$27,145	\$22,652
Companies 5% to 25% owned	386	360	201
Dividends:			
Companies more than 25% owned	9,060	12,040	8,866
Other income:			
Companies less than 5% owned	122	191	369
Companies 5% to 25% owned	27	23	—
Companies more than 25% owned	—	50	79
Total investment income	<u>40,091</u>	<u>39,809</u>	<u>32,167</u>
<b>EXPENSES:</b>			
Management fees (see note 3)	\$ 4,799	\$ 4,603	\$ 3,861
Performance-based incentive fees (see note 3)	1,484	2,922	1,083
Interest and other credit facility expenses (see note 7)	10,738	7,808	3,848
Administrative services expense (see note 3)	1,575	1,529	1,554
Other general and administrative expenses	1,667	1,434	1,888
Total expenses	<u>20,263</u>	<u>18,296</u>	<u>12,234</u>
Management fees waived (see note 3)	(1,317)	—	(1,962)
Performance-based incentive fees waived (see note 3)	(1,476)	(1,107)	(709)
Net expenses	<u>17,470</u>	<u>17,189</u>	<u>9,563</u>
Net investment income	<u>\$22,621</u>	<u>\$22,620</u>	<u>\$22,604</u>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND CASH EQUIVALENTS:</b>			
Net realized gain (loss) on investments and cash equivalents:			
Companies less than 5% owned	\$ (6,741)	\$ (5,082)	\$ 233
Companies 5% to 25% owned	1,979	—	—
Companies more than 25% owned	—	(3,209)	—
Net realized gain (loss) on investments and cash equivalents	<u>(4,762)</u>	<u>(8,291)</u>	<u>233</u>
Net change in unrealized gain (loss) on investments and cash equivalents:			
Companies less than 5% owned	4,861	1,931	(227)
Companies 5% to 25% owned	1,174	238	473
Companies more than 25% owned	(950)	(2,685)	303
Net change in unrealized gain (loss) on investments and cash equivalents	<u>5,085</u>	<u>(516)</u>	<u>549</u>
Net realized and unrealized gain (loss) on investments and cash equivalents	<u>323</u>	<u>(8,807)</u>	<u>782</u>
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	<u>\$22,944</u>	<u>\$13,813</u>	<u>\$23,386</u>
<b>EARNINGS PER SHARE (see note 5)</b>	<u>\$ 1.43</u>	<u>\$ 0.86</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 share amounts)**

	Year ended December 31,		
	2019	2018	2017
<b>Increase (decrease) in net assets resulting from operations:</b>			
Net investment income	\$ 22,621	\$ 22,620	\$ 22,604
Net realized gain (loss)	(4,762)	(8,291)	233
Net change in unrealized gain (loss)	5,085	(516)	549
Net increase in net assets resulting from operations	<u>22,944</u>	<u>13,813</u>	<u>23,386</u>
<b>Distributions to stockholders (see note 9a):</b>			
From net investment income	(15,924)	(22,617)	(22,604)
From return of capital	(6,697)	—	—
Net distributions to stockholders	<u>(22,621)</u>	<u>(22,617)</u>	<u>(22,604)</u>
<b>Capital transactions (see note 14):</b>			
Reinvestment of distributions	99	65	204
Net increase in net assets resulting from capital transactions	<u>99</u>	<u>65</u>	<u>204</u>
Total increase (decrease) in net assets	422	(8,739)	986
Net assets at beginning of year	<u>261,392</u>	<u>270,131</u>	<u>269,145</u>
Net assets at end of year	<u>\$261,814</u>	<u>\$261,392</u>	<u>\$270,131</u>
<b>Capital share activity (see note 14):</b>			
Common stock issued from reinvestment of distributions	5,729	3,755	11,719
Net increase from capital share activity	<u>5,729</u>	<u>3,755</u>	<u>11,719</u>

See notes to consolidated financial statements.

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

	Year ended December 31,		
	2019	2018	2017
<b>Cash Flows from Operating Activities:</b>			
Net increase in net assets resulting from operations	\$ 22,944	\$ 13,813	\$ 23,386
Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities:			
Net realized (gain) loss on investments and cash equivalents	4,762	8,291	(233)
Net change in unrealized (gain) loss on investments and cash equivalents	(5,085)	516	(549)
<b>(Increase) decrease in operating assets:</b>			
Purchase of investments	(108,104)	(237,091)	(194,603)
Proceeds from disposition of investments	99,300	188,967	154,907
Net accretion of discount on investments	(1,262)	(1,620)	(1,569)
Capitalization of payment-in-kind interest	(513)	(1,128)	(500)
Collection of payment-in-kind interest	748	35	—
Receivable for investments sold	(6,580)	421	942
Interest receivable	208	(409)	(269)
Dividends receivable	—	830	(1,301)
Other receivable	—	20	(1)
Prepaid expenses and other assets	(60)	89	(4)
<b>Increase (decrease) in operating liabilities:</b>			
Payable for investments and cash equivalents purchased	79,006	(99,305)	(29,202)
Management fee payable	(763)	190	895
Performance-based incentive fees payable	(106)	(268)	374
Administrative services expense payable	(97)	(21)	323
Interest payable	(88)	859	160
Other liabilities and accrued expenses	(103)	(72)	515
<b>Net Cash Provided by (Used in) Operating Activities</b>	<u>84,207</u>	<u>(125,883)</u>	<u>(46,729)</u>
<b>Cash Flows from Financing Activities:</b>			
Cash distributions paid	(22,522)	(22,551)	(22,399)
Deferred financing costs	527	218	—
Consolidation of FLLP Facility	—	49,796	—
Proceeds from borrowings	141,765	205,070	162,000
Repayments of borrowings	(101,900)	(210,375)	(136,100)
<b>Net Cash Provided by Financing Activities</b>	<u>17,870</u>	<u>22,158</u>	<u>3,501</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	102,077	(103,725)	(43,228)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	4,875	108,600	151,828
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 106,952</u>	<u>\$ 4,875</u>	<u>\$ 108,600</u>
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	<u>\$ 10,826</u>	<u>\$ 6,949</u>	<u>\$ 3,688</u>

Non-cash financing activities consist of the reinvestment of dividends of \$99, \$65 and \$204 for the fiscal years ended December 31, 2019, 2018 and 2017, respectively.

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**December 31, 2019**  
**(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index <sup>(3)</sup>	Libor Floor	Interest Rate <sup>(1)</sup>	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans—138.1%</b>									
1A Smart Start LLC <sup>(2)(10)</sup>	Electrical Equipment, Instruments & Components	L+450	1.00%	6.30%	12/21/2017	2/21/2022	\$13,795	\$13,758	\$13,795
Acrisure, LLC <sup>(2)</sup>	Insurance	L+425	1.00%	6.19%	5/3/2017	11/22/2023	7,297	7,286	7,352
Advantage Sales and Marketing, Inc. <sup>(2)</sup>	Professional Services	L+325	1.00%	5.05%	2/14/2018	7/23/2021	4,899	4,852	4,899
Advantage Sales and Marketing, Inc	Professional Services	L+650	1.00%	8.30%	2/14/2013	7/25/2022	8,000	7,977	7,880
Aegis Toxicology Sciences Corporation <sup>(2)(10)</sup>	Health Care Providers & Services	L+550	1.00%	7.40%	5/7/2018	5/9/2025	10,863	10,703	10,319
Alera Group Intermediate Holdings, Inc. <sup>(2)</sup>	Insurance	L+450	—	6.30%	7/27/2018	8/1/2025	4,942	4,936	4,998
Alimera Sciences, Inc. <sup>(2)</sup>	Pharmaceuticals	L+765	1.78%	9.43%	12/31/2019	7/1/2024	2,914	2,914	2,914
Alteon Health, LLC (fka Island Medical) <sup>(2)(10)</sup>	Health Care Providers & Services	L+650	1.00%	8.30%	3/31/2017	9/1/2022	7,383	7,342	7,383
Altern Marketing, LLC <sup>(2)</sup>	Household & Personal Products	L+600	2.00%	8.00%	10/25/2019	10/7/2024	7,924	7,846	7,844
American Teleconferencing Services, Ltd. <sup>(PG1)(2)</sup>	Communications Equipment	L+650	1.00%	8.32%	5/5/2016	6/8/2023	13,690	13,371	12,869
AQA Acquisition Holding, Inc. <sup>(2)</sup>	Software	L+425	1.00%	6.19%	9/7/2018	5/24/2023	5,618	5,575	5,618
Capstone Logistics Acquisition, Inc. <sup>(2)(10)</sup>	Professional Services	L+450	1.00%	6.30%	10/3/2014	10/7/2021	12,074	12,037	11,892
Cerapedics, Inc. <sup>(2)</sup>	Health Care Equipment & Supplies	L+695	2.50%	9.45%	3/22/2019	3/1/2024	2,885	2,899	2,899
Composite Technology Acquisition Corp. (ClockSpring) <sup>(2)(10)</sup>	Building Products	L+475	—	6.69%	2/1/2019	2/1/2025	11,733	11,577	11,616
Confie Seguros Holding II Co. <sup>(2)(10)</sup>	Insurance	L+475	1.00%	6.66%	10/13/2016	4/19/2022	14,173	14,108	13,804
DISA Holdings Acquisition Subsidiary Corp. <sup>(2)</sup>	Professional Services	L+400	1.00%	5.74%	6/14/2018	6/30/2022	10,226	10,190	10,226
Edgewood Partners Holdings, LLC <sup>(2)(10)</sup>	Insurance	L+425	1.00%	6.05%	3/28/2018	9/8/2024	16,712	16,667	16,545
Empower Payments Acquisition, Inc. (RevSpring). <sup>(2)</sup>	Professional Services	L+400	1.00%	5.94%	11/28/2016	10/11/2025	4,950	4,939	4,950
ENS Holdings III Corp. & ES Opco USA LLC (BlueFin) <sup>(2)</sup>	Trading Companies & Distributors	L+475	1.00%	6.69%	12/31/2019	12/31/2025	5,281	5,176	5,176
Falmouth Group Holdings Corp. (AMPAC) <sup>(2)(10)</sup>	Chemicals	L+675	1.00%	8.55%	12/15/2016	12/14/2021	10,788	10,788	10,788
GenMark Diagnostics, Inc <sup>(2)(4)</sup>	Health Care Providers & Services	L+590	2.51%	8.41%	2/1/2019	2/1/2023	7,598	7,642	7,674
Kindred Biosciences, Inc <sup>(2)(4)(12)</sup>	Pharmaceuticals	L+675	2.17%	8.92%	9/30/2019	9/30/2024	1,408	1,405	1,404
KORE Wireless Group, Inc. <sup>(2)</sup>	Wireless Telecommunication Services	L+550	—	7.44%	12/21/2018	12/21/2024	11,926	11,718	11,836

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index <sup>(3)</sup>	Libor Floor	Interest Rate <sup>(1)</sup>	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Logix Holding Company, LLC <sup>(2)</sup>	Communications Equipment	L+575	1.00%	7.55%	8/11/2017	12/22/2024	10,575	10,494	10,575
MHE Intermediate Holdings, LLC (TFS-Miner) <sup>(2)(10)</sup>	Air Freight & Logistics	L+500	1.00%	6.94%	3/8/2017	3/10/2024	5,919	5,879	5,890
Ministry Brands, LLC <sup>(2)(10)</sup>	Software	L+400	1.00%	5.85%	11/21/2016	12/2/2022	14,174	14,101	14,139
MRI Software LLC <sup>(2)(10)</sup>	Software	L+575	1.00%	7.55%	6/7/2017	6/30/2023	10,754	10,688	10,754
MSHC, Inc. (Service Logic) <sup>(2)(10)</sup>	Commercial Services & Supplies	L+425	1.00%	5.96%	7/12/2018	12/31/2024	12,486	12,429	12,423
National Spine and Pain Centers, LLC <sup>(10)</sup>	Health Care Providers & Services	L+450	1.00%	6.30%	9/18/2018	6/2/2024	2,558	2,550	2,520
On Location Events, LLC & PrimeSport Holdings Inc. <sup>(2)(10)</sup>	Media	L+500	1.00%	6.94%	12/7/2017	9/29/2021	13,767	13,683	13,767
Pet Holdings ULC & Pet Supermarket, Inc. <sup>(4)(10)</sup>	Specialty Retail	L+550	1.00%	7.60%	9/18/2018	7/5/2022	4,547	4,514	4,535
PPT Management Holdings, LLC <sup>(2)††</sup>	Health Care Providers & Services	L+675 <sup>(11)</sup>	1.00%	8.44%	12/15/2016	12/16/2022	8,878	8,832	8,168
Radiology Partners, Inc. <sup>(2)</sup>	Health Care Providers & Services	L+475	—	6.62%	6/28/2018	7/9/2025	7,406	7,347	7,453
Rubius Therapeutics, Inc. <sup>(2)(4)</sup>	Pharmaceuticals	L+550	—	7.19%	12/21/2018	12/21/2023	4,121	4,138	4,142
scPharmaceuticals, Inc. <sup>(2)</sup>	Pharmaceuticals	L+795	2.23%	10.18%	9/17/2019	9/17/2023	719	720	720
Senseonics Holdings, Inc. <sup>(2)</sup>	Health Care Equipment & Supplies	L+650	2.48%	8.98%	7/25/2019	7/1/2024	3,234	3,220	3,234
SHO Holding I Corporation (Shoes for Crews) <sup>(2)</sup>	Footwear	L+500	1.00%	6.93%	11/20/2015	10/27/2022	5,760	5,736	5,645
Solara Medical Supplies, Inc. <sup>(2)(10)</sup>	Health Care Providers & Services	L+600	1.00%	7.94%	5/31/2018	2/27/2024	13,185	12,996	13,185
Unified Physician Management, LLC <sup>(2)</sup>	Health Care Facilities	L+450	1.00%	6.30%	4/18/2019	11/27/2023	13,130	13,007	12,998
U.S. Acute Care Solutions, LLC <sup>(2)(10)††</sup>	Health Care Providers & Services	L+600 <sup>(9)</sup>	1.00%	7.80%	12/22/2016	5/15/2021	6,305	6,283	6,305
US Radiology Specialists, Inc. <sup>(2)</sup>	Health Care Providers & Services	L+475	1.00%	6.55%	11/27/2018	1/1/2024	12,073	11,971	11,832
WIRB-Copernicus Group, Inc. <sup>(2)(10)</sup>	Professional Services	L+425	1.00%	5.87%	3/27/2017	8/15/2022	12,392	12,350	12,392
Worldwide Facilities, LLC <sup>(2)</sup>	Insurance	L+450	—	6.21%	9/13/2019	9/5/2026	6,159	6,040	6,098
<b>Total Bank Debt/Senior Secured Loans</b>								<b>\$362,684</b>	<b>\$361,456</b>



**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index <sup>(3)</sup>	Libor Floor	Interest Rate <sup>(1)</sup>	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
							<u>Shares/Units</u>		
<b>Common Equity/Equity Interests/Warrants—37.7%</b>									
Essence Group Holdings Corporation (Lumeris) Warrants†.	Health Care Technology				3/22/2017		52,000	\$ 16	\$ 67
..	Diversified Financial Services								
Gemino Healthcare Finance, LLC (4)(5)	Diversified Financial Services				9/30/2013		32,839	31,439	36,100
North Mill Holdco LLC (4)(5)(8)	Health Care Equipment & Supplies				10/20/2017		100	67,000	62,500
Senseonics Holdings, Inc. Warrants†	Professional Services				7/25/2019		80,838	18	11
TwentyEighty Investors, LLC†.	Health Care Equipment & Supplies				1/31/2017		17,214	1,195	130
Venus Concept Ltd. Warrants† (fka Restoration Robotics)					5/10/2018		6,078	34	1
<b>Total Common Equity/Equity Interests/Warrants</b>								<b>\$ 99,702</b>	<b>\$ 98,809</b>
<b>Total Investments<sup>(7)</sup>—175.8%</b>								<b>\$462,386</b>	<b>\$ 460,265</b>
							<u>Par Amount</u>		
<b>Cash Equivalents—38.2%</b>									
U.S. Treasury Bill	Government				12/31/2019	1/28/2020	\$ 100,000	\$ 99,898	\$ 99,898
<b>Total Investments &amp; Cash Equivalents—214.0%</b>								<b>\$562,284</b>	<b>\$ 560,163</b>
Liabilities in Excess of Other Assets —(114.0%)									(298,349)
<b>Net Assets—100.0%</b>									<b>\$ 261,814</b>

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (“LIBOR” or “L”) index rate or the prime index rate (PRIME or “P”), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2019.
- (2) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC (the “SUNS SPV”). Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (the “Credit Facility”) (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of the Company.
- (3) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are often subject to a LIBOR or PRIME rate floor.
- (4) Indicates assets that the Company believes may not represent “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 (“1940 Act”), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of December 31, 2019, on a fair value basis, non-qualifying assets in the portfolio represented 20.1% of the total assets of the Company.

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share/unit amounts)**

- (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, 2019 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2018	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Dividend /Other Income	Fair Value at December 31, 2019
Gemino Healthcare Finance, LLC	\$ 32,550	\$ —	\$ —	\$ —	\$ 3,550	\$ 3,460	\$ 36,100
North Mill Holdco LLC	67,000	—	—	—	(4,500)	5,600	62,500
	<u>\$ 99,550</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ (950)</u>	<u>\$ 9,060</u>	<u>\$ 98,600</u>

- (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, 2019 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2018	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/ Dividend/ Other Income	Fair Value at December 31, 2019
Engineering Solutions & Products, LLC (1 <sup>st</sup> lien)	\$ —	\$ 548	\$ 548	\$ —	\$ —	\$ 33	\$ —
Engineering Solutions & Products, LLC (2 <sup>nd</sup> lien)	\$ 2,282	—	2,402	—	(125)	380	—
Engineering Solutions & Products, LLC (equity interests)	\$ 68	—	3,245	1,979	1,299	—	—
	<u>\$ 2,350</u>	<u>\$ 548</u>	<u>\$ 6,195</u>	<u>\$ 1,979</u>	<u>\$ 1,174</u>	<u>\$ 413</u>	<u>\$ —</u>

- (7) Aggregate net unrealized appreciation for federal income tax purposes is \$1,855; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$12,523 and \$10,668, respectively, based on a tax cost of \$458,410. The Company generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the “Securities Act”). These investments are generally subject to certain limitations on resale, and may be deemed to be “restricted securities” under the Securities Act. All investments are Level 3 unless otherwise indicated.
- (8) Our equity investment in North Mill Capital LLC is partially held through ESP SSC Corporation, a taxable consolidated subsidiary.
- (9) Spread is 5.00% Cash / 1.00% PIK.

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share/unit amounts)**

- (10) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary FLLP2015-1 LLC (the “FLLP SPV”). Such investments are pledged as collateral under the FLLP 2015-1, LLC Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of the Company.
- (11) Spread is 6.00% Cash / 0.75% PIK.
- (12) Kindred Biosciences, Inc., KindredBio Equine, Inc. and Centaur Biopharmaceutical Services, Inc. areco-borrowers.
- † Non-incomeproducing security.
- †† Investmentcontains a payment-in-kind (“PIK”) feature.

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2019</b>
Diversified Financial Services (includes Gemino Healthcare Finance, LLC and North Mill Holdco LLC)	21.4%
Health Care Providers & Services	16.3%
Professional Services	11.4%
Insurance	10.6%
Software	6.6%
Communications Equipment	5.1%
Electronic Equipment, Instruments & Components	3.0%
Media	3.0%
Health Care Facilities	2.8%
Commercial Services & Supplies	2.7%
Wireless Telecommunication Services	2.6%
Building Products	2.5%
Chemicals	2.4%
Pharmaceuticals	2.0%
Household & Personal Products	1.7%
Health Care Equipment & Supplies	1.3%
Air Freight & Logistics	1.3%
Footwear	1.2%
Trading Companies & Distributors	1.1%
Specialty Retail	1.0%
Health Care Technology	0.0%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index(3)	Libor Floor	Interest Rate(1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans—134.1%</b>									
	Electrical Equipment, Instruments & Components	L+450	1.00%	7.02%	12/21/2017	2/21/2022	\$ 13,936	\$13,883	\$13,902
1A Smart Start LLC(2)(11)(14)									
Acrisure, LLC(2)	Insurance	L+425	1.00%	6.77%	5/3/2017	11/22/2023	7,372	7,358	7,164
Advantage Sales and Marketing, Inc. (2)(11)	Professional Services	L+325	1.00%	5.77%	2/14/2018	7/23/2021	4,950	4,873	4,838
Advantage Sales and Marketing, Inc. (11)	Professional Services	L+650	1.00%	9.02%	2/14/2013	7/25/2022	8,000	7,969	7,680
	Health Care Providers & Services	L+550	1.00%	8.10%	5/7/2018	5/9/2025	10,973	10,788	10,973
Aegis Toxicology Sciences Corporation(2)(11)(14)									
Alera Group Intermediate Holdings, Inc.(2)(11)	Insurance	L+450	—	7.02%	7/27/2018	8/1/2025	4,993	4,985	4,943
Alimera Sciences, Inc.(2)(11)	Pharmaceuticals	L+765	—	10.03%	1/5/2018	7/1/2022	5,000	5,009	5,025
	Health Care Providers & Services	L+650	1.00%	9.02%	3/31/2017	9/1/2022	7,469	7,414	7,095
Alteon Health, LLC (fka Island Medical) (2)(11)(14)									
	Communications Equipment	L+650	1.00%	9.09%	5/5/2016	12/8/2021	14,113	13,643	13,937
American Teleconferencing Services, Ltd. (PGI) (2)(11)									
AQA Acquisition Holding, Inc.(2)(11)	Software	L+425	1.00%	7.05%	9/7/2018	5/24/2023	5,675	5,621	5,604
Capstone Logistics Acquisition, Inc.(2)(11)(14)	Professional Services	L+450	1.00%	7.02%	10/3/2014	10/7/2021	12,358	12,302	12,204
	Health Care Providers & Services	L+400	1.00%	6.64%	11/19/2018	11/3/2021	4,720	4,674	4,672
Centria Healthcare LLC(2)(11)									
Confie Seguros Holding II Co.(2)(11)(14)	Insurance	L+475	1.00%	7.46%	10/13/2016	4/19/2022	14,173	14,082	14,014
DISA Holdings Acquisition Subsidiary Corp.(2)(11)	Professional Services	L+400	1.00%	6.35%	6/14/2018	6/30/2022	7,731	7,696	7,712
Edgewood Partners Holdings, LLC(2)(11)(14)	Insurance	L+425	1.00%	6.77%	3/28/2018	9/8/2024	13,272	13,255	13,272
Empower Payments Acquisition, Inc. (RevSpring). (2)(11)	Professional Services	L+425	1.00%	7.05%	11/28/2016	10/11/2025	5,000	4,988	4,988
Engineering Solutions & Products, LLC(6)(11)	Aerospace & Defense	L+600	2.00%	8.59%	11/5/2013	11/5/2019	2,282	2,157	2,282
Falmouth Group Holdings Corp. (AMPAC) (2)(11)(14)	Chemicals	L+675	1.00%	9.27%	12/15/2016	12/14/2021	11,859	11,859	11,859
	Health Care Providers & Services	—	—	6.90%	4/22/2016	1/1/2021	10,039	10,953	10,953
GenMark Diagnostics, Inc(2)(4)(11)									
Global Holdings LLC & Payment Concepts LLC(2)(11)	Consumer Finance	L+750	1.00%	10.24%	3/31/2017	5/5/2022	11,400	11,241	11,400
	Commercial Services & Supplies	L+475	1.00%	7.27%	10/31/2014	10/29/2021	8,623	8,579	8,623
Kellermeyer Bergensons Services, LLC (KBS)(2)(11)(14)									
	Wireless Telecommunication Services	L+550	1.00%	8.29%	12/21/2018	12/21/2024	12,046	11,805	11,926
Kore Wireless Group, Inc.(2)(11)									
	Communications Equipment	L+575	1.00%	8.27%	8/11/2017	12/22/2024	10,688	10,593	10,688
Logix Holding Company, LLC(2)(11)									
Mavenir Systems, Inc.(2)(11)	Software	L+600	1.00%	8.39%	5/1/2018	5/8/2025	9,950	9,765	9,920

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

Description	Industry	Spread above Index(3)	Libor Floor	Interest Rate(1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
MHE Intermediate Holdings, LLC (TFS-Miner)(2)(11)(14)	Air Freight & Logistics	L+500	1.00%	7.74%	3/8/2017	3/10/2024	5,951	5,902	5,891
Ministry Brands, LLC(2)(11)(14)	Software	L+400	1.00%	6.52%	11/21/2016	12/2/2022	14,320	14,223	14,320
MRI Software LLC(2)(11)(14)	Software	L+550	1.00%	7.90%	6/7/2017	6/30/2023	9,147	9,074	9,055
MSHC, Inc. (Service Logic)(2)(11)(14)	Commercial Services & Supplies	L+425	1.00%	6.89%	7/12/2018	7/31/2023	2,719	2,706	2,705
	Health Care								
National Spine and Pain Centers, LLC(11)(14)	Providers & Services	L+450	1.00%	7.02%	9/18/2018	6/2/2024	2,585	2,574	2,546
On Location Events, LLC & PrimeSport Holdings Inc.(2)(11)(14)	Media	L+550	1.00%	7.90%	12/7/2017	9/29/2021	14,375	14,242	14,267
Pet Holdings ULC & Pet Supermarket, Inc.(4)(11)(14)	Specialty Retail	L+550	1.00%	7.90%	9/18/2018	7/5/2022	4,593	4,548	4,570
PPT Management Holdings, LLC(2)(11)††	Health Care	L+750							
	Providers & Services	PIK	1.00%	9.85%	12/15/2016	12/16/2022	8,583	8,523	7,295
Pre-Paid Legal Services, Inc.(2)	Diversified Consumer Services	L+300	—	5.52%	4/13/2018	5/1/2025	1,453	1,446	1,425
	Health Care								
Radiology Partners, Inc.(2)(11)	Providers & Services	L+425	—	6.66%	6/28/2018	7/9/2025	7,481	7,411	7,350
	Health Care								
Restoration Robotics, Inc.(2)(11)	Equipment & Supplies	L+795	—	10.33%	5/10/2018	5/1/2022	2,000	1,975	1,995
Rubius Therapeutics, Inc.(2)(11)	Pharmaceuticals	L+550	—	7.97%	12/21/2018	12/21/2023	2,061	2,056	2,055
SHO Holding I Corporation (Shoes for Crews)(2)(11)	Footwear	L+500	1.00%	7.53%	11/20/2015	10/27/2022	5,820	5,788	5,674
	Health Care								
Solara Medical Supplies, Inc.(2)(11)(14)	Providers & Services	L+600	1.00%	8.52%	5/31/2018	2/27/2024	5,933	5,853	5,933
The Hilb Group, LLC & Gencorp Insurance Group, Inc.(2)(11)(14)	Insurance	L+475	1.00%	7.55%	3/16/2016	6/24/2021	10,982	10,876	10,982
	Health Care								
Trident USA Health Services(2)(11)††	Providers & Services	L+600(13)	1.25%	8.53%	7/29/2013	7/31/2022	7,057	7,051	4,234
TwentyEighty, Inc.(11)	Professional Services	L+800	1.00%	10.80%	1/31/2017	3/31/2020	96	95	96
TwentyEighty, Inc.(11)††	Professional Services	—	—	8.00%(7)	1/31/2017	3/31/2020	2,067	2,014	2,067
TwentyEighty, Inc.(11)††	Professional Services	—	—	9.00%(8)	1/31/2017	3/31/2020	1,981	1,934	1,952
U.S. Acute Care Solutions, LLC(2)(11)(14)	Health Care								
	Providers & Services	L+500	1.00%	7.52%	12/22/2016	5/15/2021	6,370	6,333	6,370
US Radiology Specialists, Inc.(2)(11)	Providers & Services	L+450	1.00%	7.12%	11/27/2018	1/1/2024	3,766	3,738	3,738
Web.com Group, Inc.(2)(11)	Software	L+375	—	6.17%	9/17/2018	10/10/2025	9,000	8,978	8,685
WIRB-Copernicus Group, Inc.(2)(11)(14)	Professional Services	L+425	1.00%	6.77%	3/27/2017	8/15/2022	11,524	11,471	11,524
<b>Total Bank Debt/Senior Secured Loans</b>								<b>\$354,303</b>	<b>\$350,403</b>

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

<u>Description</u>	<u>Industry</u>	<u>Spread above Index<sup>(3)</sup></u>	<u>Libor Floor</u>	<u>Interest Rate<sup>(1)</sup></u>	<u>Acquisition Date</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Cost</u>	<u>Fair Value</u>
<b>Common Equity/Equity Interests/Warrant—38.1%</b>							<b>Shares/Units</b>		
Engineering Solutions & Products, LLC (6)(9)(11)†	Aerospace & Defense				11/5/2013		133,668	\$ 1,367	\$ 68
Essence Group Holdings Corporation (Lumeris) Warrants(11)†. . .	Health Care Technology				3/22/2017		52,000	16	89
Gemino Healthcare Finance, LLC (4)(5)(11)	Diversified Financial Services				9/30/2013		32,839	31,439	32,550
North Mill Capital LLC (4)(5)(11)(12)	Diversified Financial Services				10/20/2017		131	67,000	67,000
Restoration Robotics, Inc. Warrants(11)†	Health Care Equipment & Supplies				5/10/2018		16,173	25	1
TwentyEighty Investors, LLC(11)†.	Professional Services				1/31/2017		17,214	3,167	—
<b>Total Common Equity/Equity Interests/Warrants</b>								<b>\$ 103,014</b>	<b>\$ 99,708</b>
<b>Total Investments<sup>(10)</sup>—172.2%</b>								<b>\$ 457,317</b>	<b>\$ 450,111</b>
Liabilities in Excess of Other Assets —(72.2%)									(188,719)
<b>Net Assets—100.0%</b>									<b>\$ 261,392</b>

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (“LIBOR” or “L”) index rate or the prime index rate (PRIME or “P”), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2018.
- (2) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary SUNS SPV LLC (the “SUNS SPV”). Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (the “Credit Facility”) (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of the Company.
- (3) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (4) Indicates assets that the Company believes may not represent “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 (“1940 Act”), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of December 31, 2018, on a fair value basis, non-qualifying assets in the portfolio represented 25.5% of the total assets of the Company.

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

- (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, 2018 in these controlled investments are as follows:

<u>Name of Issuer</u>	<u>Fair Value at December 31, 2017</u>	<u>Gross Additions</u>	<u>Gross Reductions</u>	<u>Realized Gain (Loss)</u>	<u>Change in Unrealized Gain (Loss)</u>	<u>Dividend /Other Income</u>	<u>Fair Value at December 31, 2018</u>
First Lien Loan Program LLC (15)	\$ 35,835	\$ 5,521	\$ 42,980	\$ (3,209)	\$ (1,585)	\$ 2,889	\$ —
Gemino Healthcare Finance, LLC	35,050	—	1,400	—	(1,100)	3,498	32,550
North Mill Capital LLC	51,000	16,000	—	—	—	5,703	67,000
	<u>\$ 121,885</u>	<u>\$ 21,521</u>	<u>\$ 44,380</u>	<u>\$ (3,209)</u>	<u>\$ (2,685)</u>	<u>\$ 12,090</u>	<u>\$ 99,550</u>

- (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, 2018 in these affiliated investments are as follows:

<u>Name of Issuer</u>	<u>Fair Value at December 31, 2017</u>	<u>Gross Additions</u>	<u>Gross Reductions</u>	<u>Realized Gain (Loss)</u>	<u>Change in Unrealized Gain (Loss)</u>	<u>Interest/Dividend/ Other Income</u>	<u>Fair Value at December 31, 2018</u>
Engineering Solutions & Products, LLC (1st lien)	—	602	602	—	—	54	—
Engineering Solutions & Products, LLC (2nd lien)	2,145	76	226	—	238	329	2,282
Engineering Solutions & Products, LLC (equity interests)	68	—	—	—	—	—	68
	<u>\$ 2,213</u>	<u>\$ 678</u>	<u>\$ 828</u>	<u>\$ —</u>	<u>\$ 238</u>	<u>\$ 383</u>	<u>\$ 2,350</u>

- (7) Coupon is 4.00% Cash / 4.00% PIK.  
(8) Coupon is 0.25% Cash / 8.75% PIK.  
(9) Our equity investment in Engineering Solutions & Products, LLC is held through ESP SSC Corporation, a taxable consolidated subsidiary.

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

- (10) Aggregate net unrealized depreciation for federal income tax purposes is \$10,007; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$1,362 and \$11,369, respectively, based on a tax cost of \$460,118. The Company generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"). These investments are generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.
  - (11) Level 3 investment valued using significant unobservable inputs.
  - (12) Our equity investment in North Mill Capital LLC is partially held through ESP SSC Corporation, a taxable consolidated subsidiary.
  - (13) Spread is 3.00% Cash / 3.00% PIK.
  - (14) Indicates an investment that is wholly or partially held by Solar Senior Capital Ltd. through its wholly-owned financing subsidiary FLLP2015-1 LLC (the "FLLP SPV"). Such investments are pledged as collateral under the FLLP 2015-1, LLC Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of the Company.
  - (15) On September 18, 2018, the Company acquired 100% of the equity of FLLP and as such consolidated this investment as of this date. On December 19, 2018, FLLP was merged into the Company.
- † Non-income producing security.  
†† Investment contains a payment-in-kind ("PIK") feature.



**SOLAR SENIOR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2018**  
**(in thousands, except share/unit amounts)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2018</b>
Diversified Financial Services (includes Gemino Healthcare Finance, LLC and North Mill Capital LLC)	22.1%
Health Care Providers & Services	15.8%
Professional Services	11.8%
Insurance	11.2%
Software	10.6%
Communications Equipment	5.5%
Media	3.2%
Electronic Equipment, Instruments & Components	3.1%
Wireless Telecommunication Services	2.6%
Chemicals	2.6%
Consumer Finance	2.5%
Commercial Services & Supplies	2.5%
Pharmaceuticals	1.6%
Air Freight & Logistics	1.3%
Footwear	1.3%
Specialty Retail	1.0%
Aerospace & Defense	0.5%
Health Care Equipment & Supplies	0.5%
Diversified Consumer Services	0.3%
Health Care Technology	0.0%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2019**  
**(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 regulated as a business development company (“BDC”) under the Investment Company Act of 1940 (the “1940 Act”). Furthermore, as the Company is an investment company, it continues to apply the guidance in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 946. In addition, for tax purposes, we have elected to be treated, and intend to qualify annually, as a regulated investment company (“RIC”), under Subchapter M of the Internal Revenue Code of 1986, as amended (“the Code”).

On January 28, 2011, Solar Senior was capitalized with initial equity of \$2 and commenced operations. On February 24, 2011, Solar Senior priced its initial public offering, selling 9.0 million shares, including the underwriters’ over-allotment, raising approximately \$168,000 of net proceeds. Concurrent with this offering, our senior management team purchased an additional 500,000 shares through a private placement, raising another \$10,000.

The Company’s investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by investing directly or indirectly in senior secured loans, including first lien, stretch-senior 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 directly or indirectly invested in senior loans.

**Note 2. Significant Accounting Policies**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (“GAAP”), and include the accounts of the Company and certain 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 Form10-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;

**SOLAR SENIOR CAPITAL LTD.**

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

**December 31, 2019**

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

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

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

The recommendation of fair value generally considers the following factors among others, as relevant: applicable market yields; the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flow; the markets in which the issuer does business; and comparisons to publicly traded securities, among others.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share amounts)**

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, 2019, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

ASC Topic 820 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

- (c) Gains or losses on investments are calculated by using the specific identification method.
- (d) The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the effective interest method. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record call premiums on loans repaid as interest income when we receive such amounts. Capital structuring fees, amendment fees, consent fees, and any other non-recurring fee income as well as management fee and other fee income for services rendered, if any, are recorded as other income when earned.
- (e) The Company intends to comply with the applicable provisions of the Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all U.S. federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on such estimated excess taxable income as appropriate.
- (f) Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts. 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, 2019, \$10 was reclassified on our balance sheet between accumulated distributable net loss and paid-in capital in excess of par. Total earnings and net asset value are not affected.

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810—*Consolidation*, the Company consolidates its interest in controlled investment company subsidiaries, 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) In accordance with ASC 835-30, the Company reports origination and other expenses related to certain debt issuances, if any, as a direct deduction from the carrying amount of the debt liability. Applicable 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/or when it approximates the effective yield method.
- (k) The Company records expenses related to shelf registration statements and applicable equity offering costs as prepaid assets. These expenses are typically charged as a reduction of capital upon utilization or expensed, in accordance with ASC 946-20-25.
- (l) Investments that are expected to pay regularly scheduled interest in cash are generally placed on non-accrual status when principal or interest cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining 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.
- (m) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less would qualify, with limited exceptions. The Company believes that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

Recent Accounting Pronouncements

In August 2018, the FASB issued ASU2018-13, Fair Value Measurement (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments

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in this Update modify and eliminate certain disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company will adopt ASU 2018-13 effective in fiscal year 2020.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which will amend FASB ASC 310-20. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium, generally requiring the premium to be amortized to the earliest call date. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company has adopted ASU 2017-08 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

**Note 3. Agreements**

Solar Senior has an Advisory Agreement with the Investment Adviser, under which the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, Solar Senior. For providing these services, the Investment Adviser receives a fee from Solar Senior, consisting of two components—a base management fee and a performance-based incentive fee. The base management fee is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Advisory Agreement, the base management fee is payable quarterly in arrears. The base management fee is calculated based on the average value of our gross assets at the end of the two most recently completed calendar quarters. Base management fees for any partial month or quarter will be appropriately pro-rated. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The performance-based incentive fee has two parts, as follows: one is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (other than fees for providing managerial assistance) accrued during the calendar quarter, minus our operating expenses for the quarter (excluding the performance-based incentive fee). Pre-incentive fee net investment income includes, in the case of investments, if any, with a deferred interest feature (such as original issue discount, debt instruments with pay-in-kind interest and zero-coupon securities), accrued income that we have not yet received in cash. Pre-incentive fee net investment income does not include any realized capital gains or losses or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of our net assets at the end of the immediately preceding calendar quarter, is compared to a hurdle of 1.75% per quarter (7.00% annualized). The Company pays the Investment Adviser a performance-based incentive fee with respect to pre-incentive fee net investment income for each calendar quarter as follows:

- no performance-based incentive fee in any calendar quarter in which our pre-incentive fee net investment income does not exceed the hurdle of 1.75%;
- 50% of pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle but is less than 2.9167% in any calendar quarter (11.67% annualized);

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and

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

The second part of the performance-based incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory Agreement, as of the termination date) and will equal 20% of the Company's cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all net capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For financial statement purposes, the second part of the performance-based incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the fiscal years ended December 31, 2019, 2018 and 2017.

For the fiscal years ended December 31, 2019, 2018 and 2017, the Company recognized \$4,799, \$4,603 and \$3,861, respectively, in gross base management fees and \$1,484, \$2,922 and \$1,083, respectively, in gross performance-based incentive fees. For the fiscal years ended December 31, 2019, 2018 and 2017, \$1,317, \$0 and \$1,962, respectively, of such base management fees were waived. For the fiscal years ended December 31, 2019, 2018 and 2017, \$1,476, \$1,107 and \$709, respectively, of such performance-based incentive fees were waived. For the fiscal years ended December 31, 2019, 2018 and 2017, there were \$0, \$153 and \$0, respectively, of performance-based incentive fees recaptured by the Investment Adviser. The below voluntary fee waivers were made at the Investment Adviser's discretion and are subject to recapture by the Investment Adviser and reimbursement by the Company under the conditions noted below. No fees will be recouped by the Investment Adviser if (i) for the period in which recoupment occurs, the ratio of operating expenses to average net assets, when considering the reimbursement, exceeds the same ratio for the period in which the waiver occurred; (ii) for the period in which recoupment occurs, the annualized distribution rate cannot fall below the annualized distribution rate for the period in which the waiver occurred; and (iii) recoupment can only occur within three years from the date of the waiver. The table below presents a summary of fees waived that may be subject to recoupment:

Three Months Ended	Management and Performance-Based Incentive Fees Waived	Management and Performance-Based Incentive Fees Recouped	Unreimbursed Management and Performance-Based Incentive Fees	Ratio of Operating Expense to Average Net Assets for the Period(1)	Annualized Distribution Rate for the Period(2)	Eligible for Recoupment Through
June 30, 2018	\$ 437	\$ 153	\$ 284	0.30%	8.37%	March 31, 2020
December 31, 2018	362	—	362	0.20%	8.38%	September 30, 2020
March 31, 2019	536	—	536	0.28%	8.65%	December 31, 2020
June 30, 2019	984	—	984	0.31%	8.60%	March 31, 2021
September 30, 2019	602	—	602	0.31%	8.63%	June 30, 2021

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Three Months Ended	Management and Performance- Based Incentive Fees Waived	Management and Performance-Based Incentive Fees Recouped	Unreimbursed Management and Performance-Based Incentive Fees	Ratio of Operating Expense to Average Net Assets for the Period(1)	Annualized Distribution Rate for the Period(2)	Eligible for Recoupment Through
December 31, 2019	671	—	671	0.33%	8.65%	September 30, 2021
Total	<u>\$ 3,592</u>	<u>\$ 153</u>	<u>\$ 3,439</u>			

- (1) Operating expense includes all expenses borne by the Company, except for organizational and offering costs, base management fees, performance-based incentive fees and interest expense. The ratios presented are not annualized.
- (2) Annualized distribution rate equals the annualized rate of distributions paid to stockholders based on the amount of the distributions declared prior to the date that the waivers of expenses related to management and performance-based incentive fees were incurred.

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

For the fiscal years ended December 31, 2019, 2018 and 2017, the Company recognized expenses under the Administration Agreement of \$1,575, \$1,529 and \$1,554, respectively. No managerial assistance fees were accrued or collected for the fiscal years ended December 31, 2019, 2018 and 2017.

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

At December 31, 2019, the Company’s total net assets and net asset value per share were \$261,814 and \$16.32, respectively. This compares to total net assets and net asset value per share at December 31, 2018 of \$261,392 and \$16.30, 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, 2019, 2018 and 2017:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
<b>Earnings per share (basic &amp; diluted)</b>			
Numerator—net increase in net assets resulting from operations:	\$ 22,944	\$ 13,813	\$ 23,386
Denominator—weighted average shares:	16,043,542	16,040,060	16,031,303
Earnings per share:	\$ 1.43	\$ 0.86	\$ 1.46



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**Note 6. Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

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

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

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

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

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. Within the fair value hierarchy tables below, cash and cash equivalents are excluded but could be classified as Level 1.

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The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2019 and December 31, 2018:

**Fair Value Measurements**  
**As of December 31, 2019**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$ —	\$ —	\$361,456	\$361,456
Common Equity/Equity Interests/Warrants	—	—	98,809	98,809
Total Investments	<u>\$ —</u>	<u>\$ —</u>	<u>\$460,265</u>	<u>\$460,265</u>

**Fair Value Measurements**  
**As of December 31, 2018**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$ —	\$8,589	\$341,814	\$350,403
Common Equity/Equity Interests/Warrants	—	—	99,708	99,708
Total Investments	<u>\$ —</u>	<u>\$8,589</u>	<u>\$441,522</u>	<u>\$450,111</u>
<b>Liabilities:</b>				
FLLP Facility	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 51,371</u>	<u>\$ 51,371</u>

The following table provides a summary of the changes in fair value of Level 3 assets for the year ended December 31, 2019, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets still held at December 31, 2019:

	Bank Debt/Senior Secured Loans	Common Equity/Equity Interests/Warrants	Total
<b>Fair value, December 31, 2018</b>	\$ 341,814	\$ 99,708	\$441,522
Total gains or losses included in earnings:			
Net realized gain (loss)	(6,738)	1,920	(4,818)
Net change in unrealized gain (loss)	2,459	2,412	4,871
Purchase of investment securities	109,851	27	109,878
Proceeds from dispositions of investment securities	(93,288)	(5,258)	(98,546)
Transfers into Level 3	7,358	—	7,358
Transfers out of Level 3	—	—	—
<b>Fair value, December 31, 2019</b>	<u>\$ 361,456</u>	<u>\$ 98,809</u>	<u>\$460,265</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>\$ 2,459</u>	<u>\$ 2,412</u>	<u>\$ 4,871</u>

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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, 2019:

Beginning fair value at December 31, 2018	\$ 51,371
Borrowings	5,082
Repayments	—
Transfers in/out of Level 3	<u>(56,453)</u>
Ending fair value at December 31, 2019	<u>\$ —</u>

The Company did not elect to apply the fair value option of accounting to the FLLP Facility, which was refinanced by way of amendment on May 31, 2019. As this refinancing was deemed to be a significant modification of debt, per ASC 825-10-25, a new election was triggered. As such, the FLLP Facility is shown as a transfer out of Level 3. During the fourth quarter of 2019, our investment in Acrisure, LLC was transferred from Level 2 to Level 3. At December 31, 2019, the Investment Adviser no longer believed the market quote to be representative of fair value due to its specific knowledge of transaction activity in the position.

The following table provides a summary of the changes in fair value of Level 3 assets for the year ended December 31, 2018, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets still held at December 31, 2018:

**Fair Value Measurements Using Level 3 Inputs**

	Bank Debt/Senior Secured Loans	Common Equity/Equity Interests/Warrants	Total
<b>Fair value, December 31, 2017</b>	\$ 264,650	\$ 86,157	\$ 350,807
Total gains or losses included in earnings:			
Net realized gain (loss)	(5,218)	—	(5,218)
Net change in unrealized gain (loss)	(1,052)	(1,073)	(2,125)
Purchase of investment securities	168,768	16,024	184,792
Proceeds from dispositions of investment securities	(176,482)	(1,400)	(177,882)
Transfers in/out of Level 3	91,148	—	91,148
<b>Fair value, December 31, 2018</b>	<u>\$ 341,814</u>	<u>\$ 99,708</u>	<u>\$ 441,522</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>\$ (1,053)</u>	<u>\$ (1,073)</u>	<u>\$ (2,126)</u>

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

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transfers into Level 3. During the quarter ended December 31, 2018, Pre-Paid Legal Services, Inc. was transferred from Level 3 to Level 2 as the Investment Adviser believed that there was ample liquidity in the available quote given known transactions and thus believed the quote to be representative of fair value.

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, 2018:

Beginning fair value at December 31, 2017	\$124,200
Borrowings	30,950
Repayments	(29,376)
Transfers in/out of Level 3	(74,403)
Ending fair value at December 31, 2018	<u>\$ 51,371</u>

The Company made an election to apply the fair value option of accounting to the FLLP Facility, in accordance with ASC 825-10. On December 31, 2018, there were borrowings of \$51,371 on the FLLP Facility. For the year ended December 31, 2018, the FLLP Facility had no net change in unrealized (appreciation) depreciation. As a result of the consolidation of FLLP, the FLLP Facility is shown as a transfer into Level 3.

The Company did not elect to apply the fair value option of accounting to the Credit Facility, which was refinanced by way of amendment on June 1, 2018. As this refinancing was deemed to be a significant modification of debt, per ASC 825-10-25, a new election was triggered. As such the Credit Facility is shown as a transfer out of Level 3.

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

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

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

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Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2019 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2019	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 361,456	Income Approach	Market Yield	5.2% – 12.0% (7.6%)
Common Equity/Equity Interests/Warrants	Asset	\$ 98,809	Market Approach	Return on Equity	0.0% – 28.6% (11.5%)

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, 2018 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2018	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt / Senior Secured Loans	Asset	\$ 341,814	Income Approach	Market Yield	6.9% – 25.5% (8.7%)
		\$ 158	Market Approach	EBITDA Multiple	5.8x – 14.4x (14.4x)
Common Equity/Equity Interests/Warrants	Asset	\$ 99,550	Market Approach	Return on Equity	7.5% – 25.2% (10.1%)
FLLP Facility	Liability	\$ 51,371	Income Approach	Market Yield	L+1.4% – L+4.8% (L+2.3%)

Significant increases or decreases in any of the above unobservable inputs in isolation, including unobservable inputs used in deriving bid-ask spreads, if applicable, would result in a significantly lower or higher fair value measurement for such assets and liabilities. Generally, an increase in market yields or decrease in EBITDA multiples may result in a decrease in the fair value of certain of the Company's investments.

**Note 7. Debt**

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

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was amended on November 7, 2012, June 30, 2014, May 29, 2015 to extend maturities and add greater investment flexibility, among other changes. On June 1, 2018, the Credit Facility was refinanced by way of amendment, allowing for greater investment flexibility and the extension of the maturity date, among other changes. On July 13, 2018, commitments to the Credit Facility, as amended, were increased from \$200,000 to \$225,000 by utilizing the accordion feature. There were \$157,600 of borrowings outstanding as of December 31, 2019 under the Credit Facility.

*FLLP Facility*—On May 31, 2019, the Company as transferor and FLLP2015-1, LLC, a wholly-owned subsidiary of the Company, as borrower entered into amendment number five to the \$75,000 FLLP Facility with Wells Fargo Bank, NA acting as administrative agent. The Company acts as servicer under the FLLP Facility. The FLLP Facility is scheduled to mature on May 31, 2024. The FLLP Facility generally bears interest at a rate of LIBOR plus a range of 2.15-2.25%. The Company and FLLP2015-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The FLLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$53,602 of borrowings outstanding as of December 31, 2019.

The average annualized interest cost for all borrowings for the year ended December 31, 2019 and the year ended December 31, 2018 was 4.51% and 4.30%, respectively. These costs are exclusive of other credit facility expenses such as unused fees and fees paid to the back-up servicer, if any. The maximum amount borrowed on the revolving credit facilities during the year ended December 31, 2019 and the year ended December 31, 2018, was \$224,553 and \$214,296, respectively.

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**Note 8. Financial Highlights**

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

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Per Share Data: (a)</b>					
Net asset value, beginning of year	\$ 16.30	\$ 16.84	\$ 16.80	\$ 16.33	\$ 17.65
Net investment income	1.41	1.41	1.41	1.42	1.33
Net realized and unrealized gain (loss)	0.02	(0.54)	0.04	0.50	(1.24)
Net increase (decrease) in net assets resulting from operations	1.43	0.87	1.45	1.92	0.09
Distributions to stockholders (see note 9a):					
From net investment income	(0.99)	(1.41)	(1.41)	(1.42)	(1.41)
From return of capital	(0.42)	—	—	—	—
Offering costs and other	—	—	—	(0.03)	—
Net asset value, end of year	<u>\$ 16.32</u>	<u>\$ 16.30</u>	<u>\$ 16.84</u>	<u>\$ 16.80</u>	<u>\$ 16.33</u>
Per share market value, end of year	\$ 17.60	\$ 15.12	\$ 17.76	\$ 16.44	\$ 14.90
Total Return(b)	26.42%	(7.28%)	17.11%	20.70%	8.90%
Net assets, end of year	\$ 261,814	\$ 261,392	\$ 270,131	\$ 269,145	\$ 188,304
Shares outstanding, end of year	<u>16,046,214</u>	<u>16,040,485</u>	<u>16,036,730</u>	<u>16,025,011</u>	<u>11,533,315</u>
<b>Ratios to average net assets:</b>					
Net investment income	8.63%	8.38%	8.39%	8.68%	7.63%
Operating expenses	2.57%*	3.48%*	2.12%*	2.65%*	2.92%*
Interest and other credit facility expenses	4.10%	2.89%	1.43%	1.56%	2.08%**
Total expenses	<u>6.67%*</u>	<u>6.37%*</u>	<u>3.55%*</u>	<u>4.21%*</u>	<u>5.00%*</u>
Average debt outstanding	\$ 212,465	\$ 168,359	\$ 100,700	\$ 109,938	\$ 136,900
Portfolio turnover ratio	21.4%	42.5%	41.4%	38.4%	34.0%

(a) Calculated using the average shares outstanding method.

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

\* 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).

For the year ended December 31, 2019, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.63% and 7.73%, respectively, without the voluntary management and incentive fee waivers. For the year ended December 31, 2018, the ratios of operating expenses to

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share amounts)**

average net assets and total expenses to average net assets would be 3.89% and 6.78%, respectively, without the voluntary management and incentive fee waivers. For the year ended December 31, 2017, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.11% and 4.54%, respectively, without the voluntary management and incentive fee waivers. For the year ended December 31, 2016, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.60% and 5.15%, respectively, without the voluntary management and incentive fee waivers. For the year ended December 31, 2015, the ratios of operating expenses to average net assets and total expenses to average net assets would be 3.29% and 5.37%, respectively, without the voluntary incentive fee waiver.

\*\* Ratio is shown without the non-recurring upfront costs that were expensed in the period associated with the amendment of the Credit Facility. Ratio excluding those non-recurring upfront costs would be 1.67% for the fiscal year ended December 31, 2015.

**Note 9(a). Income Tax Information and Distributions to Stockholders**

The tax character of distributions for the fiscal years ended December 31, 2019, 2018 and 2017 were as follows (1):

	2019		2018		2017	
Ordinary income	\$15,924	70.4%	\$22,617	100.0%	\$22,604	100.0%
Capital gains	—	0.0%	—	0.0%	—	0.0%
Return of capital	6,697	29.6%	—	0.0%	—	0.0%
Total distributions	<u>\$22,621</u>	<u>100.0%</u>	<u>\$22,617</u>	<u>100.0%</u>	<u>\$22,604</u>	<u>100.0%</u>

As of December 31, 2019, 2018 and 2017 the total accumulated earnings (loss) on a tax basis were as follows (1):

	2019	2018	2017
Undistributed ordinary income	\$ —	\$ —	\$ 640
Undistributed long-term net capital gains	—	—	—
Total undistributed net earnings	—	—	640
Other book/tax temporary differences	1,044	(362)	756
Post-October capital losses	—	—	—
Capital loss carryforward	(23,426)	(16,714)	(6,565)
Net unrealized appreciation (depreciation) investments	1,855	(10,007)	(9,627)
Total tax accumulated loss	<u>\$(20,527)</u>	<u>\$(27,083)</u>	<u>\$(14,796)</u>

(1) Tax information for the fiscal years ended December 31, 2019, 2018 and 2017 are/were estimates and are not final until the Company files its tax returns, typically in September or October each year.



**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share amounts)**

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 2016 remain subject to examination by the Internal Revenue Service and the state department of revenue. The capital loss carryforwards shown above do not expire.

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

No distributions paid during the fiscal years ended December 31, 2019, 2018 or 2017 were eligible for qualified dividend income treatment or were eligible for the 70% dividends received deduction for corporate stockholders. For the fiscal years ended December 31, 2019, 2018, and 2017, 99.25%, 85.92% and 95.53%, respectively, of each of the distributions paid during the year represent interest-related dividends. For the fiscal years ended December 31, 2019, 2018 and 2017, none of the distributions represent short-term capital gains dividends.

**Note 10. Gemino Healthcare Finance, LLC**

We acquired Gemino Healthcare Finance, LLC (d/b/a Gemino Senior Secured Healthcare Finance) (“Gemino”) on September 30, 2013. Gemino is a commercial finance company that originates, underwrites, and manages primarily secured, asset-based loans for small and mid-sized companies operating in the healthcare industry. Our initial investment in Gemino was \$32,839. The management team of Gemino co-invested in the transaction and continues to lead Gemino. As of December 31, 2019, Gemino’s management team and Solar Senior own approximately 7% and 93% of the equity in Gemino, respectively.

Concurrent with the closing of the transaction, Gemino entered into a new, four-year, non-recourse, \$100,000 credit facility with non-affiliates, which was expandable to \$150,000 under its accordion feature. Effective March 31, 2014, the credit facility was expanded to \$105,000 and again on June 27, 2014 to \$110,000. On May 27, 2016, Gemino entered into a new \$125,000 credit facility which replaced the previously existing facility. The new facility has similar terms as compared to the previous facility and includes an accordion feature increase to \$200,000 and had a maturity date of May 27, 2020. On June 28, 2019, this \$125,000 facility was amended, extending the maturity date to June 28, 2023.

Gemino currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of December 31, 2019, the portfolio totaled approximately \$203,828 of commitments with a total net investment in loans of \$110,968 on total assets of \$122,124. As of December 31, 2018, the portfolio totaled approximately \$174,083 of commitments with a total net investment in loans of \$89,367 on total assets of \$107,915. At December 31, 2019, the portfolio consisted of 34 issuers with an average balance of approximately \$3,264 versus 34 issuers with an average balance of approximately \$2,628 at December 31, 2018. 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 \$89,000 and \$75,000 of borrowings outstanding at December 31, 2019 and December 31, 2018, respectively. For the years ended December 31, 2019, 2018 and 2017, Gemino had net income of \$3,559, \$3,629 and \$3,571, respectively, on gross income of \$12,717, \$11,542 and \$11,389, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. Gemino’s consolidated financial statements for the fiscal years ended December 31, 2019 and December 31, 2018 are attached as an exhibit to this annual report on Form 10-K.

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

**Note 11. Selected Quarterly Financial Data (unaudited)**

<u>Quarter Ended</u>	<u>Investment Income</u>		<u>Net Investment Income</u>		<u>Net Realized And Unrealized Gain (Loss) on Assets</u>		<u>Net Increase (Decrease) In Net Assets From Operations</u>	
	<u>Total</u>	<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>	<u>Total</u>	<u>Per Share</u>
	December 31, 2019	\$ 9,453	\$0.59	\$5,656	\$0.35	\$ 148	\$ 0.01	\$ 5,804
September 30, 2019	10,396	0.65	5,655	0.35	(487)	(0.03)	5,168	0.32
June 30, 2019	10,008	0.62	5,656	0.35	(1,070)	(0.07)	4,586	0.29
March 31, 2019	10,234	0.64	5,654	0.35	1,732	0.11	7,386	0.46
December 31, 2018	\$ 9,984	\$0.62	\$5,550	\$0.35	\$(8,179)	\$(0.51)	\$ (2,629)	\$ (0.16)
September 30, 2018	11,013	0.69	5,762	0.36	(356)	(0.02)	5,406	0.34
June 30, 2018	9,471	0.59	5,654	0.35	(135)	(0.01)	5,519	0.34
March 31, 2018	9,341	0.58	5,654	0.35	(137)	(0.01)	5,517	0.34

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**December 31, 2019**  
**(in thousands, except share amounts)**

**Note 12. Commitments and Contingencies**

The Company had unfunded debt and equity commitments to various revolving and delayed draw loans as well as to Gemino Healthcare Finance, LLC. The total amount of these unfunded commitments as of December 31, 2019 and December 31, 2018 is \$25,009 and \$23,619, respectively, comprised of the following:

	December 31, 2019	December 31, 2018
Solara Medical Supplies, Inc.	\$ 3,186	\$ 2,056
MSHC, Inc.	2,448	3,326
Worldwide Facilities, LLC.	2,278	—
US Radiology Specialists, Inc.	2,163	—
Kindred Biosciences, Inc.	2,112	—
Rubius Therapeutics, Inc	2,061	4,121
WIRB-Copernicus Group, Inc.	1,660	2,649
Unified Physician Management, LLC.	1,593	—
ENS Holdings III Corp. & ES Opco USA LLC	1,453	—
Gemino Healthcare Finance, LLC*	1,400	1,400
Altern Marketing, LLC.	1,201	—
MRI Software LLC	1,181	2,446
Composite Technology Acquisition Corp.	1,136	—
Cerapedics, Inc.	824	—
Alimera Sciences, Inc.	171	—
AQA Acquisition Holding, Inc.	142	142
Centria Healthcare LLC.	—	333
The Hilb Group, LLC & Gencorp Insurance Group, Inc.	—	3,156
DISA Holdings Acquisition Corp.	—	2,586
GenMark Diagnostics, Inc.	—	700
Engineering Solutions & Products, LLC	—	535
TwentyEighty, Inc	—	140
MHE Intermediate Holdings, LLC	—	29
Total Commitments	<u>\$ 25,009</u>	<u>\$ 23,619</u>

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

The credit agreements of the above loan commitments contain customary lending provisions and/or are subject to the portfolio company's achievement of certain milestones that allow relief to the Company from funding obligations for previously made commitments in instances where the underlying company experiences materially adverse events that affect the financial condition or business outlook for the company. Since these commitments may expire without being drawn upon, unfunded commitments do not necessarily represent future cash requirements or future earning assets for the Company. As of December 31, 2019 and December 31, 2018, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

In the normal course of its business, we invest or trade in various financial instruments and may enter into various investment activities with off-balance sheet risk, which may include forward foreign currency contracts.

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
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Generally, these financial instruments represent future commitments to purchase or sell other financial instruments at specific terms at future dates. These financial instruments contain varying degrees of off-balance sheet risk whereby changes in the market value or our satisfaction of the obligations may exceed the amount recognized in our Consolidated Statements of Assets and Liabilities.

**Note 13. North Mill Holdco LLC**

We acquired 100% of the equity interests of North Mill Capital LLC (“NMC”) on October 20, 2017. NMC is a leading asset-backed lending commercial finance company that provides senior secured asset-backed financings to U.S. based small-to-medium-sized businesses primarily in the manufacturing, services and distribution industries. We invested approximately \$51,000 to effect the transaction. Subsequently, the Company contributed 1% of its equity interest in NMC to ESP SSC Corporation. Immediately thereafter, the Company and ESP SSC Corporation contributed their equity interests to NorthMill LLC (“North Mill”). On May 1, 2018, North Mill merged with and into NMC, with NMC being the surviving company. The Company and ESP SSC Corporation own 99% and 1% of the equity interests of NMC, respectively. The management team of NMC continues to lead NMC. On June 28, 2019, North Mill Holdco LLC (“NM Holdco”), a newly formed entity and ESP SSC Corporation acquired Summit Financial Resources, a Salt Lake City-based provider of asset-backed financing to small and medium-sized businesses. As part of this transaction, the Company’s 99% interest in the equity of NMC was contributed to NM Holdco. This approximately \$15,500 transaction was financed with borrowings on NMC’s credit facility.

NM Holdco currently manages a highly diverse portfolio of directly-originated and underwritten senior-secured commitments. As of December 31, 2019, the portfolio totaled approximately \$383,082 of commitments, of which \$171,144 were funded, on total assets of \$199,417. As of December 31, 2018, the portfolio totaled approximately \$247,259 of commitments, of which \$122,323 were funded, on total assets of \$155,568. At December 31, 2019, the portfolio consisted of 159 issuers with an average balance of approximately \$1,076 versus 80 issuers with an average balance of approximately \$1,529 at December 31, 2018. NMC has a senior credit facility with a bank lending group for \$160,000 which expires on October 20, 2020. Borrowings are secured by substantially all of NMC’s assets. NMC’s credit facility, which is non-recourse to us, had approximately \$122,551 and \$88,892 of borrowings outstanding at December 31, 2019 and December 31, 2018, respectively. For the years ended December 31, 2019, December 31, 2018 and the period October 20, 2017 through December 31, 2017, NMC had net income (loss) of \$2,184, (\$2,754) and \$372, respectively, on gross income of \$20,212, \$21,789 and \$3,097, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in NMC’s funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that NMC will be able to maintain consistent dividend payments to us. NMC’s consolidated financial statements for the fiscal years ended December 31, 2019 and December 31, 2018 are attached as an exhibit to this annual report on Form 10-K.

**SOLAR SENIOR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)**  
**December 31, 2019**  
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**Note 14. Capital Share Transactions**

As of December 31, 2019 and December 31, 2018, 200,000,000 shares of \$0.01 par value capital stock were authorized.

Transactions in capital stock were as follows:

	Shares		Amount	
	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Shares issued in reinvestment of distributions	5,729	3,755	\$ 99	\$ 65
Net increase	<u>5,729</u>	<u>3,755</u>	<u>\$ 99</u>	<u>\$ 65</u>

**Note 15. Subsequent Events**

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

On January 8, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on January 31, 2020 to holders of record as of January 23, 2020.

On February 4, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on February 28, 2020 to holders of record as of February 20, 2020.

On February 20, 2020, our board of directors declared a monthly dividend of \$0.1175 per share payable on April 3, 2020 to holders of record as of March 19, 2020.

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**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, 2019 (the end of the period covered by this report), we, including our Co-Chief Executive Officers 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 Co-Chief Executive Officers 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 Co-Chief Executive Officers 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 in Item 8 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" 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 2019 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**

**Item 10. Directors, Executive Officers and Corporate Governance**

**Information about Directors**

Certain information with respect to each of the current directors is set forth below, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that each person holds, the year in which each person became a director of the Company, and a discussion of their particular experience, qualifications, attributes or skills that lead us to conclude that such individual should serve as a director of the Company, in light of the Company’s business and structure. There were no legal proceedings of the type described in Item 401(f) of Regulation S-K in the past 10 years against any of the directors or officers of the Company and none are currently pending. There is no arrangement or understanding between any of the Company’s directors or officers pursuant to which they were selected as directors or officers and the Company or any other person or entity.

*Mr. Gross is an “interested person” of Solar Senior Capital as defined in the Investment Company Act of 1940 (the “1940 Act”) due to his position as Co-Chief Executive Officer and President of the Company and a managing member of Solar Capital Partners, LLC (“Solar Capital Partners”) the Company’s investment adviser. Mr. Spohler is an “interested person” of the Company as defined in the 1940 Act due to his position as Co-Chief Executive Officer and Chief Operating Officer of the Company and a managing member of Solar Capital Partners, the Company’s investment adviser. Each of Mr. Wachter, Mr. Hochberg and Mr. Potter is not an “interested person” of the Company as defined in the 1940 Act.*

<u>Name, Address and Age(1)</u>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years(2)</u>
<b>Interested Director</b> Michael S. Gross, 58	Chairman of the Board of Directors, Co-Chief Executive Officer and President.	Class III Director since 2007; Term expires 2021.	Co-Chief Executive Officer of Solar Capital Ltd., Solar Senior Capital Ltd. and SCP Private Credit Income BDC LLC since June 2019 and President of Solar Capital Ltd. since 2007, Solar Senior Capital Ltd. since 2010 and SCP Private Credit Income BDC LLC since 2018; Sole Chief Executive Officer of Solar Capital Ltd. (February 2007-June 2019), of Solar Senior Capital Ltd. (December 2010-June 2019) and of SCP Private Credit Income BDC LLC (June 2018-June 2019).	Chairman of the Board of Directors of Solar Capital Ltd. since 2010 and of SCP Private Credit Income BDC LLC since 2018; Chairman of the Board of Directors of Global Ship Lease Inc.; Director of Jarden Corporation (2007-2016); Chairman of the Board of Mt. Sinai Children’s Center Foundation; Director of New York Road Runners; Member of the Kellogg Global Advisory Board; and Member of the Ross School Advisory Board at the University of Michigan.

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Mr. Gross' intimate knowledge of the business and operations of Solar Capital Partners, extensive familiarity with the financial industry and the investment management process in particular, and experience as a director of other public and private companies not only gives the board of directors valuable insight but also positions him well to continue to serve as the Chairman of our board of directors.

<u>Name, Address and Age<sup>(1)</sup></u>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years <sup>(2)</sup></u>
<b>Interested Director</b> Bruce Spohler, 59	Co-Chief Executive Officer, Chief Operating Officer and Director	Class II Director since 2009; Term expires 2020.	Co-Chief Executive Officer of Solar Capital Ltd., Solar Senior Capital Ltd. and SCP Private Credit Income BDC LLC since June 2019; Chief Operating Officer of Solar Capital Ltd. since February 2007, of Solar Senior Capital Ltd. since December 2010 and of SCP Private Credit Income BDC LLC since June 2018; previously, Managing Director and a former Co-Head of U.S. Leveraged Finance for CIBC World Markets Inc., the investment banking subsidiary of the Canadian Imperial Bank of Commerce.	Director of Solar Capital Ltd. since 2010 and of SCP Private Credit Income BDC LLC since 2018.



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Mr. Spohler’s depth of experience in managerial positions in investment management, leveraged finance and financial services, as well as his intimate knowledge of Solar Capital’s business and operations, gives the board of directors valuable industry-specific knowledge and expertise on these and other matters.

<u>Name, Address and Age<sup>(1)</sup></u> <b>Independent Director</b>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years<sup>(2)</sup></u>
Steven Hochberg, 58	Director	Class II Director since 2007; Term expires 2020.	Partner at Deerfield Management, a healthcare investment firm, since 2013. Co-founder and manager of Ascent Biomedical Ventures, a venture capital firm focused on early stage investment and development of biomedical companies, since 2004.	Director of Solar Capital Ltd. since 2011 and of SCP Private Credit Income BDC LLC since 2018, and several private companies. Partner at Deerfield Management, a healthcare investment firm, since 2013. Co-founder and manager of Ascent Biomedical Ventures, a venture capital firm focused on early stage investment and development of biomedical companies, since 2004. Since 2011, Mr. Hochberg had been the Chairman of the Board of Continuum Health Partners until its merger with Mount Sinai in 2013, where he is Vice Chairman of the Mount Sinai Health System, a non-profit healthcare integrated delivery system in New York City. Director of the Cardiovascular Research Foundation, an organization focused on advancing new technologies and education in the field of cardiovascular medicine.

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Mr. Hochberg’s varied experience in investing in medical technology companies provides the board of directors with particular knowledge of this field, and his role as chairman of other companies’ board of directors brings the perspective of a knowledgeable corporate leader.

<u>Name, Address and Age(1)</u> <b>Independent Director</b>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years(2)</u>
Leonard A. Potter, 58	Director	Class III Director since 2009; Term expires 2021.	President and Chief Investment Officer of Wildcat Capital Management, LLC since 2011; Senior Managing Director at Vida Ventures since 2017; Chief Executive Officer of Infinity Q Capital Management, LLC since 2014; Managing Director of Soros Private Equity at Soros Fund Management LLC from 2002 to 2009.	Director of Solar Capital Ltd. since 2011, SCP Private Credit Income BDC LLC since 2018, Hilton Grand Vacations Inc. since 2017, Sutter Rock Capital Corp. since 2011, and several private companies.

Mr. Potter’s experience practicing as a corporate lawyer provides valuable insight to the board of directors on regulatory and risk management issues. In addition, his tenure in private equity and other investments and service as a director of both public and private companies provide industry-specific knowledge and expertise to the board of directors.

<u>Name, Address and Age(1)</u> <b>Independent Director</b>	<u>Position(s) Held with Company</u>	<u>Terms of Office and Length of Time Served</u>	<u>Principal Occupation(s) During Past 5 Years</u>	<u>Other Directorships Held by Director or Nominee for Director During Past 5 Years(2)</u>
David S. Wachter, 56	Director	Class I Director since 2007; Term expires 2022.	Founding Partner, Managing Director and President of W Capital Partners, a private equity fund manager, since 2001.	Director of Solar Capital Ltd. since 2011, SCP Private Credit Income BDC LLC since 2018 and of several private companies.

Mr. Wachter’s extensive knowledge of private equity and investment banking provides the board of directors with the valuable insight of an experienced financial manager.

(1) The business address of the director nominee and other directors is c/o Solar Senior Capital Ltd., 500 Park Avenue, New York, New York 10022.

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- (2) All of the Company’s directors also serve as directors of Solar Capital Ltd. and SCP Private Credit Income BDC LLC, which are investment companies that have each elected to be regulated as a business development company (“BDC”) and for which Solar Capital Partners serves as investment adviser. Mr. Potter also serves as a director of Sutter Rock Capital Corp., which is a closed-end management investment company that has elected to be regulated as a BDC.

**Information about Executive Officers Who Are Not Directors**

*The following information, as of December 31, 2019, pertains to our executive officers who are not directors of the Company.*

<u>Name, Address, and Age<sup>(1)</sup></u>	<u>Position(s) Held with Company</u>	<u>Principal Occupation(s) During Past 5 Years</u>
Richard L. Peteka, 58	Chief Financial Officer, Treasurer and Secretary	Chief Financial Officer, Treasurer and Secretary of the Company and of Solar Capital Ltd. since May 2012 and of SCP Private Credit Income BDC LLC since June 2018. Mr. Peteka joined the Company from Apollo Investment Corporation, a publicly-traded business development company, where he served from 2004 to 2012 as the Chief Financial Officer and Treasurer.
Guy Talarico, 64	Chief Compliance Officer	Chief Compliance Officer of Solar Capital Ltd. since 2008, Solar Senior Capital Ltd. since 2010, SCP Private Credit Income BDC LLC since 2018 and Solar Capital Partners, LLC since February 2016—all affiliated entities; and Chief Executive Officer of Alaric Compliance Services, LLC (successor to EOS Compliance Services LLC) since December 2005. In conjunction with this primary occupation, Mr. Talarico has served and continues to serve as Chief Compliance Officer for other business development companies, funds, and/or investment advisers who are not affiliated with the Solar Capital entities.

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(1) The business address of the executive officers is c/o Solar Senior Capital Ltd., 500 Park Avenue, New York, New York 10022.

Our common stock is listed on the NASDAQ Global Select Market under the symbol “SUNS.”

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### **Audit Committee**

The Audit Committee operates pursuant to a charter approved by our board of directors, a copy of which is available on our website at <http://www.solarseniorcap.com>. The charter sets forth the responsibilities of the Audit Committee. The Audit Committee's responsibilities include selecting the independent registered public accounting firm for the Company, reviewing with such independent registered public accounting firm the planning, scope and results of their audit of the Company's financial statements, pre-approving the fees for services performed, reviewing with the independent registered public accounting firm the adequacy of internal control systems, reviewing the Company's annual financial statements and periodic filings and receiving the Company's audit reports and financial statements. The Audit Committee also establishes guidelines and makes recommendations to our board of directors regarding the valuation of our investments. The Audit Committee is responsible for aiding our board of directors in determining the fair value of debt and equity securities that are not publicly traded or for which current market values are not readily available. The board of directors and Audit Committee utilize the services of nationally recognized third-party valuation firms to help determine the fair value of these securities. The Audit Committee is currently composed of Messrs. Hochberg, Wachter and Potter, all of whom are considered independent under the rules of the NASDAQ Stock Market and are not "interested persons" of the Company as that term is defined in Section 2(a)(19) of the 1940 Act. Mr. Hochberg serves as Chairman of the Audit Committee. Our board of directors has determined that Mr. Hochberg is an "audit committee financial expert" as that term is defined under Item 407 of Regulation S-K, as promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Mr. Hochberg meets the current independence and experience requirements of Rule 10A-3 of the Exchange Act.

### **Communication with the Board of Directors**

Stockholders with questions about the Company are encouraged to contact the Company's investor relations department. However, if stockholders believe that their questions have not been addressed, they may communicate with the Company's board of directors by sending their communications to Solar Senior Capital Ltd., c/o Richard L. Peteka, Secretary, 500 Park Avenue, New York, New York 10022. All stockholder communications received in this manner will be delivered to one or more members of the board of directors.

### **Code of Ethics**

The Company has adopted a code of ethics that applies to, among others, its senior officers, including its Co-Chief Executive Officers and its Chief Financial Officer, as well as every officer, director and employee of the Company. The Company's code of ethics can be accessed via its website at <http://www.solarseniorcap.com>. The Company intends to disclose amendments to or waivers from a required provision of the code of ethics on Form 8-K.

### **Nomination of Directors**

There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors implemented since the filing of our Proxy Statement for our 2019 Annual Meeting of Stockholders.

## **Item 11. Executive Compensation**

### **Compensation of Executive Officers**

None of our officers receives direct compensation from the Company. As a result, we do not engage any compensation consultants. Mr. Gross, our Co-Chief Executive Officer and President, and Mr. Spohler, our Co-Chief Executive Officer and Chief Operating Officer, through their ownership interest in Solar Capital Partners, our investment adviser, are entitled to a portion of any profits earned by Solar Capital Partners, which includes any fees payable by us to Solar Capital Partners under the terms of the Advisory Agreement, less

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expenses incurred by Solar Capital Partners in performing its services under the Advisory Agreement. Messrs. Gross and Spohler do not receive any additional compensation from Solar Capital Partners in connection with the management of our portfolio.

Mr. Peteka, our Chief Financial Officer, Treasurer and Secretary and, through Alaric Compliance Services, LLC, Guy Talarico, our Chief Compliance Officer, are paid by Solar Capital Management, our administrator, subject to reimbursement by us of an allocable portion of such compensation for services rendered by such persons to the Company. To the extent that Solar Capital Management outsources any of its functions, we will pay the fees associated with such functions on a direct basis without profit to Solar Capital Management.

### Compensation of Directors

The following table sets forth compensation of the Company's directors, for the year ended December 31, 2019.

<u>Name</u>	<u>Fees Earned or Paid in Cash(1)</u>	<u>Stock Awards(2)</u>	<u>All Other Compensation</u>	<u>Total</u>
<b>Interested Directors</b>				
Michael S. Gross	—	—	—	—
Bruce Spohler	—	—	—	—
<b>Independent Directors</b>				
Steven Hochberg	\$ 63,500	—	—	\$63,500
David S. Wachter	\$ 61,000	—	—	\$61,000
Leonard A. Potter	\$ 60,250	—	—	\$60,250

- (1) For a discussion of the independent directors' compensation, see below.
- (2) We do not maintain a stock or option plan, non-equity incentive plan or pension plan for our directors. However, our independent directors have the option to receive all or a portion of the directors' fees to which they would otherwise be entitled in the form of shares of our common stock issued at a price per share equal to the greater of our then current net asset value per share or the market price at the time of payment. No shares were issued to any of our independent directors in lieu of cash during 2019.

Our independent directors' annual fee is \$50,000. The independent directors also receive \$1,250 (\$500 if participating telephonically) plus reimbursement of reasonable out-of-pocket expenses incurred in connection with attending each board meeting and \$500 plus reimbursement of reasonable out-of-pocket expenses incurred in connection with each committee meeting attended. In addition, the Chairman of the Audit Committee receives an annual fee of \$3,750, the Chairman of the Nominating and Corporate Governance Committee receives an annual fee of \$1,250 and the Chairman of the Compensation Committee receives an annual fee of \$1,250. Further, we purchase directors' and officers' liability insurance on behalf of our directors and officers. In addition, no compensation was paid to directors who are interested persons of the Company as defined in the 1940 Act.

### Compensation Committee

The Compensation Committee operates pursuant to a charter approved by our board of directors, a copy of which is available on our website at <http://www.solarseniorcap.com>. The charter sets forth the responsibilities of the Compensation Committee. The Compensation Committee is responsible for reviewing and recommending for approval to our board of directors the Advisory Agreement and the Administration Agreement. In addition, although we do not directly compensate our executive officers currently, to the extent that we do so in the future, the Compensation Committee would also be responsible for reviewing and evaluating their compensation and making recommendations to the board of directors regarding their compensation. Lastly, the Compensation Committee would produce a report on our executive compensation practices and policies for inclusion in our proxy statement if required by applicable proxy rules and regulations and, if applicable, make recommendations

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to the board of directors with matters related to compensation generally. The Compensation Committee has the authority to engage compensation consultants and to delegate their duties and responsibilities to a member or to a subcommittee of the Compensation Committee. The members of the Compensation Committee are Messrs. Hochberg, Wachter and Potter, all of whom are considered independent under the rules of the NASDAQ Stock Market and are not “interested persons” of the Company as that term is defined in Section 2(a)(19) of the 1940 Act. Mr. Potter serves as Chairman of the Compensation Committee.

### **Compensation Committee Interlocks and Insider Participation**

During fiscal year 2019 none of the Company’s executive officers served on the board of directors (or a compensation committee thereof or other board committee performing equivalent functions) of any entities that had one or more executive officers serve on the Compensation Committee of the Company or on the Board of Directors of the Company.

### **Compensation Committee Report**

Currently, none of our executive officers are compensated by the Company, and as such the Company is not required to produce a report on executive officer compensation for inclusion in our annual report on Form 10-K.

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

The following table sets forth, as of February 14, 2020, the beneficial ownership of each current director, the nominees for directors, the Company’s executive officers, each person known to us to beneficially own 5% or more of the outstanding shares of our common stock, and the executive officers and directors as a group.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (“SEC”) and includes voting or investment power with respect to the securities. Ownership information for those persons who beneficially own 5% or more of our shares of common stock is based upon reports filed by such persons with the SEC and other information obtained from such persons, if available.

Unless otherwise indicated, the Company believes that each beneficial owner set forth in the table has voting and investment power and has the same address as the Company. Our address is 500 Park Avenue, New York, New York 10022.

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares Owned Beneficially (1)</u>	<u>Percentage of Class (2)</u>
<b>Interested Directors</b>		
Michael S. Gross <sup>(3)(4)</sup>	868,186	5.4%
Bruce Spohler <sup>(3)</sup>	539,017	3.4%
<b>Independent Directors</b>		
Steven Hochberg	20,000	*
Leonard A. Potter	6,250	*
David S. Wachter	9,110	*
<b>Executive Officers</b>		
Richard L. Peteka	6,250	*
Guy Talarico	—	—
<b>All executive officers and directors as a group (7 persons)</b>	<b>913,796</b>	<b>5.7%</b>
John W. Jordan II <sup>(5)</sup>	981,427	6.1%

\* Represents less than one percent.

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- (1) Beneficial ownership has been determined in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Assumes no other purchases or sales of our common stock since the most recently available SEC filings. This assumption has been made under the rules and regulations of the SEC and does not reflect any knowledge that we have with respect to the present intent of the beneficial owners of our common stock listed in this table.
- (2) Based on a total of 16,047,956 shares of the Company’s common stock issued and outstanding as of February 14, 2020.
- (3) Includes 455,500 shares held by Solar Senior Capital Investors, LLC and 100 shares held by Solar Capital Management, LLC, a portion of both of which may be deemed to be indirectly beneficially owned by Michael S. Gross and by Bruce Spohler by virtue of their collective ownership interests therein. Also includes 79,417 shares held by Solar Capital Partners Employee Stock Plan LLC, which is controlled by Solar Capital Partners, LLC. Mr. Gross and Mr. Spohler may be deemed to indirectly beneficially own a portion of the shares held by Solar Capital Partners Employee Stock Plan LLC by virtue of their collective ownership interest in Solar Capital Partners, LLC. Each of Mr. Gross and Mr. Spohler disclaim beneficial ownership of any shares of our common stock directly held by Solar Capital Partners Employee Stock Plan LLC, Solar Senior Capital Investors, LLC or Solar Capital Management, LLC, except to the extent of their respective pecuniary interest therein.
- (4) Includes (i) 4,844 shares directly held by Michael S. Gross’ profit sharing plan (the “Profit Sharing Plan”), which may be deemed to be directly beneficially owned by Mr. Gross as the sole participant in the Profit Sharing Plan, and (ii) 96,717 shares directly held by a grantor retained annuity trust (“GRAT”) setup by and for Michael S. Gross. As the sole trustee of the GRAT, Mr. Gross may be deemed to directly beneficially own all of the shares held by the GRAT.
- (5) Based on information contained in Schedule 13G filed on March 28, 2018 by John W. Jordan II. Includes 856,726 shares held by The John W. Jordan II Revocable Trust, a trust formed under the laws of Illinois (the “JWJ Trust”) and 124,701 shares held by The GSJ 2003 Trust. Mr. Jordan is the trustee of the JWJ Trust and the GSJ 2003 Trust and may be deemed to have voting and dispositive power with respect to the shares of our common stock held by these trusts. The address for Mr. Jordan is 875 North Michigan Avenue, Suite 4020, Chicago, Illinois 60611.

Set forth below is the dollar range of equity securities beneficially owned by each of our directors as of February 14, 2020. We are not part of a “family of investment companies,” as that term is defined in the 1940 Act.

<u>Name of Director</u>	<u>Dollar Range of Equity Securities</u> <u>Beneficially Owned (1)(2)</u>	
<b>Interested Directors</b>		
Michael S. Gross	Over \$	100,000
Bruce Spohler	Over \$	100,000
<b>Independent Directors</b>		
Steven Hochberg	Over \$	100,000
Leonard A. Potter	Over \$	100,000
David S. Wachter	Over \$	100,000

(1) The dollar ranges are: None, \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or Over \$100,000.

(2) The dollar range of equity securities beneficially owned in us is based on the closing price for our common stock of \$18.20 on February 14, 2020 on the NASDAQ Global Select Market. Beneficial ownership has been determined in accordance with Rule 16a-1(a)(2) of the Exchange Act.

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

We have entered into the Advisory Agreement with Solar Capital Partners. Mr. Gross, our Chairman, Co-Chief Executive Officer and President, and Mr. Spohler, our Co-Chief Executive Officer, Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial

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and controlling interests in, Solar Capital Partners. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Secretary, serves as the Chief Financial Officer for Solar Capital Partners.

Solar Capital Partners 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, Solar Capital Partners presently serves as investment adviser to private funds and managed accounts as well as to Solar Capital Ltd., a publicly traded BDC, which focuses on investing primarily in senior secured loans, unsecured loans and equity securities and SCP Private Credit Income BDC LLC, an unlisted BDC, which focuses on investing primarily in senior secured loans, including non-traditional asset-based loans and first lien loans. In addition, Michael S. Gross, our Chairman and Co-Chief Executive Officer, Bruce Spohler, our Co-Chief Executive Officer and Chief Operating Officer, and Richard L. Peteka, our Chief Financial Officer, serve in similar capacities for Solar Capital Ltd. and SCP Private Credit Income BDC LLC.

Solar Capital Partners and certain investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners 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 Solar Capital Partners' allocation procedures.

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

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.

Regulatory restrictions limit our ability to invest in any portfolio company in which any affiliate currently has an investment. The Company obtained an exemptive order from the SEC on July 28, 2014 (the "Exemptive Order"). The Exemptive Order permitted us to participate in negotiated co-investment transactions with certain affiliates, each of whose investment adviser is Solar Capital Partners, in a manner consistent with our investment objective, positions, policies, strategies and restrictions as well as regulatory requirements and other pertinent factors, and pursuant to the conditions to the Exemptive Order. On June 13, 2017, the Company, Solar Capital Ltd., and Solar Capital Partners received an exemptive order that supersedes the Exemptive Order (the "New Exemptive Order") and extends the relief granted in the Exemptive Order such that it no longer applies to certain affiliates only if their respective investment adviser is Solar Capital Partners, but also applies to certain affiliates whose investment adviser is an investment adviser that controls, is controlled by or is under common control with Solar Capital Partners and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. The terms and conditions of the New Exemptive Order are otherwise substantially similar to the Exemptive Order. We believe that it will be advantageous for us to co-invest with funds managed by Solar Capital Partners where such investment is consistent with the investment objectives, investment positions, investment policies, investment strategy, investment restrictions, regulatory requirements and other pertinent factors applicable to us.

We have entered into a license agreement with Solar Capital Partners, pursuant to which Solar Capital Partners has agreed to grant us anon-exclusive, royalty-free license to use the name "Solar Senior Capital." In addition, pursuant to the terms of the Administration Agreement, Solar Capital Management provides us with the office facilities and administrative services necessary to conduct our day-to-day operations.



### **Board Consideration of the Investment Advisory and Management Agreement**

Our board of directors determined at a meeting held on November 4, 2019, to approve the Advisory Agreement between the Company and Solar Capital Partners. In its consideration of the approval of the Advisory Agreement, the board of directors focused on information it had received relating to, among other things:

- the nature, extent and quality of advisory and other services provided by Solar Capital Partners, including information about the investment performance of the Company relative to its stated objectives and in comparison to the performance of the Company's peer group and relevant market indices, and concluded that such advisory and other services are satisfactory and the Company's investment performance is reasonable;
- the experience and qualifications of the personnel providing such advisory and other services, including information about the backgrounds of the investment personnel, the allocation of responsibilities among such personnel and the process by which investment decisions are made, and concluded that the investment personnel of Solar Capital Partners have extensive experience and are well qualified to provide advisory and other services to the Company;
- the current fee structure, the existence of any fee waivers, and the Company's anticipated expense ratios in relation to those of other investment companies having comparable investment policies and limitations, and concluded that the current fee structure is reasonable;
- the advisory fees charged by Solar Capital Partners to the Company, to Solar Capital Ltd. and to SCP Private Credit Income BDC LLC, and comparative data regarding the advisory fees charged by other investment advisers to business development companies with similar investment objectives, and concluded that the advisory fees charged by Solar Capital Partners to the Company are reasonable;
- the direct and indirect costs, including for personnel and office facilities, that are incurred by Solar Capital Partners and its affiliates in performing services for the Company and the basis of determining and allocating these costs, and concluded that the direct and indirect costs, including the allocation of such costs, are reasonable;
- possible economies of scale arising from the Company's size and/or anticipated growth, and the extent to which such economies of scale are reflected in the advisory fees charged by Solar Capital Partners to the Company, and concluded that some economies of scale may be possible in the future;
- other possible benefits to Solar Capital Partners and its affiliates arising from their relationships with the Company, and concluded that all such other benefits were not material to Solar Capital Partners and its affiliates; and
- possible alternative fee structures or bases for determining fees, and concluded that the Company's current fee structure and bases for determining fees are satisfactory.

Based on the information reviewed and the discussions detailed above, the board of directors, including a majority of the directors who are not "interested persons" as defined in the 1940 Act, concluded that the fees payable to Solar Capital Partners pursuant to the Advisory Agreement were reasonable, and comparable to the fees paid by other management investment companies with similar investment objectives, in relation to the services to be provided. The board of directors did not assign relative weights to the above factors or the other factors considered by it. Individual members of the board of directors may have given different weights to different factors.

### **Director Independence**

In accordance with rules of the NASDAQ Stock Market, our board of directors annually determines each director's independence. We do not consider a director independent unless the board of directors has determined that he has no material relationship with us. We monitor the relationships of our directors and officers through a questionnaire each director completes no less frequently than annually and updates periodically as information provided in the most recent questionnaire changes.

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Our governance guidelines require any director who has previously been determined to be independent to inform the Chairman of the board of directors, the Chairman of the Nominating and Corporate Governance Committee and our Secretary of any change in circumstance that may cause his status as an independent director to change. The board of directors limits membership on the Audit Committee, the Nominating and Corporate Governance Committee and the Compensation Committee to independent directors.

In order to evaluate the materiality of any such relationship, the board of directors uses the definition of director independence set forth in the rules promulgated by the NASDAQ Stock Market. Rule 5605(a)(2) provides that a director of a BDC, shall be considered to be independent if he or she is not an “interested person” of such BDC, as defined in Section 2(a)(19) of the 1940 Act.

The board of directors has determined that each of the directors is independent and has no relationship with us, except as a director and stockholder, with the exception of Michael S. Gross, as a result of his positions as the Co-Chief Executive Officer and President of the Company and a Managing Member of Solar Capital Partners, and Bruce Spohler, as a result of his positions as the Co-Chief Executive Officer and Chief Operating Officer of the Company and a Managing Member of Solar Capital Partners.

### **Indemnification Agreements**

We have entered into indemnification agreements with our directors. The indemnification agreements are intended to provide our directors the maximum indemnification permitted under Maryland law and the 1940 Act. Each indemnification agreement provides that Solar Senior Capital shall indemnify the director who is a party to the agreement (an “Indemnitee”), including the advancement of legal expenses, if, by reason of his or her corporate status, the Indemnitee is, or is threatened to be, made a party to or a witness in any threatened, pending, or completed proceeding, to the maximum extent permitted by Maryland law and the 1940 Act.

### **Item 14. Principal Accounting Fees and Services**

KPMG LLP has advised us that neither the firm nor any present member or associate of it has any material financial interest, direct or indirect, in the Company or its affiliates.

#### **Table below in thousands**

	<b>Fiscal Year Ended December 31, 2019</b>	<b>Fiscal Year Ended December 31, 2018</b>
Audit Fees	\$ 290.0	\$ 275.5
Audit-Related Fees	37.5	28.5
Tax Fees	48.3	38.0
All Other Fees	—	—
<b>Total Fees:</b>	<b>\$ 375.8</b>	<b>\$ 342.0</b>

*Audit Fees:* Audit fees consist of fees billed for professional services rendered for the audit of our year-end financial statements and quarterly reviews and services that are normally provided by KPMG LLP in connection with statutory and regulatory filings.

*Audit-Related Fees:* Audit-related services consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under “Audit Fees.” These services include attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

*Tax Services Fees:* Tax services fees consist of fees billed for professional tax services. These services also include assistance regarding federal, state, and local tax compliance.

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*All Other Fees:* Other fees would include fees for products and services other than the services reported above.

*Pre-Approval Policy*

The Audit Committee has established a pre-approval policy that describes the permitted audit, audit-related, tax and other services to be provided by KPMG LLP, the Company's independent registered public accounting firm ("KPMG"). The policy requires that the Audit Committee pre-approve the audit and non-audit services performed by the independent auditor in order to assure that the provision of such service does not impair the auditor's independence.

Any requests for audit, audit-related, tax and other services that have not received general pre-approval must be submitted to the Audit Committee for specific pre-approval, irrespective of the amount, and cannot commence until such approval has been granted. Normally, pre-approval is provided at regularly scheduled meetings of the Audit Committee. However, the Audit Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated shall report any pre-approval decisions to the Audit Committee at its next scheduled meeting. The Audit Committee does not delegate its responsibilities to pre-approve services performed by the independent registered public accounting firm to management. During the fiscal year ended December 31, 2019, the Audit Committee pre-approved 100% of services described in this policy.

**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:

<a href="#">Management’s Report on Internal Control over Financial Reporting</a>	85
<a href="#">Report of Independent Registered Public Accounting Firm</a>	86
<a href="#">Consolidated Statements of Assets &amp; Liabilities as of December 31, 2019 and December 31, 2018</a>	88
<a href="#">Consolidated Statements of Operations for the years ended December 31, 2019, 2018 and 2017</a>	89
<a href="#">Consolidated Statements of Changes in Net Assets for the years ended December 31, 2019, 2018 and 2017</a>	90
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017</a>	91
<a href="#">Consolidated Schedules of Investments as of December 31, 2019 and December 31, 2018</a>	92
<a href="#">Notes to Consolidated Financial Statements</a>	103

***b. Exhibits***

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

<b>Exhibit Number</b>	<b>Description</b>
3.1	<a href="#">Articles of Amendment and Restatement(1)</a>
3.2	<a href="#">Amended and Restated Bylaws(1)</a>
4.1	<a href="#">Form of Common Stock Certificate(1)</a>
4.2	<a href="#">Description of Securities*</a>
10.1	<a href="#">Dividend Reinvestment Plan(1)</a>
10.2	<a href="#">First Amended and Restated Investment Advisory and Management Agreement by and between Registrant and Solar Capital Partners, LLC (5)</a>
10.3	<a href="#">Form of Custody Agreement(4)</a>
10.4	<a href="#">Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC(4)</a>
10.5	<a href="#">Form of Indemnification Agreement by and between Registrant and each of its directors(1)</a>
10.6	<a href="#">Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC(1)</a>
10.7	<a href="#">Form of Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(1)</a>
10.8	<a href="#">Form of Amendment No. 1 to Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC(2)</a>
10.9	<a href="#">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)</a>
10.10	<a href="#">Form of Loan and Servicing Agreement, dated as of August 26, 2011 (as amended through the Sixth Amendment dated as of June 1, 2018), by and among the Registrant, as the servicer and the transferor, SUNS SPV LLC, as the borrower, each of the conduit lenders from time to time party thereto, each of the liquidity banks from time to time party thereto, each of the lender agents from time to time party thereto, Citibank, N.A., as the administrative agent and collateral agent, and Wells Fargo Bank, N.A., as the account bank, the backup servicer and the collateral custodian(6)</a>

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<u>Exhibit Number</u>	<u>Description</u>
10.11	<a href="#"><u>Consent and Omnibus Amendment to Transaction Documents by and among the Registrant, FLLP2015-1, LLC, each of the Conduit Lenders and Institutional Lenders and Wells Fargo Bank, N.A., as administrative agent and collateral agent(7)</u></a>
14.1	<a href="#"><u>Code of Ethics*</u></a>
14.2	<a href="#"><u>Code of Business Conduct(4)</u></a>
21.1	<a href="#"><u>Subsidiaries of Solar Senior Capital Ltd.*</u></a>
23.1	<a href="#"><u>Consent of Independent Registered Public Accounting Firm*</u></a>
31.1	<a href="#"><u>Certification of Co-Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u></a>
31.2	<a href="#"><u>Certification of Co-Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u></a>
31.3	<a href="#"><u>Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u></a>
32.1	<a href="#"><u>Certification of Co-Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u></a>
32.2	<a href="#"><u>Certification of Co-Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u></a>
32.3	<a href="#"><u>Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u></a>
99.1	<a href="#"><u>Gemino Healthcare Finance, LLC and Subsidiary Consolidated Financial Statements years ended December 31, 2019 and December 31, 2018*</u></a>
99.2	<a href="#"><u>North Mill Holdco LLC Consolidated Financial Statements year ended December 31, 2019 and period ended December 31, 2018*</u></a>
99.3	<a href="#"><u>Report of Independent Registered Public Accounting Firm on Supplemental Information*</u></a>

(1) Previously filed in connection with Solar Senior Capital Ltd.'s registration statement on FormN-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 Solar Senior Capital Ltd.'s report on Form 10-K filed on February 25, 2014.  
(5) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-Q filed on August 2, 2016.  
(6) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-Q filed on August 6, 2018.  
(7) Previously filed in connection with Solar Senior Capital Ltd.'s report on Form 10-K filed on February 21, 2019.  
\* 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, 2019 and December 31, 2018 are attached as Exhibit 99.1 hereto. Consolidated Financial

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Statements for North Mill Holdco LLC year ended December 31, 2019 and period ended December 31, 2018 are attached as Exhibit 99.2 hereto.

**Item 16. Form 10-K Summary**

None.

**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.**

<u>/s/ MICHAEL S. GROSS</u> <b>Michael S. Gross</b> Co-Chief Executive Officer, President, Chairman of the Board and Director Date: February 20, 2020	<u>/s/ BRUCE J. SPOHLER</u> <b>Bruce J. Spohler</b> Co-Chief Executive Officer, Chief Operating Officer and Director Date: February 20, 2020
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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 20, 2020	<u>/s/ MICHAEL S. GROSS</u> <b>Michael S. Gross</b>	Co-Chief Executive Officer, President, Chairman of the Board and Director (Principal Executive Officer)
February 20, 2020	<u>/s/ BRUCE J. SPOHLER</u> <b>Bruce J. Spohler</b>	Co-Chief Executive Officer, Chief Operating Officer and Director (Principal Executive Officer)
February 20, 2020	<u>/s/ STEVEN HOCHBERG</u> <b>Steven Hochberg</b>	Director
February 20, 2020	<u>/s/ DAVID S. WACHTER</u> <b>David S. Wachter</b>	Director
February 20, 2020	<u>/s/ LEONARD A. POTTER</u> <b>Leonard A. Potter</b>	Director
February 20, 2020	<u>/s/ RICHARD L. PETEKA</u> <b>Richard L. Peteka</b>	Chief Financial Officer (Principal Financial Officer) and Secretary

**DESCRIPTION OF SECURITIES**

The following is a brief description of the securities of Solar Senior Capital Ltd. (the “Company,” “we,” “our” or “us”), registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). This description of the terms of our stock does not purport to be complete and is subject to and qualified in its entirety by reference to the applicable provisions of Maryland General Corporation Law, and the full text of our charter and bylaws. As of December 31, 2019 and the date hereof, our common stock is the only class of our securities registered under Section 12 of the Exchange Act.

**Common Stock**

As of December 31, 2019, our authorized stock consisted of 200,000,000 shares of stock, par value \$0.01 per share, all of which are initially designated as common stock. Our common stock is listed on the NASDAQ Global Select Market under the ticker symbol “SUNS”. There are no outstanding options or warrants to purchase our stock. No stock has been authorized for issuance under any equity compensation plans. Under Maryland law, our stockholders generally are not personally liable for our debts or obligations.

Under our charter our board of directors is authorized to classify and reclassify any unissued shares of stock into other classes or series of stock without obtaining stockholder approval. As permitted by the Maryland General Corporation Law, our charter provides that the board of directors, without any action by our stockholders, may amend the charter from time to time to increase or decrease the aggregate number of shares of stock or the number of shares of stock of any class or series that we have authority to issue.

All shares of our common stock have equal rights as to earnings, assets, voting, and distributions and, when they are issued, will be duly authorized, validly issued, fully paid and nonassessable. Distributions may be paid to the holders of our common stock if, as and when authorized by our board of directors and declared by us out of assets legally available therefor. Shares of our common stock have no preemptive, conversion or redemption rights and are freely transferable, except where their transfer is restricted by federal and state securities laws or by contract. In the event of our liquidation, dissolution or winding up, each share of our common stock would be entitled to share ratably in all of our assets that are legally available for distribution after we pay all debts and other liabilities and subject to any preferential rights of holders of our preferred stock, if any preferred stock is outstanding at such time. Each share of our common stock is entitled to one vote on all matters submitted to a vote of stockholders, including the election of directors. Except as provided with respect to any other class or series of stock, the holders of our common stock will possess exclusive voting power. There is no cumulative voting in the election of directors, which means that holders of a majority of the outstanding shares of common stock can elect all of our directors, and holders of less than a majority of such shares will be unable to elect any director.



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## **Certain Provisions of the Maryland General Corporation Law and Our Charter and Bylaws**

The Maryland General Corporation Law and our charter and bylaws contain provisions that could make it more difficult for a potential acquiror to acquire us by means of a tender offer, proxy contest or otherwise. These 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. 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.

### ***Classified Board of Directors***

Our board of directors is into three classes of directors serving staggered three-year terms. The current terms of the first, second and third classes expire at the annual meeting of stockholders in 2021, 2022 and 2020, respectively, and in each case, those directors will serve until their successors are duly elected and qualify. Upon expiration of their current terms, directors of each class will be elected to serve for three-year terms and until their successors are duly elected and qualify and each year one class of directors will be elected by the stockholders. A classified board may render a change in control of us or removal of our incumbent management more difficult. We believe, however, that the longer time required to elect a majority of a classified board of directors will help to ensure the continuity and stability of our management and policies.

### ***Election of Directors***

Under our charter and bylaws, the affirmative vote of the holders of a plurality of all the votes cast in the election of directors at a meeting of stockholders duly called and at which a quorum is present will be required to elect a director. Pursuant to our charter and bylaws our board of directors may amend the bylaws to alter the vote required to elect directors.

### ***Number of Directors; Vacancies; Removal***

Our charter provides that the number of directors will be set only by the board of directors in accordance with our bylaws. Our bylaws provide that a majority of our entire board of directors may at any time increase or decrease the number of directors. However, the number of directors may never be less than one nor more than twelve unless our bylaws are amended in which case we may have more than twelve directors but never less than one. Our charter provides that, at such time as we have at least three independent directors and our common stock is registered under the Exchange Act, we elect to be subject to the provision of Subtitle 8 of Title 3 of the Maryland General Corporation Law regarding the filling of vacancies on the board of directors. Accordingly, except as may be provided by the board of directors in setting the terms of any class or series of preferred stock, any and all vacancies on the board of directors may be filled only by the affirmative vote of a majority of the remaining directors in office, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will serve for the remainder of the full term of the directorship in which the vacancy occurred and until a successor is duly elected and qualifies, subject to any applicable requirements of the Investment Company Act of 1940 (the "1940 Act").

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Our charter provides that, subject to the rights of holders of one or more classes or series of preferred stock to elect or remove one or more directors, a director may be removed only for cause, as defined in our charter, and then only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of directors.

#### ***Action by Stockholders***

Under the Maryland General Corporation Law, stockholder action can be taken only at an annual or special meeting of stockholders or (with respect to the holders of common stock, unless the charter provides for stockholder action by less than unanimous written consent, which our charter does not) by unanimous written consent in lieu of a meeting. These provisions, combined with the requirements of our bylaws regarding the calling of a stockholder-requested special meeting of stockholders discussed below, may have the effect of delaying consideration of a stockholder proposal until the next annual meeting.

#### ***Advance Notice Provisions for Stockholder Nominations and Stockholder Proposals***

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the board of directors and the proposal of business to be considered by stockholders may be made only (1) pursuant to our notice of the meeting, (2) by the board of directors or (3) by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the meeting who is entitled to vote at the meeting and who has complied with the advance notice procedures of our bylaws. With respect to special meetings of stockholders, only the business specified in our notice of the meeting may be brought before the meeting. Nominations of persons for election to the board of directors at a special meeting may be made only (1) by the board of directors or (2) provided that the board of directors has determined that directors will be elected at the meeting, by a stockholder who was a stockholder of record both at the time of giving notice and at the time of the meeting who is entitled to vote at the meeting and who has complied with the advance notice provisions of the bylaws.

The purpose of requiring stockholders to give us advance notice of nominations and other business is to afford our board of directors a meaningful opportunity to consider the qualifications of the proposed nominees and the advisability of any other proposed business and, to the extent deemed necessary or desirable by our board of directors, to inform stockholders and make recommendations about such qualifications or business, as well as to provide a more orderly procedure for conducting meetings of stockholders. Although our bylaws do not give our board of directors any power to disapprove stockholder nominations for the election of directors or proposals recommending certain action, they may have the effect of precluding a contest for the election of directors or the consideration of stockholder proposals if proper procedures are not followed and of discouraging or deterring a third party from conducting a solicitation of proxies to elect its own slate of directors or to approve its own proposal without regard to whether consideration of such nominees or proposals might be harmful or beneficial to us and our stockholders.

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### ***Calling of Special Meetings of Stockholders***

Our bylaws provide that special meetings of stockholders may be called by our board of directors and certain of our officers. Additionally, our bylaws provide that, subject to the satisfaction of certain procedural and informational requirements by the stockholders requesting the meeting, a special meeting of stockholders will be called by the secretary of the corporation upon the written request of stockholders entitled to cast not less than a majority of all the votes entitled to be cast at such meeting.

### ***Approval of Extraordinary Corporate Action; Amendment of Charter and Bylaws***

Under Maryland law, a Maryland corporation generally cannot dissolve, amend its charter, merge, convert, sell all or substantially all of its assets, engage in a share exchange or engage in similar transactions outside the ordinary course of business, unless approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter. However, a Maryland corporation may provide in its charter for approval of these matters by a lesser percentage, but not less than a majority of all of the votes entitled to be cast on the matter. Our charter generally provides for approval of charter amendments and extraordinary transactions by the stockholders entitled to cast at least a majority of the votes entitled to be cast on the matter. Our charter also provides that the following matters require the approval of stockholders entitled to cast at least 80% of the votes entitled to be cast: (i) certain charter amendments; (ii) any proposal for our conversion, whether by merger or otherwise, from a closed-end company to an open-end company; (iii) any proposal for our liquidation or dissolution; (iv) any proposal regarding a merger, consolidation, share exchange or sale or exchange of all or substantially all of our assets that the Maryland General Corporation Law requires to be approved by our stockholders; or (v) any transaction between us and a person, or group of persons acting together (including, without limitation, a "group" for purposes of Section 13(d) of the Exchange Act), and any person controlling, controlled by or under common control with any such person or member of such group, that is entitled to exercise or direct the exercise, or acquire the right to exercise or direct the exercise, directly or indirectly, other than solely by virtue of a revocable proxy, of one-tenth or more of the voting power in the election of directors generally. However, if such amendment or proposal is approved by a majority of our continuing directors (in addition to approval by our board of directors), such amendment or proposal may be approved by a majority of the votes entitled to be cast on such a matter, provided that with respect to any transaction referred to in (v) above, if such transaction is approved by the continuing directors, by a vote of at least two-thirds of such continuing directors, no stockholder approval of such transaction is required unless the Maryland General Corporation Law or another provision of our charter or bylaws otherwise requires such approval. The "continuing directors" are defined in our charter as (1) our current directors, (2) those directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of our current directors then on the board of directors or (3) any successor directors whose nomination for election by the stockholders or whose election by the directors to fill vacancies is approved by a majority of continuing directors or the successor continuing directors then in office.

Our charter and bylaws provide that the board of directors will have the exclusive power to make, alter, amend or repeal any provision of our bylaws.

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### ***No Appraisal Rights***

Except with respect to appraisal rights arising in connection with the Control Share Act discussed below, as permitted by the Maryland General Corporation Law, our charter provides that stockholders will not be entitled to exercise appraisal rights unless a majority of the board of directors shall determine such rights apply.

### ***Control Share Acquisitions***

The Maryland General Corporation Law provides that a holder of control shares of a Maryland corporation acquired in a control share acquisition has no voting rights with respect to those shares except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter, or the Control Share Act. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

- one-tenth or more but less than one-third;
- one-third or more but less than a majority; or
- a majority or more of all voting power.

The requisite stockholder approval must be obtained each time an acquiror crosses one of the thresholds of voting power set forth above. Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations, including, as provided in our bylaws, compliance with the 1940 Act. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

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The Control Share Act does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation. Our bylaws contain a provision exempting from the Control Share Act any and all acquisitions by any person of our shares of stock. There can be no assurance that such provision will not be amended or eliminated at any time in the future. However, we will amend our bylaws to be subject to the Control Share Act only if the 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 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 Control Share Act would, if implemented, violate Section 18(i) of the 1940 Act.

### ***Business Combinations***

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder (the “Business Combination Act”). These business combinations include a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation’s outstanding voting stock; or
- an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under this statute if the board of directors approved in advance the transaction by which the stockholder otherwise would have become an interested stockholder. However, in approving a transaction, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

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These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder. Our board of directors has adopted a resolution that any business combination between us and any other person is exempted from the provisions of the Business Combination Act, provided that the business combination is first approved by the board of directors, including a majority of the directors who are not interested persons as defined in the 1940 Act. This resolution may be altered or repealed in whole or in part at any time; however, our board of directors will adopt resolutions so as to make us subject to the provisions of the Business Combination Act only if the 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 Business Combination Act does not conflict with the 1940 Act. If this resolution is repealed, or the board of directors does not otherwise approve a business combination, the statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

***Conflict with 1940 Act***

Our bylaws provide that, if and to the extent that any provision of the Maryland General Corporation Law, including the Maryland Control Share Acquisition Act (if we amend our bylaws to be subject to such Act) and the Business Combination Act, or any provision of our charter or bylaws conflicts with any provision of the 1940 Act, the applicable provision of the 1940 Act will control.

**JOINT CODE OF ETHICS AND INSIDER TRADING POLICY****I. INTRODUCTION**

Solar Capital Partners, LLC (the “**Adviser**”) seeks to foster and maintain a reputation for honesty, integrity and professionalism. That reputation is a vital business asset. The confidence and trust placed in Adviser are highly valued and must be protected. Adviser has adopted this Code of Ethics (the “**Code**”) in accordance with Rules 204A-1 under the Investment Advisers Act of 1940 and Rule 17j-1 under the Investment Company Act of 1940, as amended. The Code includes Adviser’s policy with respect to personal investment and trading and its insider trading policy and procedures. Solar Capital Ltd., Solar Senior Capital Ltd. and SCP Private Credit Income BDC LLC (collectively referred to as, the “**BDC**” or the “**Company**”) have similarly and jointly adopted this Code of Ethics. Thus, this Code of Ethics is applicable to all Access Persons (as defined below) of the Adviser and the Company (collectively “**Solar Capital**”).

**II. DEFINITIONS**

**A. Access Person.** The term “**Access Person**” means (i) any Supervised Person who (1) has access to nonpublic information regarding a Client’s purchase or sale of securities; (2) has access to nonpublic information regarding the portfolio holdings of any Reportable Fund; and/or (3) is involved in making securities recommendations to Clients or who has access to such recommendations that are nonpublic and (ii) all of the directors, officers, employees, members or partners of Solar Capital. By way of example, Access Persons include portfolio management personnel and service representatives who communicate investment advice to Clients. Administrative, technical, and clerical personnel may also be Access Persons if their functions or duties provide them with access to nonpublic information.

**B. Advisers Act.** The term “**Advisers Act**” means the Investment Advisers Act of 1940, as amended.

**C. Automatic Investment Plan.** An “**Automatic Investment Plan**” is a program in which regular periodic purchases or withdrawals are made automatically in or from investment accounts according to a predetermined schedule and allocation. An Automatic Investment Plan includes a dividend reinvestment plan.

**D. Beneficial Ownership Interest.** You will be considered to have “**Beneficial Ownership Interest**” in a Security if: (i) you have a Pecuniary Interest in the Security; (ii) you have voting power with respect to the Security, meaning the power to vote or direct the voting of the Security; or (iii) you have the power to dispose, or direct the disposition of, the Security. If you have any question about whether an interest in a Security or an account constitutes Beneficial Ownership of that Security, you should contact the Chief Compliance Officer.

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**E. Chief Compliance Officer.** The “**Chief Compliance Officer**” is the Access Person designated respectively by Adviser and BDC for each entity respectively as such, as identified in Solar Capital’s Compliance Policies and Procedures Manual.

**F. Client.** The term “**Client**” means any investment entity or account advised or managed or sub-advised by Adviser, including any pooled investment vehicle advised or sub-advised by Adviser.

**G. Commission.** The term “**Commission**” means the United States Securities and Exchange Commission.

**H. Compliance Officer.** The term “**Compliance Officer**” shall mean an Access Person deemed by Solar Capital to be sufficiently experienced to perform senior-level compliance functions, and shall include the Chief Compliance Officer.

**I. Disinterested Director.** The term “**Disinterested Director**” means a director of the Company who is not an “interested person” of the Company within the meaning of Section 2(a)(19) of the Investment Company Act.

**J. Exchange Act.** The term “**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

**K. Federal Securities Laws.** The term “**Federal Securities Laws**” means the Securities Act, the Exchange Act, the Sarbanes-Oxley Act of 2002, the Investment Company Act, the Advisers Act, Title V of the Gramm-Leach-Bliley Act, any rules adopted by the Commission under any of these statutes, the Bank Secrecy Act as it applies to funds and investment advisers, and any rules adopted under the Bank Secrecy Act by the Commission or the Department of the Treasury.

**L. Fund.** The term “**Fund**” means any pooled investment vehicle, whether registered, required to be registered, or exempt from registration as an “investment company” pursuant to the Investment Company Act.

**M. Immediate Family.** The term “**Immediate Family**” includes a Supervised Person’s child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, and includes any adoptive relationship.

**N. Index Securities.** The term “**Index Securities**” means interests in exchange-traded funds or derivatives based on broad-based market indices.

**O. Initial Public Offering.** The term “**Initial Public Offering**” means an offering of securities registered under the Securities Act, the issuer of which, immediately before the registration, was not subject to the reporting requirements of Sections 13 or 15(d) of the Exchange Act.

**P. Investment Company Act.** The term “**Investment Company Act**” means the Investment Company Act of 1940, as amended.



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**Q. Limited Offering.** The term “**Limited Offering**” means an offering, typically referred to as a “private placement”, that is exempt from registration under the Securities Act.

**R. Non-Reportable Securities.** The term “**Non-Reportable Securities**” means: (i) direct obligations of the U.S. Government; (ii) bankers’ acceptances, bank certificates of deposit, commercial paper and high quality short-term debt instruments (defined as any instrument that has a maturity at issuance of less than 366 days and that is rated in one of the two highest rating categories by a Nationally Recognized Statistical Rating Organization), including repurchase agreements; (iii) shares issued by money market funds; (iv) shares issued by open-end funds registered under the Investment Company Act, other than Reportable Funds; and (v) shares issued by unit investment trusts that are invested exclusively in one or more open-end funds, none of which are Reportable Funds.

**S. Partners.** The term “**Partners**” refers to Michael Gross and Bruce Spohler.

**T. Pecuniary Interest.** You will be considered to have a “**Pecuniary Interest**” in a Security if you, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have the opportunity, directly or indirectly, to profit or share in any profit derived from a transaction in the Security. The term “Pecuniary Interest” is construed very broadly. The following examples illustrate this principle: (i) ordinarily, you will be deemed to have a “Pecuniary Interest” in all Securities owned by members of your Immediate Family who share the same household with you; (ii) if you are a general partner of a general or limited partnership, you will be deemed to have a “Pecuniary Interest” in all Securities held by the partnership; (iii) if you are a shareholder of a corporation or similar business entity, you will be deemed to have a “Pecuniary Interest” in all Securities held by the corporation if you are a controlling shareholder or have or share investment control over the corporation’s investment portfolio; (iv) if you have the right to acquire equity Securities through the exercise or conversion of a derivative Security, you will be deemed to have a Pecuniary Interest in the Securities, whether or not your right is presently exercisable; (v) if you are the sole member or a manager of a limited liability company, you will be deemed to have a Pecuniary Interest in the Securities held by the limited liability company; and (vi) ordinarily, if you are a trustee or beneficiary of a trust, where either you or members of your Immediate Family have a vested interest in the principal or income of the trust, you will be deemed to have a Pecuniary Interest in all Securities held by that trust. If you have any question about whether an interest in a Security or an account constitutes a Pecuniary Interest, you should contact the Chief Compliance Officer.

**U. Reportable Fund.** The term “**Reportable Fund**” means (i) any Fund for which Adviser serves as investment adviser; or (ii) any Fund whose investment adviser or principal underwriter controls Adviser, is controlled by Adviser, or is under common control with Adviser. As used in this definition, the term **control** has the same meaning as it does in Section 2(a)(9) of the Investment Company Act.

**V. Reportable Security.** The term “**Reportable Security**” means all Securities other than Non-Reportable Securities. Reportable Securities include Index Securities, municipal securities and any other securities not specifically included in the definition of a Non-Reportable Security.

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**W. Restricted List.** The “**Restricted List**” is a list maintained by the Chief Compliance Officer as specified by Solar Capital’s **Insider Trading Policies and Procedures**.

**X. SEC.** The term “**SEC**” means the U.S. Securities and Exchange Commission.

**Y. Securities Act.** The term “**Securities Act**” means the Securities Act of 1933, as amended.

**Z. Security.** The term “**Security**” has the same meaning as it has in section 202(a)(18) of the Advisers Act. For purposes of this Code, the following are Securities:

Any note, stock, treasury stock, security future, bond, debenture, evidence of indebtedness, certificate of interest or participation in any profit-sharing agreement, collateral-trust certificate, preorganization certificate or subscription, transferable share, investment contract, voting-trust certificate, certificate of deposit for a security, fractional undivided interest in oil, gas, or other mineral rights, any put, call, straddle, option or privilege on any security (including a certificate of deposit) or on any group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option or privilege entered into on a national securities exchange relating to foreign currency, or, in general, any interest or instrument commonly known as a security, or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any security.

The following are **not** Securities:

Commodities, futures and options traded on a commodities exchange, including currency futures, except that (i) options on any group or index of Securities and (ii) futures on any group or narrow-based index of Securities are Securities.

You should note that “**Security**” includes a right to acquire a Security, as well as an interest in a collective investment vehicle (such as a limited partnership or limited liability company).

**AA. Supervised Person.** The term “**Supervised Person**” means (i) any partner, member, officer or director of Solar Capital, or other person occupying a similar status or performing similar function; (ii) any employee of Solar Capital; (iii) any U.S. consultant who has been contracted by Solar Capital for more than ninety (90) days; and (iv) any other person who provides advice on behalf of Solar Capital and is subject to Solar Capital’s supervision and control.

### **III. ANTI-BRIBERY REQUIREMENTS**

The Adviser is committed to complying with the laws and regulations designed to combat bribery and corruption (herein after referred to as “anti-bribery”) and to seeking and retaining business on the basis of merit, not through bribery or corruption.

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It is the Adviser's policy that:

- Personnel may not provide anything of value to obtain or retain business or favored treatment from public officials; candidates for office; employees of state-owned enterprises; clients/customers, or suppliers; any agent of the aforementioned parties; or any other person with whom the Adviser does or anticipates doing business.
- The prohibition against providing "anything of value" to obtain or retain business or favored treatment includes obvious improper payments, such as cash bribes or kickbacks, but also may include other direct or indirect benefits and advantages, such as gifts, meals, entertainment, charitable contributions, and offers of employment or internships that are inappropriate.
- The prohibition extends not only to public officials, but also to corporate clients and other private parties.
- The Adviser prohibits its personnel from requesting or accepting bribes and other improper financial advantages, as well as offering them.

The Adviser maintains written policies, procedures and internal controls reasonably designed to comply with anti-bribery laws (the "Anti-Bribery Program"). The Anti-Bribery Program includes a risk assessment process, education and training, review and approval processes, due diligence procedures, accounting processes and independent testing processes. The Adviser expects all of its agents and vendors to (i) maintain policies and procedures applicable to their circumstances and proportionate to the risks they face and (ii) to act at all times in a manner consistent with the Adviser's anti-bribery policies.

Personnel who engage in or facilitate bribery, or who fail to comply with all applicable anti-bribery laws, regulations, and the Adviser's anti-bribery and related policies, may be subject to disciplinary action. The Adviser reserves the right to terminate immediately any business relationship that violates the Adviser's anti-bribery policies.

The Adviser will conduct targeted email reviews, discussion of the policy will be conducted in code of ethics training. Any exceptions to the policy will be reported to Management.

#### **IV. PERSONAL INVESTMENT AND TRADING POLICY**

##### **A. General Statement**

Solar Capital is committed to maintaining the highest standard of business conduct.

Solar Capital and its Supervised Persons must not act or behave in any manner or engage in any activity that (1) involves or creates even the suspicion or appearance of the misuse of material, nonpublic information by Solar Capital or any Supervised Person or (2) gives rise to, or appears to give rise to, any breach of fiduciary duty owed to any Client or investor.

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In addition, the Federal Securities Laws require that investment advisers maintain a record of every transaction in any Security, with certain exceptions, as described below, in which any Access Person acquires or disposes of Beneficial Ownership where the Security is or was held in an account over which the Access Person has direct or indirect influence or control. Given the current size of its operations, **Solar Capital has chosen to require reporting of transactions, as well as pre-approval of certain transactions, for all Supervised Persons (subject to the specific exceptions in the Code), rather than only Access Persons. Notwithstanding the foregoing, Disinterested Directors are not subject to the preclearance and reporting requirements of the Code. However, with respect to the Company's securities Disinterested Directors must transact during the window periods and subsequently report the transaction detail to the Company on the day of the transaction.**

Solar Capital has developed the following policies and procedures relating to personal trading in Securities and the reporting of such personal trading in Securities in order to ensure that each Supervised Person satisfies the requirements of this Code.

**B. Requirements of this Code**

1. Duty to Comply with Applicable Laws.

All Supervised Persons are required to comply with the Federal Securities Laws, the fiduciary duty owed by Adviser to its Clients, as applicable, and this Code.

2. Insider Trading Controls

All Supervised Persons are required to comply with the **Insider Trading Policies and Procedures** adopted by the Adviser and the BDC which appears as **Appendix VII** of this Code of Ethics and is incorporated herein by this reference.

3. Duty to Report Violations.

Each Supervised Person is required by law to promptly notify the Chief Compliance Officer or designee in the event he or she knows or has reason to believe that he or she or any other Supervised Person has violated any provision of this Code. If a Supervised Person knows or has reason to believe that the Chief Compliance Officer has violated any provision of this Code, the Supervised Person must promptly notify the Chief Financial Officer and is not required to notify the Chief Compliance Officer.

Solar Capital is committed to fostering a culture of compliance. Solar Capital therefore urges you to contact the Chief Compliance Officer or designee if you have any questions regarding compliance. You will not be penalized and your status at Solar Capital will not be jeopardized by communicating with the Chief Compliance Officer. Reports of violations or a suspected violations also may be submitted anonymously to the Chief Compliance Officer or designee. Any retaliatory action taken against any person who in good faith reports a violation or a suspected violation of this Code is itself a violation of this Code and cause for appropriate corrective action, including dismissal.

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4. Supervised Personnel to be Supplied Copies, and Furnish Acknowledgements of Receipt of the Code of Ethics and Any Amendments Thereof.

Solar Capital will provide all Supervised Persons with a copy of this Code and all subsequent amendments. By law, all Supervised Persons must in turn provide written acknowledgement to the Chief Compliance Officer or designee of their initial receipt and review of this Code, their annual review of this Code and their receipt and review of any subsequent amendments to this Code.

**C. Restrictions on Supervised Persons Trading in Securities**

1. Generally.

Purchases of Reportable Securities (other than Index Securities) by Supervised Persons and participation by Supervised Persons in an Initial Public Offering or Limited Offering require advance preclearance approval, in writing, by a Compliance Officer together with the **specific approval** of both Partners.

Sales of Reportable Securities (other than Index Securities) by Supervised Persons require advance preclearance approval, in writing, by a Compliance Officer together with the **specific approval** of both Partners.

All Supervised Person personal trading in Securities (other than Index Securities) is subject to the following further requirements and/or restrictions.

(a) Any transaction in a Security subject to the Restricted List of issuers maintained by Solar Capital is strictly prohibited.

(b) Any transaction in a Security which the Supervised Person knows or has reason to know is being purchased or sold, or is being considered for purchase or sale, by or on behalf of a Client is prohibited until the Client's transaction has been completed or consideration of the transaction is abandoned. A Security is "**being considered for purchase or sale**" the earlier of (i) when a recommendation to purchase or sell has been made and communicated or (ii) the Security is placed on Adviser's research project lists or, (iii) with respect to the Supervised Person making the recommendation, when the Supervised Person seriously considers making such a recommendation.

(c) No Supervised Person may engage in a transaction in a Security, which includes an interest in a Fund, if the Supervised Person's transaction would otherwise disadvantage or appear to disadvantage a Client or if the Supervised Person would inappropriately profit from or appear to so profit from the transaction, whether or not at the expense of the Client. **For the avoidance of doubt, this prohibition applies to any Security held, at the time of a personal transaction, in any Client account.**

(d) Any transaction in a Security during the period which begins three days before and ends three days after any Client has traded in that Security is prohibited, unless approved by a Compliance Officer.

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(e) No matched purchases and sales, or sales and purchases, in the same Security within a thirty-day period may be transacted without the advance approval of a Compliance Officer.

(f) Personal account trading must be done on the Supervised Person's own time without placing undue burden on Solar Capital's time.

(g) No personal trades should be undertaken which are beyond the financial resources of the Supervised Person.

**(h) For the avoidance of doubt**

(i) Supervised Person Transactions in Index Securities are subject to the reporting, but not the preclearance requirements of this Code.

(ii) Supervised Person Transactions in Reportable Securities other than Index Securities are subject to both the preclearance and the reporting requirements of this Code.

(iii) Supervised Person Transactions by Disinterested Directors are not subject to the preclearance and reporting requirements of this Code. However, with respect to the Company's securities Disinterested Directors must transact during the window periods and subsequently report the transaction detail to the Company on the day of the transaction.

2. Accounts of Record

(a) You may not hold, and you may not permit any other person or entity to hold, on your behalf, any publicly traded Reportable Securities in which you have, or by reason of a Supervised Person Purchase Transaction (as hereinafter defined) will acquire, a Beneficial Ownership Interest, except through an "account of record" with the Adviser maintained with a bank or registered broker-dealer custodian (a "custodian") or a registered investment adviser.

(b) You must provide written notice to a Compliance Officer of your opening of an account with a bank or broker-dealer custodian or an investment adviser through which you (or your investment adviser, acting on your behalf) have the ability to purchase or sell publicly traded Reportable Securities promptly after opening the account, and in any event before the first order for the purchase or sale of such Securities is placed through the account. A Compliance Officer will then ask you to complete and sign a written notice to the account custodian or investment adviser (the forms of which are attached as Appendix IV and Appendix V hereto) which discloses your affiliation with the Adviser and requests that duplicate hard copies of trade confirmations and periodic statements reflecting all holdings and transactions within the account be promptly and confidentially sent to the attention of the Chief Compliance Officer.<sup>1</sup> A Compliance Officer will review and, upon approval, transmit the notice to your account custodian or investment adviser.

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<sup>1</sup> In lieu of using the referenced Appendices requesting the forwarding of *hard-copy* confirmations and account statements, the Adviser will ordinarily ask, if feasible, that the account custodian agree to establish an *automatic electronic feed* of all account holding and transaction activity to the Adviser's area of the *Personal Trade Compliance Center* ("PTCC") online "cloud" system which the Adviser has licensed from Compliance Science, Inc.

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### 3. Transactions of Immediate Family Members.

There is a presumption that a Supervised Person can exert some measure of influence or control over accounts held by members of such person's Immediate Family sharing the same household. Therefore, transactions by Immediate Family members sharing the same household are subject to the policies herein. A Supervised Person may rebut this presumption by presenting convincing evidence, in writing, to the Chief Compliance Officer and request an exemption to one or more policies herein. All exemptions must be approved by the Chief Compliance Officer, in writing.

#### 4. The following are Exempt Transactions that do not require preclearance by a Compliance Officer:

(a) Any transaction in Securities in an account over which a Supervised Person does not have any direct or indirect influence or control (such as a fully discretionary managed account through a registered investment adviser). To rely upon this exemption, Supervised Persons must provide: (1) information about a trustee or third-party manager's relationship to the Supervised Person (i.e., independent professional versus friend or relative; unaffiliated versus affiliated firm); (2) periodic certifications regarding the Supervised Persons' influence or control over trusts or accounts (or obtain the certification from the third party manager or trustee when requested); and (3) when requested, reports on holdings and/or transactions made in the trust or discretionary account to identify transactions that would have been prohibited pursuant to the Code of Ethics, absent reliance on the reporting exemption.

(b) Purchases of Securities under Automatic Investment Plans (such as an employer-sponsored 401(k) plan).

(c) Purchases of Securities by exercise of rights issued to the holders of a class of Securities pro rata, to the extent they are issued with respect to Securities in which a Supervised Person has a Beneficial Ownership Interest.

(d) Acquisitions or dispositions of Securities as the result of a stock dividend, stock split, reverse stock split, merger, consolidation, spin-off or other similar corporate distribution or reorganization applicable to all holders of a class of Securities in which a Supervised Person has a Beneficial Ownership Interest.

(e) Such other specific or classes of transactions as may be exempted from time to time by the Chief Compliance Officer based upon a determination that the transactions are unlikely to violate Rule 204A-1 under the Advisers Act.

#### 5. Supervised Person Transaction Preclearance and Execution Procedures

The following procedures shall govern all transactions in which a Supervised Person intends to sell (a "Supervised Person Sale Transaction") or intends to acquire (a "Supervised Person Purchase Transaction"; together with "Supervised Person Sale Transaction", a "Supervised Person Transaction") a Beneficial Ownership Interest and which are subject to the requirement of securing advance preclearance approval, in writing, by a Compliance Officer.

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(a) Preclearance.

Requests for preclearance of Supervised Person Transactions are to be delivered, confidentially and in writing (via the Adviser's email network), to the attention of a Compliance Officer and both Partners. Responses on behalf of such Compliance Officer and both Partners will be conveyed, confidentially and in writing ordinarily via email, within two (2) business days regarding Supervised Person Transaction requests involving publicly traded Reportable Securities and five (5) business days regarding Transaction requests involving other Reportable Securities.

(i) Supervised Person Purchase Transactions.

Preclearance of Supervised Person Purchase Transactions may be withheld for any reason, or no reason, in the sole discretion of the Chief Compliance Officer and both Partners.

(ii) Supervised Person Sale Transactions.

A Supervised Person Sale may be disapproved if it is determined by the Chief Compliance Officer and both Partners that the Supervised Person is unfairly benefiting from, or that the transaction is in conflict with, or appears to be in conflict with, any Client Transaction (as defined below), any of the above-described trading restrictions, or otherwise by this Code. The determination that a Supervised Person may unfairly benefit from, or that a Supervised Person Sale may conflict with or appears to be in conflict with, a Client Transaction will be subjective and individualized, and may include questions about the timely and adequate dissemination of information, availability of bids and offers, and other factors deemed pertinent for an individual Client transaction or series of transactions. It is possible that a disapproval of a Supervised Person Sale could be costly to a Supervised Person or members of a Supervised Person's family; therefore, each Supervised Person should take great care to adhere to Solar Capital's trading restrictions and avoid conflicts of interest or the appearance of conflicts of interest.

Any disapproval of a Supervised Person Sale Transaction shall be in writing. A Supervised Person may appeal any such disapproval by written notice to the Partners within two business days after receipt of notice of disapproval.

(b) Executions of Supervised Person Transactions.

(i) Transactions in Publicly Traded Reportable Securities.

Supervised Person Transactions in publicly traded Reportable Securities must, except upon the advance written approval of a Compliance Officer, be executed through an account of record with the Adviser in accordance with Section III.C.3(b).

(ii) Transactions in Other Reportable Securities.

Confirmation of Supervised Person Transactions in all other Reportable Securities must be promptly conveyed, confidentially and in writing, to the attention of the Chief Compliance Officer.



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## V. REPORTING

### A. Reports About Securities Holdings and Transactions

Supervised Persons (other than Disinterested Directors) must submit to the Chief Compliance Officer or designee periodic written reports about their Securities holdings, transactions, and accounts, and the Securities of other persons if the Supervised Person has a Beneficial Ownership Interest in such Securities and the accounts of other persons if the Supervised Person has direct or indirect influence or control over such accounts.<sup>2</sup> The obligation to submit these reports and the content of these reports are governed by the Federal Securities Laws. The reports are intended to identify conflicts of interest that could arise when a Supervised Person invests in a Security or holds accounts that permit these investments, and to promote compliance with this Code. Adviser is sensitive to privacy concerns and will try not to disclose your reports to anyone unnecessarily. Report forms are attached.

**Failure to file a timely, accurate, and complete report is a serious breach of Commission rules and this Code** If a Supervised Person is late in filing a report, or files a report that is misleading or incomplete, the Supervised Person may face sanctions including identification by name to the Chief Compliance Officer, withholding of salary or bonuses, or termination of employment.

2. **Initial Disclosure Reports:** Within ten days after you become a Supervised Person (other than Disinterested Directors), you must submit to the Chief Compliance Officer or designee a securities accounts report (a form of which is attached as Appendix II thereto) and private investments report (a form of which is attached as Appendix VI thereto) based on information that is current as of a date not more than 45 days prior to the date you become a Supervised Person.

(a) The Initial Report of Securities Accounts contains the following:

(i) The name/title and type of Security, and, as applicable, the exchange ticker symbol or CUSIP number, the number of equity shares and principal amount of each Reportable Security in which you had a Beneficial Ownership Interest. You may provide this information by referring to attached copies of broker transaction confirmations or account statements from the applicable record keepers that contain the information.

(ii) The name and address of any broker, dealer, or bank or other institution (such as a general partner of a limited partnership, or transfer agent of a company) that maintained any account holding any Securities in which you have a Beneficial Ownership Interest, and the account numbers and names of the persons for whom the accounts are held.

(iii) An executed statement (and a letter or other evidence) pursuant to which you have instructed each broker, dealer, bank, or other institution to provide duplicate

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<sup>2</sup> In lieu of employing the referenced Appendices, Supervised Personnel will ordinarily perform required reporting by utilizing the PTCC online system which the Adviser has licensed from Compliance Science, Inc.

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account statements and confirmations of all Securities transactions, unless Adviser indicates that the information is otherwise available to it. The form of this statement is attached as Appendix IV (for personal accounts) and Appendix V (for related accounts) hereto.

(iv) The date you submitted the report.

(b) The Initial Report of Private Investments contains the following:

(i) A description of all private investments in which you have a Beneficial Ownership Interest, the principal amount of those private investments, the approximate dates of acquisition, and whether the private investments involve or are associated with companies that have publicly traded debt or equity.

(ii) The date you submitted the report.

3. **Quarterly Transaction Report:** Unless, as noted below, the Chief Compliance Officer already receives trade confirmations or account statements for all of your transactions in Reportable Securities, within 30 days after the end of each calendar quarter, you, as a Supervised Person (other than Disinterested Directors), must submit to the Chief Compliance Officer or designee a transaction report, a form of which is attached as Appendix III hereto, that contains:

(a) With respect to any transaction during the quarter in any Reportable Security in which you had, or as a result of the transaction acquired, a Beneficial Ownership Interest:

(i) The date of the transaction, the name/title and as applicable, the exchange ticker symbol or CUSIP number, interest rate and maturity date, the number of equity shares of, or the principal amount of debt represented by, and principal amount of each Reportable Security involved;

(ii) The nature of the transaction, i.e., purchase, sale or other type of acquisition or disposition;

(iii) The price at which the transaction in the Reportable Security was effected;

(iv) The name of the broker, dealer, bank, or other institution with or through which the transaction was effected.

(b) The name and address of any broker, dealer, bank, or other institution, such as a general partner of a limited partnership, or transfer agent of a company, that maintained any account in which any Securities were held during the quarter in which you have a Beneficial Ownership Interest, the account numbers and names of the persons for whom the accounts were held, and the date when each account was established.

(c) An executed statement, and a letter or other evidence, pursuant to which you have instructed each broker, dealer, bank, or other institution that has established a new

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account over which you have direct or indirect influence or control during the past quarter to provide duplicate account statements and confirmations of all Securities transactions to Solar Capital, unless Solar Capital indicates that the information is otherwise available to it. The form of this statement is attached as Appendix IV and Appendix V hereto.

(d) The date that you submitted the report.

**\*\*\*You need not submit a quarterly transaction report to the Chief Compliance Officer or designee if it would duplicate information contained in trade confirmations or account statements already received by the Chief Compliance Officer or designee, provided that those trade confirmations or statements are received not later than 30 days after the close of the calendar quarter in which the transaction takes place. \*\*\***

**4. Annual Employee Certification:** You (other than Disinterested Directors) must, no later than February 15 of each year, submit to the Chief Compliance Officer or designee an Annual Employee Certification, that is current as of a date no earlier than December 31 of the prior calendar year (the “**Annual Report Date**”) and that contains:

(a) The name and address of any broker, dealer, investment advisor or bank or other institution, such as a general partner of a limited partnership, or transfer agent of a company, that maintained any account holding any Securities in which you have a Beneficial Ownership Interest on the Annual Report Date, the account numbers and names of the persons for whom the accounts are held, and the date when each account was established; this information may be provided through copies of statements of each such account.

(b) A description of any private investments in which you have a Beneficial Ownership Interest on the Annual Report Date, the principal amount of the investment, the approximate date of the acquisition, and whether the private investment involves or is associated with a company that has publicly trade debt or equity.

(c) The date that you submitted the report.

**Exception to requirement to list transactions or holdings subject to IV.2 and IV.3(a) above** You are not required to submit (i) holdings or transactions reports for any account over which you had no direct or indirect influence or control (such as a fully discretionary managed account through a registered investment advisor) or (ii) transaction reports with respect to transactions effected pursuant to an Automatic Investment Plan, unless requested by Solar Capital. You must still identify the existence of the account in your list of accounts. Transactions that override pre-set schedules or allocations of an automatic investment plan or trades that are directed by you in a fully discretionary managed account, however, must be included in a quarterly transaction report.

In order to take advantage of part (i) of the exception (accounts over which you had no direct or indirect influence or control), Access Persons must provide:

- Information about a trustee or third-party manager’s relationship to the Access Person (i.e., independent professional versus friend or relative; unaffiliated versus affiliated firm);

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- periodic certifications regarding the Access Persons' influence or control over trusts or accounts (or obtain the certification from the third party manager or trustee when requested);
  - when requested, reports on holdings and/or transactions made in the trust or discretionary account to identify transactions that would have been prohibited pursuant to the Code of Ethics, absent reliance on the reporting exemption.
5. Please ask the Chief Compliance Officer if you have questions about the above-described disclosure and transaction reporting requirements.

#### **B. Review of Reports and Other Documents**

The Chief Compliance Officer or designee will review each report submitted by Supervised Persons, and each account statement or confirmation from institutions that maintain their accounts, as promptly as practicable. In any event all Initial Disclosure Reports will be reviewed within 20 business days of receipt, and the review of all timely-submitted Quarterly Transaction Reports will be completed by the end of the quarter in which received. As part of his or her review, the Chief Compliance Officer or his or her designee will confirm that all necessary pre-approvals have been obtained. To ensure adequate scrutiny, documents concerning a member of the Compliance Office will be reviewed by a different member of the Compliance Office, or if there is only one member of the Compliance Office, by the Chief Financial Officer.

A report documenting the above review and any exceptions noted will be prepared by the Chief Compliance Officer and circulated to the Partners within 60 days of the end of the quarter in which the reports were received.

Review of submitted holding and transaction reports will include not only an assessment of whether the Supervised Person followed all required procedures of this Code, such as preclearance, but may also: compare the personal trading to any restricted lists; assess whether the Supervised Person is trading for his or her own account in the same securities he or she is trading for Clients, and, if so, whether the Clients are receiving terms as favorable as the Supervised Person receives; periodically analyze the Supervised Person's trading for patterns that may indicate abuse, including market timing; investigate any substantial disparities between the quality of performance the Supervised Person achieves for his or her own account and that he or she achieves for Clients; and investigate any substantial disparities between the percentage of trades that are profitable when the Supervised Person trades for his or her own account and the percentage that are profitable when he or she places trades for Clients.

#### **VI. POLICY ON GIFTS**

Gifts. A Supervised Person is prohibited from improperly using his or her position to obtain an item of value from any person or company that does business with Solar Capital. Supervised Persons must report to a Compliance Officer receipt of any gift greater than \$300 in value from any person or company that does business with the Company. Unsolicited business entertainment, including meals or tickets to cultural and sporting events do not need to be reported if: a) they are not so frequent or of such high value as to raise a question of impropriety and b) the person providing the entertainment is present at the event.

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Regardless of dollar value, Supervised Persons may not give a gift or provide entertainment that is inappropriate under the circumstances, or inconsistent with applicable law or regulations, to persons associated with securities or financial organizations, exchanges, member firms, commodity firms, news media, or Clients. Persons must obtain clearance from the either Partner and a Compliance Officer prior giving any gift greater than \$300 in value to any person or company that does business with the Company.

Supervised Persons should not give or receive gifts or entertainment that would be embarrassing to themselves or to Solar Capital if made public.

## **VII. COMPLIANCE**

### **A. Certificate of Receipt**

Supervised Persons are required to acknowledge receipt of the Compliance Manual and, therefore, your copy of this Code and that you have read and understood the Compliance Manual. A form for this purpose is attached to this Code as Appendix I.

### **B. Annual Certificate of Compliance**

Supervised Persons are required to certify upon becoming a Supervised Person or the effective date of this Code, whichever occurs later, and annually thereafter, that you have read and understand this Code and recognize that you are subject to this Code. Each annual certificate will also state that you have complied with all of the requirements of this Code during the prior year.

### **C. Remedial Actions**

If you violate this Code, including filing a late, inaccurate or incomplete holdings or transaction report, you will be subject to remedial actions, which may include, but are not limited to, any one or more of the following: (1) a warning; (2) disgorgement of profits; (3) imposition of a fine, which may be substantial; (4) demotion, which may be substantial; (5) suspension of employment, with or without pay; (6) termination of employment; or (7) referral to civil or governmental authorities for possible civil or criminal prosecution. If you are normally eligible for a discretionary bonus, any violation of the Code may also reduce or eliminate the discretionary portion of your bonus.

## **VIII. RETENTION OF RECORDS**

The Chief Compliance Officer will maintain, for a period of five years unless specified in further detail below, the records listed below. The records will be maintained at the Adviser's principal place of business for at least two years and in an easily accessible, but secured, place for the entire five years.

A. A record of the names of persons who are currently, or within the past five years were, Access Persons of Adviser.

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**B.** The Annual Certificate of Compliance signed by all persons subject to this Code acknowledging receipt of copies of the Code and acknowledging they are subject to it and will comply with its terms. All Annual Certificates of each Supervised Person must be kept for five years after the individual ceases to be a Supervised Person.

**C.** A copy of each Code that has been in effect at any time during the five-year period.

**D.** A copy of each report made by a Supervised Person pursuant to this Code, including any broker trade confirmations or account statements that were submitted in lieu of the persons' quarterly transaction reports.

**E.** A record of all known violations of the Code and of any actions taken as a result thereof, regardless of when the violations were committed.

**F.** A record of any decision, and the reasons supporting the decision, to approve the acquisition of securities by Supervised Persons, for at least five years after the end of the fiscal year in which the approval is granted.

**G.** A record of all reports made by the Chief Compliance Officer related to this Code.

#### **IX. NOTICES.**

For purposes of this Code, all notices, reports, requests for clearance, questions, contacts, or other communications to the Chief Compliance Officer will be considered delivered if provided to the Chief Compliance Officer via the Adviser's email network.

#### **X. REVIEW.**

This Code will be reviewed by the Chief Compliance Officer on an annual basis to ensure that it is meeting its objectives, is functioning fairly and effectively, and is not unduly burdensome to Adviser or Supervised Persons. The Chief Compliance Officer shall issue a report, in writing, to the Board of Directors of the Company stating his or her findings and recommendations as a result of each such review on no less frequently than an annual basis.

Supervised Persons are encouraged to contact the Chief Compliance Officer with any comments, questions or suggestions regarding implementation or improvement of the Code.

**SOLAR CAPITAL  
ACKNOWLEDGMENT AND CERTIFICATION  
COMPLIANCE POLICIES AND PROCEDURES MANUAL**

I hereby certify to Solar Capital that:

- (1) I have received and reviewed Solar Capital’s Compliance Policies and Procedures Manual (the “Compliance Manual”);
- (2) To the extent I had questions regarding any policy or procedure contained in the Compliance Manual, I received satisfactory answers to those questions from appropriate Solar Capital personnel;
- (3) I fully understand the policies and procedures contained in the Compliance Manual;
- (4) I understand and acknowledge that I am subject to the Compliance Manual;
- (5) I will comply with the policies and procedures contained in the Compliance Manual at all times during my association with Solar Capital, and agree that the Compliance Manual may, under certain circumstances, continue to apply to me subsequent to the termination of my association with Solar Capital.
- (6) I understand and acknowledge that if I violate any provision of the Compliance Manual, I will be subject to remedial actions, which may include, but are not limited to, any one or more of the following: (a) a warning; (b) disgorgement of profits; (c) imposition of a fine, which may be substantial; (d) demotion, which may be substantial; (e) suspension of employment, with or without pay; (f) termination of employment; or (g) referral to civil or governmental authorities for possible civil or criminal prosecution. I further understand that, to the extent I would otherwise be eligible for a discretionary bonus, if I violate the Compliance Manual this may reduce or eliminate the discretionary portion of my bonus.

**Date:** \_\_\_\_\_

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Print Name*

**SOLAR CAPITAL  
INITIAL REPORT OF SECURITIES ACCOUNTS**

In accordance with Solar Capital's policies and procedures, please indicate whether you maintain securities accounts over which you have influence or control and/or in which any securities are held in which you have a Beneficial Ownership Interest<sup>3</sup> ("Securities Accounts"). Securities Accounts include accounts of any kind held at a broker, bank, investment advisor, or money manager.

I do maintain Securities Accounts.

I do not maintain Securities Accounts.

If you indicated above that you do maintain Securities Accounts, please (1) complete the Personal Trading Account and/or Related Trading Account letters of direction (*enclosed*), (2) provide the information in the following table (*use additional paper if necessary*), and (3) attach a copy of the most recent account statement listing holdings for each account identified below:

Account Name	Broker/Institution Name	Account Number	Broker/Institution's Address	Is this account managed by a 3rd party (such as an investment advisor) on a fully discretionary basis in which you do not direct any transactions? (Yes/No)

I certify that this form is accurate and complete, and I have attached statements (if any) for all of my Securities Accounts.

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Print Name*

<sup>3</sup> You will be considered to have a "Beneficial Ownership Interest" in a Security if: (i) you have a Pecuniary Interest in the Security; (ii) you have voting power with respect to the Security, meaning the power to vote or direct the voting of the Security; or (iii) you have the power to dispose, or direct the disposition of, the Security. You will be considered to have a "Pecuniary Interest" in a security if you, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have the opportunity, directly or indirectly, to profit or share in any profit derived from a transaction in the security. The term "Pecuniary Interest" is construed very broadly. The following examples illustrate this principle: (i) ordinarily, you will be deemed to have a "Pecuniary Interest" in all Securities owned by members of your Immediate Family who share the same household with you; (ii) if you are a general partner of a general or limited partnership, you will be deemed to have a "Pecuniary Interest" in all Securities held by the partnership; (iii) if you are a shareholder of a corporation or similar business entity, you will be deemed to have a "Pecuniary Interest" in all Securities held by the corporation if you are a controlling shareholder or have or share investment control over the corporation's investment portfolio; (iv) if you have the right to acquire equity Securities through the exercise or conversion of a derivative Security, you will be deemed to have a Pecuniary Interest in the Securities, whether or not your right is presently exercisable; (v) if you are the sole member or a manager of a limited liability company, you will be deemed to have a Pecuniary Interest in the Securities held by the limited liability company; and (vi) ordinarily, if you are a trustee or beneficiary of a trust, where either you or members of your Immediate Family have a vested interest in the principal or income of the trust, you will be deemed to have a Pecuniary Interest in all Securities held by that trust.



**SOLAR CAPITAL  
QUARTERLY BROKERAGE ACCOUNT  
AND NON-BROKER TRANSACTION REPORT**

**Notes:**

1. Capitalized terms not defined in this report are defined in the Code of Ethics of Solar Capital (the "Code").
2. You must cause each broker-dealer that maintains an account over which you have influence or control and holds Securities in which you have a Beneficial Ownership Interest to provide to the Chief Compliance Officer, on a timely basis, duplicate copies of confirmations of all transactions in the account and duplicate statements for the account and you must report to the Chief Compliance Officer, within 30 days of the end of each calendar quarter, all transactions effected without the use of a registered broker-dealer in Securities, other than transactions in Non-Reportable Securities.

The undersigned has requested that you receive duplicate statements and confirmations on his or her behalf from the following brokers:

Name	Broker	Account Number	Date	Date Account Opened
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____
_____	_____	_____	_____	_____

The following are Securities transactions that have **not** been reported and/or executed through a broker-dealer, i.e. during the previous calendar quarter.

Date	Buy/Sell	Security Name	Amount	Price	Broker/Issuer
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

By signing this document, I am certifying that I have caused duplicate confirmations and duplicate statements to be sent to the Chief Compliance Officer of Solar Capital for every brokerage account that trades in Securities.

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Signature*

- 
1. *Transactions required to be reported.* You should report every transaction in which you acquired or disposed of any Security in which you had a Pecuniary Interest during the calendar quarter. The term “Beneficial Ownership Interest” is the subject of a long history of opinions and releases issued by the Securities and Exchange Commission and generally means that you would receive the pecuniary benefits of owning a Security. The term includes, but is not limited to the following cases and any other examples in the Code:
    - (A) Where the Security is held for your benefit by others, such as brokers, custodians, banks and pledgees;
    - (B) Where the Security is held for the benefit of members of your Immediate Family sharing the same household;
    - (C) Where Securities are held by a corporation, partnership, limited liability company, investment club or other entity in which you have an equity interest if you are a controlling equityholder or you have or share investment control over the Securities held by the entity;
    - (D) Where Securities are held in a trust for which you are a trustee and under which either you or any member of your Immediate Family have a vested interest in the principal or income; and
    - (E) Where Securities are held in a trust for which you are the settlor, unless the consent of all of the beneficiaries is required in order for you to revoke the trust.

Notwithstanding the foregoing, the following transactions are not required to be reported:

- (A) Transactions in Securities which are direct obligations of the United States;
  - (B) Transactions effected in any account over which you have no direct or indirect influence or control; or
  - (C) Shares of registered open-end investment companies.
2. *Security Name.* State the name of the issuer and the class of the Security, e.g., common stock, preferred stock or designated issue of debt securities, including the interest rate, principal amount and maturity date, if applicable. In the case of the acquisition or disposition of a futures contract, put, call option or other right, referred to as “options,” state the title of the Security subject to the option and the expiration date of the option.
  3. *Futures Transactions.* Please remember that duplicates of all Confirmations, Purchase and Sale Reports, and month-end Statements must be sent to Adviser by your broker. Please double check to be sure this occurs if you report a future transaction.
  4. *Transaction Date.* In the case of a market transaction, state the trade date, not the settlement date.

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5. *Nature of Transaction (Buy or Sale).* State the character of the transaction, e.g., purchase or sale of Security, purchase or sale of option, or exercise of option.
  6. *Amount of Security Involved (No. of Shares).* State the number of shares of stock, the face amount of debt Securities or other units of other Securities. For options, state the amount of Securities subject to the option. If your ownership interest was through a spouse, relative or other natural person or through a partnership, trust, other entity, state the entire amount of Securities involved in the transaction. In such cases, you may also indicate, if you wish, the extent of your interest in the transaction.
  7. *Purchase or Sale Price.* State the purchase or sale price per share or other unit, exclusive of brokerage commissions or other costs of execution. In the case of an option, state the price at which it is currently exercisable. No price need be reported for transactions not involving cash.
  8. *Broker, Dealer or Bank Effecting Transaction.* State the name of the broker, dealer or bank with or through whom the transaction was effected.
  9. *Signature.* Sign the form in the space provided.
  10. *Filing of Report.* This report should be filed NO LATER THAN 30 CALENDAR DAYS following the end of each calendar quarter.

**SOLAR CAPITAL  
PERSONAL TRADING ACCOUNT  
LETTER OF DIRECTION**

To Whom This May Concern:

I, \_\_\_\_\_ (print name), currently maintain an investment account with your institution, and hereby request that duplicate trade confirmations and monthly account statements be disseminated to my employer, Solar Capital, at the following address:

*Attn:* Chief Compliance Officer  
Solar Capital  
500 Park Avenue, 5<sup>th</sup> Floor  
New York, NY 10022

If you should have any questions, please do not hesitate to contact me. Thank you for your cooperation.

Sincerely,

NAME: \_\_\_\_\_

DATE: \_\_\_\_\_

PHONE: \_\_\_\_\_

**SOLAR CAPITAL  
RELATED TRADING ACCOUNT  
LETTER OF DIRECTION**

To Whom This May Concern:

I, \_\_\_\_\_ (print your name), currently maintain an investment account with your institution. Due to my relationship with \_\_\_\_\_ (print employee's name), who is an employee of Solar Capital, I hereby request that duplicate trade confirmations and monthly account statements be disseminated to the following address:

*Attn:* Chief Compliance Officer  
Solar Capital  
500 Park Avenue, 5<sup>th</sup> Floor  
New York, NY 10022

If you should have any questions, please do not hesitate to contact me. Thank you for your cooperation.

Sincerely,

NAME: \_\_\_\_\_

DATE: \_\_\_\_\_

PHONE: \_\_\_\_\_

**SOLAR CAPITAL  
INITIAL REPORT OF PRIVATE INVESTMENTS**

In accordance with Solar Capital policies and procedures, please indicate whether you maintain private investments over which you have influence or control and in which any private investments are held in which you have a Beneficial Ownership Interest.<sup>1</sup> The term private investment is typically defined as an intangible investment and is very broadly construed by Solar Capital. Examples of private investments may include equity in a business or company, a loan to a business or company, an investment in a hedge fund or limited partnership, or securities held in your home or in a safe deposit box. Examples of investments that generally are not considered private investments are your primary residence, vacation home, automobiles, artwork, jewelry, antiques, stamps, and coins.

I do maintain private investments.

I do not maintain private investments.

If you indicated above that you do maintain private investments, please provide the information in the following table (*use additional paper if necessary*):

Description of Private Investment	Value of Private Investment	Approximate Acquisition Date	Does the private investment involve a company that has publicly traded debt or equity? (Yes/No)
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I certify that this form and any attachments are accurate and complete and constitute all of my private investments.

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Print Name*

<sup>1</sup> You will be considered to have a “Beneficial Ownership Interest” in an investment if: (i) you have a Pecuniary Interest in the investment; (ii) you have voting power with respect to the investment, meaning the power to vote or direct the voting of the investment; or (iii) you have the power to dispose, or direct the disposition of, the investment. You will be considered to have a “Pecuniary Interest” in an investment if you, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, have the opportunity, directly or indirectly, to profit or share in any profit derived from a transaction in the investment. The term “Pecuniary Interest” is construed very broadly. The following examples illustrate this principle: (i) ordinarily, you will be deemed to have a “Pecuniary Interest” in all investments owned by members of your Immediate Family who share the same household with you; (ii) if you are a general partner of a general or limited partnership, you will be deemed to have a “Pecuniary Interest” in all investments held by the partnership; (iii) if you are a shareholder of a corporation or similar business entity, you will be deemed to have a “Pecuniary Interest” in all investments held by the corporation if you are a controlling shareholder or have or share investment control over the corporation’s investment portfolio; (iv) if you have the right to acquire equity security through the exercise or conversion of a derivative investment, you will be deemed to have a Pecuniary Interest in the investment, whether or not your right is presently exercisable; (v) if you are the sole member or a manager of a limited liability company, you will be deemed to have a Pecuniary Interest in the investments held by the limited liability company; and (vi) ordinarily, if you are a trustee or beneficiary of a trust, where either you or members of your Immediate Family have a vested interest in the principal or income of the trust, you will be deemed to have a Pecuniary Interest in all investments held by that trust.

## INSIDER TRADING POLICIES AND PROCEDURES

### I. BACKGROUND

All personal securities trades are subject to these Insider Trading Policies and Procedures. However, compliance with the trading restrictions imposed by these procedures by no means assures full compliance with the prohibition on trading while in the possession of inside information, as defined in these procedures.

Insider trading — trading Securities while in possession of material, nonpublic information or improperly communicating such information to others — may expose a person to stringent penalties. Criminal sanctions may include a fine of up to \$1,000,000 and/or ten years' imprisonment. The Commission may recover the profits gained, or losses avoided, through insider trading, obtain a penalty of up to three times the illicit gain or avoided loss, and/or issue an order permanently barring any person engaging in insider trading from the securities industry. In addition, investors may sue seeking to recover damages for insider trading violations.

These Insider Trading Policies and Procedures are drafted broadly and will be applied and interpreted in a similar manner. Regardless of whether a federal inquiry occurs, Solar Capital views seriously any violation of these Insider Trading Policies and Procedures. Any violation constitutes grounds for disciplinary sanctions, including dismissal and/or referral to civil or governmental authorities for possible civil or criminal prosecution.

The law of insider trading is complex; a Supervised Person legitimately may be uncertain about the application of these Insider Trading Policies and Procedures in a particular circumstance. A question could forestall disciplinary action or complex legal problems. Supervised Persons should direct any questions relating to these Insider Trading Policies and Procedures to a Compliance Officer. A Supervised Person must also notify a Compliance Officer immediately if he or she knows or has reason to believe that a violation of these Insider Trading Policies and Procedures has occurred or is about to occur.

Any capitalized terms used but not defined in the Insider Trading Policies and Procedures shall have their respective meanings as defined in the Code of Ethics of Solar Capital.

### II. STATEMENT OF FIRM POLICY

**A.** At all times, the interests of Solar Capital's Clients must prevail over the individual's interest.

**B.** Buying or selling Securities in the public markets on the basis of material, nonpublic information is prohibited. Similarly, buying and selling securities in a private transaction on the basis of material, nonpublic information is prohibited, except in the limited circumstance in which the information is obtained in connection with a private transaction with an issuer of securities, in which case the private transaction itself is permitted. A prohibited transaction would include purchasing or selling (i) for a Supervised Person's own account or one in which the Supervised Person has direct or indirect influence or control, (ii) for a Client's

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account, or (iii) for Adviser's inventory account. If any Supervised Person is uncertain as to whether information is "material" or "nonpublic," he or she should consult the Chief Compliance Officer.

C. Disclosing material, nonpublic information to inappropriate personnel, whether or not for consideration, i.e., "tipping," is prohibited. Material, nonpublic information must be disseminated on a "need to know basis" only to appropriate personnel. This would include any confidential discussions between the issuer and personnel of Adviser. The Chief Compliance Officer should be consulted should a question arise as to who is privy to material, nonpublic information.

D. Assisting anyone transacting business on the basis of material, nonpublic information through a third party is prohibited.

E. In view of the Gabelli & Co./GAMCO Investments, Inc. SEC proceeding, it is clear that when a portfolio manager is in a position, due to his official duties at an issuer, to have access to inside information on a relatively continuous basis, self-reporting procedures are not adequate to detect and prevent insider trading. Accordingly, neither Adviser nor an Adviser employee may trade in any securities issued by any company of which any Adviser employee is an employee or insider. ***All Supervised Persons must report to the Chief Compliance Officer or designee any affiliation or business relationship they may have with any issuer (a form of which is attached as Appendix A hereto.)***

F. Supervised Persons should understand that if Solar Capital becomes aware of material, nonpublic information about the issuer of the underlying securities, even if the particular Supervised Person in question does not himself or herself have such knowledge, or enters into certain transactions for clients, Solar Capital will not bear any losses resulting in personal accounts through the implementation of these Insider Trading Policies and Procedures.

G. It is the Company's policy that Supervised Persons may purchase or sell Company securities only during the "window period" that generally begins on the second business day after the Company publicly releases quarterly or annual financial results and extends until the 15th day of the last calendar month of the quarter in which the results are announced (or such shorter time that may be designated by the Chief Executive Officer of the BDC ("CEO") or the Chief Operating Officer of the BDC ("COO") and the CCO). However, the ability of a Supervised Person to engage in transactions in Company securities during window periods is not automatic or absolute. Circumstances may prevent or delay the opening of the window period or cause the window period to be shortened. Further, no trades may be made even during a window period by an individual who possesses material, nonpublic information, other than in accordance with a previously approved Trading Plan.

Notwithstanding the foregoing, Supervised Persons may also purchase or sell Company securities pursuant to a Trading Plan. As used herein, the term "Trading Plan" shall mean a pre-arranged trading plan adopted in accordance with and meeting all of the requirements of Rule 10b5-1(c) under the Securities Exchange Act of 1934, as amended, that has been approved by the Company's Chief Compliance Officer. A Trading Plan may only be entered into, modified or terminated (i) prior to expiration by Supervised Persons at a time they would otherwise be



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permitted to purchase or sell Company securities, and (ii) with the prior approval of the Company's Chief Compliance Officer. Each Supervised Person shall be responsible for ensuring compliance with the requirements of Rule 10b5-1(c) with respect to any Trading Plan they may enter into, modify or terminate prior to expiration, notwithstanding the prior approval thereof by the Company's Chief Compliance Officer.

In addition, the Adviser may, subject to regulatory restrictions, award Restricted Stock Units ("RSUs") representing discretionary bonuses as part of an employee deferred compensation plan (the "award") during a closed window period provided that (1) the Adviser, the CEO and the COO are not in possession of material non-public information ("MNPI"); (2) the award does not require a purchase of Company securities on the open market but instead represents a transfer or potential transfer of Company securities then held by the Adviser; and (3) the CCO approves the award in advance. To the extent an award represents non-discretionary compensation, the RSUs may only be awarded in open window periods at a time when the Adviser, the CEO and the COO are not in possession of MNPI.

**H.** The following reviews principles important to these Insider Trading Policies and Procedures:

1. What is "Material" Information?

Information is "material" when there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Generally, information is material if its disclosure will have a substantial effect on the price of a company's Securities. No simple "bright line" test exists to determine whether information is material; assessments of materiality involve highly fact-specific inquiries. **However, if the information you have received is or could be a factor in your trading decision, you must assume that the information is material.** Supervised Persons should direct any questions regarding the materiality of information to the Chief Compliance Officer or designee.

Material information often relates to a company's results and operations, including, for example, dividend changes, earnings results, changes in previously released earnings estimates, significant merger or acquisition proposals or agreements, major litigation, liquidation problems, and extraordinary management developments. Material information may also relate to the market for a Security. Information about a significant order to purchase or sell Securities, in some contexts, may be deemed material; similarly, prepublication information regarding reports in the financial press may also be deemed material.

2. What is "Nonpublic" Information?

Information is "nonpublic" until it has been disseminated broadly to investors in the marketplace. Tangible evidence of this dissemination is the best indication that the information is public. For example, information is public after it has become available to the general public through a public filing with the Commission or some other government agency, or available to the Dow Jones "tape" or The Wall Street Journal or some other general circulation publication, and after sufficient time has passed so that the information has been disseminated widely. **If you believe that you have information concerning an issuer which gives you an advantage over other investors, the information is, in all likelihood, non-public.**

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### 3. Identifying Inside Information.

Before executing any trade for oneself or others, including Clients, a Supervised Person must determine whether he or she has access to material, nonpublic information. If a Supervised Person believes he or she might have access to material, nonpublic information, he or she should:

- a. Immediately alert the Chief Compliance Officer or designee, so that the applicable Security is placed on the Restricted List.
- b. Not purchase or sell the Securities on his or her behalf or for others, including Clients (except in the limited circumstance in which the information is obtained in connection with a private transaction with an issuer of securities, in which case the private transaction itself is permitted).
- c. Not communicate the information inside or outside of Adviser, other than to the Chief Compliance Officer or designee (or, in the limited circumstance of a private transaction with an issuer of securities, to Supervised Persons within Adviser involved in the transaction with a need to know the information).

The Chief Compliance Officer will review the issue, determine whether the information is material and nonpublic, and, if so, what action Adviser should take.

### 4. Contacts With Public Companies.

Contacts with public companies may represent part of Adviser's research efforts and Adviser may make investment decisions on the basis of its conclusions formed through these contacts and analysis of publicly available information. Difficult legal issues may arise, however, when a Supervised Person, in the course of these contacts, becomes aware of material, nonpublic information. For example, a company's Chief Financial Officer could prematurely disclose quarterly results, or an investor relations representative could make a selective disclosure of adverse news to certain investors. In these situations, Adviser must make a judgment about its further conduct. To protect oneself, Clients, and Adviser, a Supervised Person should immediately contact the Chief Compliance Officer if he or she believes he or she may have received material, nonpublic information.

### 5. Tender Offers.

Tender offers represent a particular concern in the law of insider trading for two reasons. First, tender offer activity often produces extraordinary movement in the price of the target company's securities. Trading during this time is more likely to attract regulatory attention, and produces a disproportionate percentage of insider trading cases. Second, the Commission has adopted a rule expressly forbidding trading and "tipping" while in possession of material, nonpublic information regarding a tender offer received from the company making the tender offer, the target company, or anyone acting on behalf of either. Supervised Persons must exercise particular caution any time they become aware of nonpublic information relating to a tender offer.

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### III. INSIDER TRADING PROCEDURES APPLICABLE TO ALL SUPERVISED PERSONS

The following procedures have been established to aid Supervised Persons in avoiding insider trading, and to aid Adviser in preventing, detecting and imposing sanctions against insider trading. Every Supervised Person must follow these procedures or risk serious sanctions, including dismissal, substantial personal liability and criminal penalties. If a Supervised Person has any questions about these procedures, he or she should consult the Chief Compliance Officer or designee.

#### A. Responsibilities of Supervised Persons.

All Supervised Persons must make a diligent effort to ensure that a violation of these Insider Trading Policies and Procedures does not either intentionally or inadvertently occur. In this regard, all Supervised Persons (other than Disinterested Directors) are responsible for:

(a) Reading, understanding and consenting to comply with these Insider Trading Policies and Procedures. Supervised Persons will be required to sign an acknowledgment that they have read and understood the Compliance Manual and therefore their responsibilities under the Code;

(b) Ensuring that no trading occurs for their account, for any account over which they have direct or indirect influence or control or for any Client's account in Securities included on the Restricted List, or as to which they possess material, nonpublic information, regardless of the Securities being included on the Restricted List (except in the limited circumstance in which the information is obtained in connection with a private transaction with an issuer of securities, in which case the private transaction itself is permitted);

(c) Not disclosing inside information obtained from any source whatsoever to inappropriate persons. Disclosure to family, friends or acquaintances will be grounds for immediate termination and/or referral to civil or governmental authorities for possible civil or criminal prosecution;

(d) Consulting the Chief Compliance Officer or designee when questions arise regarding insider trading or when potential violations of these Insider Trading Policies and Procedures are suspected;

(e) Ensuring that Adviser receives copies of confirmations and statements from both internal and external brokerage firms for accounts of Supervised Persons and members of the Immediate Family of such Supervised Persons sharing the same household;

(f) Advising the Chief Compliance Officer or designee of all outside business activities, directorships, or ownership of over 5% of the shares of a public company. No Supervised Person may engage in any outside business activities as employee, proprietor, partner, consultant, trustee officer or director without prior written consent of the Chief Compliance Officer, or a designee of the Chief Compliance Officer (a form of which is attached as *Appendix A* hereto); and

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(g) Being aware of, and monitoring, any Clients who are shareholders, directors, and/or senior officers of public companies. Any unusual activity including a purchase or sale of restricted stock must be brought to the attention of the Chief Compliance Officer or designee.

**B. Security.**

In order to prevent accidental dissemination of material, nonpublic information, personnel must adhere to the following guidelines:

1. Inform management when unauthorized personnel enter the premises.
2. Lock doors at all times in areas that have confidential and secure files.
3. Refrain from discussing sensitive information in public areas.
4. Refrain from leaving confidential information on message devices.
5. Maintain control of sensitive documents, including handouts and copies, intended for internal dissemination only.
6. Ensure that faxes and e-mail messages containing sensitive information are properly sent, and confirm that the recipient has received the intended message.
7. Do not allow passwords to be given to unauthorized personnel.

**IV. SUPERVISORY PROCEDURES**

Supervisory procedures can be divided into two classifications — prevention of insider trading and detection of insider trading.

**A. Prevention of Insider Trading**

To prevent insider trading, the Chief Compliance Officer or designee should:

1. Maintain a Restricted List which includes the name of any company, whether or not a client of Adviser, as to which one or more individuals at Adviser has a fiduciary relationship or may have material information which has not been publicly disclosed. The Restricted List is maintained by the Chief Compliance Officer and his or her designees. The Chief Compliance Officer or such other Compliance Officer as may be designated shall be responsible for: (i) determining whether any particular securities should be included on the Restricted List; (ii) determining when Securities should be removed from the Restricted List; and (iii) ensuring that Securities are timely added to and removed from the Restricted List, as appropriate, no less frequently than on a quarterly basis.
2. Answer questions regarding Solar Capital's policies and procedures;

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3. Resolve issues of whether information received by an officer, director or employee of Solar Capital constitutes Inside Information and determine what action, if any, should be taken;

4. Review these Insider Trading Policies and Procedures on a regular basis and update them as necessary;

5. When it has been determined that a Supervised Person has Inside Information:

(a) Implement measures to prevent dissemination of such information other than to appropriate Supervised Persons on a “need to know” basis, and

(b) Not permit any Solar Capital employee to execute any transaction in any securities of the issuer in question (except in the limited circumstance in which the information is obtained in connection with a private transaction with an issuer of securities, in which case the private transaction itself is permitted);

6. Implement a program of periodic “reminder” notices regarding insider trading;

7. Confirm with each trader no less frequently than quarterly whether there are any issuers for whom Adviser has Inside Information; and

8. Compile and maintain the Restricted List of securities in which no Supervised Person may trade because Adviser as an entity is deemed to have Inside Information concerning the issuers of such securities and determine when to remove securities from the Restricted List.

#### **B. Detection of Insider Trading**

To detect insider trading, the Chief Compliance Officer or designee should:

1. Review daily confirmations and quarterly trading activity reports filed by Supervised Persons; and

2. Promptly investigate all reports of any possible violations of these Insider Trading Policies and Procedures.

#### **C. Special Reports to Management**

Promptly upon learning of a potential violation of Solar Capital’s Insider Trading Policies and Procedures, the Chief Compliance Officer or designee shall prepare a written report to management providing full details, which may include (1) the name of particular securities involved, if any, (2) the date(s) Solar Capital learned of the potential violation and began investigating; (3) the accounts and individuals involved; (4) actions taken as a result of the investigation, if any; and (5) recommendations for further action.

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**D. General Reports to Management**

At least yearly, the Chief Compliance Officer will prepare a written report to the management of Adviser setting forth some or all of the following:

1. A summary of existing procedures to detect and prevent insider trading;
2. A summary of changes in procedures made in the last year;
3. Full details of any investigation, whether internal or by a regulatory agency, since the last report regarding any suspected insider trading, the results of the investigation and a description of any changes in procedures promptly by any such investigation; and
4. An evaluation of the current procedures and a description of anticipated changes in procedures.

**SOLAR CAPITAL  
INITIAL REPORT OF OUTSIDE BUSINESS ACTIVITIES**

In accordance with Solar Capital policies and procedures, please indicate whether you engage in any outside business activities. Outside business activities include, but are not limited to, serving as owner, partner, trustee, officer, director, finder, referrer, or employee of another business organization for compensation, or any activity for compensation outside my usual responsibilities at Solar Capital.<sup>1</sup>

I do engage in outside business activities

I do not engage in any outside business activities

If you indicated above that you do engage in outside business activities, please complete the following table *(use additional paper if necessary)*:

Name of Business Entity	Summary of Outside Business Activity	Summary of Compensation	Is the Business Entity Related to a Publicly Traded Company? (Yes/No)
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I certify that this form and any attachments are accurate and complete and constitute all of my outside business activities.

\_\_\_\_\_  
*Signature*

\_\_\_\_\_  
*Date*

\_\_\_\_\_  
*Print Name*

<sup>1</sup> Compensation includes salaries, director's fees, referral fees, stock options, finder's fees, and anything of present or future value.

**Subsidiaries of Solar Senior Capital Ltd.**

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%

SUNS SPV LLC (Delaware) – 100%

FLLP 2015-1, LLC (Delaware) – 100%

The subsidiaries listed above are consolidated for financial reporting purposes. We may also be deemed to control certain portfolio companies.



**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Solar Senior Capital Ltd.:

We consent to the incorporation by reference in the registration statement on Form N-2 of Solar Senior Capital Ltd. of our report dated February 20, 2020, with respect to the consolidated statements of assets and liabilities of Solar Capital Ltd. and its subsidiaries, including the consolidated schedule of investments, as of December 31, 2019 and 2018, 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, 2019, and the related notes, and the effectiveness of internal control over financial reporting as of December 31, 2019, which report appears in the annual report on Form 10-K of Solar Senior Capital Ltd. for the year ended December 31, 2019, and the report dated February 20, 2020 on the senior securities table attached as an exhibit to the Form 10-K. We also consent to the references to our firm under the headings "Selected Financial and Other Data" and "Independent Registered Public Accounting Firm" in the Form N-2.

*/s/ KPMG LLP*

New York, New York  
February 20, 2020

**Certification Pursuant to Section 302****Certification of Co-Chief Executive Officer**

I, Michael S. Gross, Co-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 officers 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 20, 2020

/s/ MICHAEL S. GROSS

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**Michael S. Gross**  
**Co-Chief Executive Officer**

**Certification Pursuant to Section 302****Certification of Co-Chief Executive Officer**

I, Bruce J. Spohler, Co-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 officers 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 20, 2020

/s/ BRUCE J. SPOHLER

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**Bruce J. Spohler**  
**Co-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 officers 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 20, 2020

/s/ RICHARD L. PETEKA

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**Richard L. Peteka**  
**Chief Financial Officer**

**Certification of Co-Chief Executive 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 year ended December 31, 2019 (the "Report") of Solar Senior Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Michael S. Gross, the Co-Chief Executive 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/ MICHAEL S. GROSS

**Name:**  
**Date:**

\_\_\_\_\_  
**Michael S. Gross**  
**February 20, 2020**

**Certification of Co-Chief Executive 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 year ended December 31, 2019 (the "Report") of Solar Senior Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, Bruce J. Spohler, the Co-Chief Executive 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/ BRUCE J. SPOHLER

**Name:**  
**Date:**

\_\_\_\_\_  
**Bruce J. Spohler**  
**February 20, 2020**

**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 year ended December 31, 2019 (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 20, 2020

**Gemino Healthcare Finance, LLC  
and Subsidiary**

Consolidated Financial Statements

December 31, 2019 and 2018



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**Gemino Healthcare Finance, LLC and Subsidiary**

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## 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, which comprise the consolidated balance sheet as of December 31, 2019 and 2018, and the related consolidated statements of operations, changes in members' equity, and cash flows for the years then ended, and the related notes to the consolidated 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 consolidated 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.

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**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, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Baker Tilly Virchow Krause, LLP*

Philadelphia, Pennsylvania  
February 14, 2020

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**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 companies operating across the U.S. 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, including real estate financing to qualified borrowers in addition to a revolving line of credit. Senior term loans, including real estate loans are typically secured by accounts receivable and all other assets of the borrowers, such as pledges of the stock of the borrowers and real estate.

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.

On September 30, 2013, Solar Senior Capital Ltd. (“Solar”), a Maryland corporation, acquired a controlling interest in Gemino. The remaining interest is held by various employees of Gemino, through their investment in Gemino Management Investment, LLC.

**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 consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (“GAAP”) 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 consolidated 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 and cash equivalents include funds deposited with financial institutions and short-term, liquid investments in money market accounts with original maturities of three months or less.

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**Loans Receivable**

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 value of the accounts receivable pledged as collateral.

**Revenue Recognition**

Income on loans receivable is recognized using the simple interest method. 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 and costs are deferred and amortized using either the effective interest method or the straight-line method over the life of the loan as an adjustment to interest income. The straight-line method may be used for term loan facilities when it approximates the effective interest method. Other fees, such as unused balance and collateral monitoring 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.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the loan is secured. 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.

The Company recognizes revenue in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 606, *Revenue from Contracts with Customers*, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. The core principle of the revenue model is for an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services.

While the guidance replaces most existing revenue recognition guidance in GAAP, ASC 606 is not applicable to financial instruments and, therefore, does not impact most of the Company's revenues, including interest income and other loan fees such as unused balance and collateral monitoring fees. The Company has evaluated the nature of its contracts with customers and generally fully satisfies its performance obligations on its contracts as services are rendered and the transaction prices are typically fixed; they are charged either on a periodic basis or based on activity. The Company's revenue recognition pattern for revenue streams within the scope of ASC 606, including collateral examination fees and certain loan modification fees, approximated \$787,000 and \$808,000 for the years ended December 31, 2019 and 2018, respectively.

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**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 an ongoing analysis of each 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 underlying collateral, if the loan is collateral-dependent combined with the strength of any guarantee arrangements. Specific allowances are recorded when the discounted cash flows, collateral value, or aggregate market price of the impaired loan is lower than the carrying value of that loan.

Loans are charged off when collection is questionable and when the Company can no longer justify maintaining the loan as an asset on the consolidated 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. Recoveries of previous charge-offs are recorded when received. For the years ended December 31, 2019 and 2018, there were no recoveries of previous charge-offs.

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**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. Goodwill and intangible asset - trade name arose from the acquisition of the Company on September 30, 2013 (Note 1). Intangible asset - trade name has an indefinite life. 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 assesses its indefinite-lived intangible asset – trade name 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 value of intangible asset - trade name is estimated using the relief from royalty method, which is an income approach based on the present value of royalties the Company would theoretically have to pay to license the trade name from a third party. The fair value of the Company is estimated using a weighted average amount of the present value of expected future cash flows and the adjusted market multiples of comparable companies. If the fair value is less than the carrying value, an impairment loss would be recorded. For the years ended December 31, 2019 and 2018, there were no impairments.

**Furniture and Equipment**

Furniture and equipment are recorded at cost, net of accumulated depreciation, and are depreciated on a straight-line basis over their estimated useful lives ranging from three to five years.

**Debt Issuance Costs**

The Company reports origination and other costs related to certain debt issuances as a direct deduction from the carrying amount of the debt liability. These expenses are deferred and amortized using either the effective interest method or the straight-line method over the stated life as an adjustment to interest expense. The straight-line method may be used on revolving facilities when it approximates the effective yield method.

**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 not be realized or sustained upon examination by the appropriate taxing authority. Management determined there were no tax uncertainties that met the recognition threshold in 2019 and 2018.

The Company files both federal and state income tax returns. The Company remains subject to examination by taxing authorities for the years 2016 and after.

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**Gemino Healthcare Finance, LLC and Subsidiary**Notes to Consolidated Financial Statements  
December 31, 2019 and 2018**Recent Accounting Pronouncements**

In June 2016, the FASB issued ASU2016-13, *Financial Instruments - Credit Losses (Topic 326)* to replace the incurred loss model, which is referred to as the current expected credit loss (“CECL”) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loans receivable and held-to maturity debt securities. It also applies to off-balance sheet credit exposures including loan commitments, standby letters of credit, financial guarantees, and other similar instruments. For the assets within the scope of CECL, a cumulative-effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period in which the guidance is effective. This new standard could be effective for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact this new standard will have on its consolidated financial statements.

In January 2017, the FASB issued ASU2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350)*, which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for the Company’s annual and any interim goodwill impairment tests beginning in 2021, with early adoption permitted for annual or interim tests performed on testing dates after January 1, 2017. The amendments included in this ASU are to be applied prospectively. The Company does not expect implementation of this new standard to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU2016-02, *Leases (Topic 842)*, which increases the transparency and comparability of accounting for lease transactions. This ASU requires lessees to recognize liabilities for operating leases and corresponding right-of-use assets on the balance sheet. ASU 2016-02 is effective for the Company for its fiscal year beginning after December 15, 2020. The Company is currently evaluating the impact this new standard will have on its consolidated financial statements.

**3. Loans Receivable**

The following table shows the composition of loans receivable, net as of December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Revolving loans receivable	\$107,960,879	\$88,437,141
Term loans receivable	4,627,687	2,434,456
Total loans receivable	112,588,566	90,871,597
Less allowance for loan losses	(1,136,477)	(966,488)
Less deferred origination fees and costs, net	(484,449)	(538,565)
Loans receivable, net	<u>\$110,967,640</u>	<u>\$89,366,544</u>



**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**4. 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 years ended December 31, 2019 and 2018:

	Beginning Balance	Charge-Offs	Recoveries	Provisions	Ending Balance	Ending Balance: Individually Evaluated for Impairment	Ending Balance: Collectively Evaluated for Impairment
<b>Allowance for Loan Losses - December 31, 2019</b>							
Revolving loans	\$942,143	\$(48,293)	\$ —	\$196,350	\$1,090,200	\$ —	\$ 1,090,200
Term loans	24,345	—	—	21,932	46,277	16,277	30,000
<b>Total</b>	<b>\$966,488</b>	<b>\$(48,293)</b>	<b>\$ —</b>	<b>\$218,282</b>	<b>\$1,136,477</b>	<b>\$ 16,277</b>	<b>\$ 1,120,200</b>
<b>Allowance for Loan Losses - December 31, 2018</b>							
Revolving loans	\$937,938	\$ —	\$ —	\$ 4,205	\$ 942,143	\$ 48,293	\$ 893,850
Term loans	6,997	—	—	17,348	24,345	18,534	5,811
<b>Total</b>	<b>\$944,935</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 21,553</b>	<b>\$ 966,488</b>	<b>\$ 66,827</b>	<b>\$ 899,661</b>

The following table presents loans receivable individually and collectively evaluated for impairment by loan class at December 31, 2019 and 2018:

	Ending Balance	Ending Balance Individually Evaluated for Impairment	Ending Balance Collectively Evaluated for Impairment
<b>Loans Receivables - December 31, 2019</b>			
Revolving loans	\$107,960,879	\$ —	\$107,960,879
Term loans	4,627,687	1,627,687	3,000,000
<b>Total</b>	<b>\$112,588,566</b>	<b>\$ 1,627,687</b>	<b>\$110,960,879</b>
<b>Loans Receivables - December 31, 2018</b>			
Revolving loans	\$ 88,437,141	\$ 48,293	\$ 88,388,848
Term loans	2,434,456	1,853,354	581,102
<b>Total</b>	<b>\$ 90,871,597</b>	<b>\$ 1,901,647</b>	<b>\$ 88,969,950</b>

**Gemino Healthcare Finance, LLC and Subsidiary**Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

The following table summarizes the non-accrual loans by loan class at December 31, 2019 and 2018.

	<b>Recorded Investment</b>	<b>Unpaid Principal</b>	<b>Related Allowance</b>
	<b>Loans Receivables—December 31, 2019</b>		
Revolving loans	\$ —	\$ —	\$ —
Term loans	<u>1,627,687</u>	<u>1,627,687</u>	<u>16,277</u>
Total	<u>\$1,627,687</u>	<u>\$1,627,687</u>	<u>\$ 16,277</u>
	<b>Loans Receivables—December 31, 2018</b>		
Revolving loans	\$ 48,293	\$ 48,293	\$ 48,293
Term loans	<u>1,853,354</u>	<u>1,853,354</u>	<u>18,534</u>
Total	<u>\$1,901,647</u>	<u>\$1,901,647</u>	<u>\$ 66,827</u>

**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, 2019 and 2018: 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) 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 with these loans that warrants management's review each quarter.

	<b>December 31, 2019</b>	
	<b>Revolving Loans</b>	<b>Term Loans</b>
Rated 4 or better	<u>\$107,960,879</u>	<u>\$3,000,000</u>
Rated 5	—	—
Rated 6	—	<u>1,627,687</u>
Total	<u>\$107,960,879</u>	<u>\$4,627,687</u>
	<b>December 31, 2018</b>	
Rated 4 or better	\$87,808,090	\$ 500,000
Rated 5	580,758	81,102
Rated 6	<u>48,293</u>	<u>1,853,354</u>
Total	<u>\$88,437,141</u>	<u>\$2,434,456</u>

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**Gemino Healthcare Finance, LLC and Subsidiary**Notes to Consolidated Financial Statements  
December 31, 2019 and 2018**5. Furniture and Equipment**

Furniture and equipment are comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Computer software and equipment	\$ 81,637	\$ 72,678
Furniture and fixtures	41,032	41,032
Leasehold improvement	21,551	21,551
Total	144,220	135,261
Less accumulated depreciation	(115,379)	(96,597)
Furniture and equipment, net	<u>\$ 28,841</u>	<u>\$ 38,664</u>

Depreciation expense was \$18,782 and \$19,647 for the years ended December 31, 2019 and 2018, respectively.

**6. Debt**

On May 27, 2016, the Company entered into a four-year, non-recourse \$125,000,000 secured revolving credit facility, which is expandable to \$200,000,000 under its accordion feature. On June 28, 2019, the credit facility was amended and has a maturity date of June 28, 2023. Under the terms of the credit facility, the Company has made certain customary representations and warranties, and is required to comply with various covenants, including financial and 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.

Amounts available to borrow under the credit facility are also subject to compliance with a borrowing base that applies different advance rates to different types of assets in the Company's portfolio that are pledged as collateral. As of December 31, 2019 and 2018, there were principal borrowings of \$89,000,000 and \$75,000,000 outstanding, respectively, under the credit facility. As of December 31, 2019 and 2018, there were approximately \$117,509,000 and \$107,792,000 of eligible loans and related security pledged as collateral under the credit facility, respectively.

Interest on the credit facility accrues at a variable rate per annum of one-month LIBOR plus 2.25% and one-month LIBOR plus 2.60% at December 31, 2019 and 2018, respectively (4.01% and 5.10% at December 31, 2019 and 2018, respectively), payable monthly. The Company also pays customary loan fees for the credit facility.

The credit facility is comprised of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Principal borrowings	\$89,000,000	\$75,000,000
Unamortized debt issuance costs	(1,006,532)	(724,624)
Credit facility, net	<u>\$87,993,468</u>	<u>\$74,275,376</u>

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**7. Commitments and Concentrations**

At December 31, 2019 and 2018, the Company has committed facilities to its borrowers totaling approximately \$203,828,000 and \$174,083,000, respectively, of which approximately \$91,239,000 and \$83,211,000, 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 unused committed facility amount at December 31, 2019 and 2018, borrowers could borrow up to approximately \$36,564,000 and \$21,824,000, respectively.

At December 31, 2019, the Company had two loans approximating 17% and 14% of the total loans receivable and at December 31, 2018, the Company had three loans approximating 16%, 12% and 11% of the total loans receivable, respectively.

**8. Lease Commitments**

The Company leases its headquarters, regional sales offices and equipment under non-cancelable operating leases, which expire at various dates through 2022. As of December 31, 2019, future lease payments under non-cancelable operating leases, are as follows:

Years ending December 31:	
2020	\$25,969
2021 & Thereafter	<u>5,851</u>
Total	<u>\$31,820</u>

Total rent expense for all leases amounted to approximately \$160,000 and \$156,000 for the years ended December 31, 2019 and 2018, respectively.

**9. 401(k) Savings Plan**

The Company has a savings incentive plan covering substantially all employees of the Company. The Company's contribution for the years ended December 31, 2019 and 2018 was approximately \$123,000 and \$136,000, respectively.

**10. 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.

**11. Fair Value Disclosure**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

*Level 1:* Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

*Level 2:* Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

*Level 3:* Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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. Assets and liabilities measured at fair value on a recurring basis are summarized in the table below at December 31, 2019 and 2018.

	<b>2019</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial assets:</b>		
Cash and cash equivalents (Level 1)	\$ 1,521,245	\$ 1,521,245
Loan receivables, net (Level 2)	109,356,230	109,840,679
Accrued interest receivable (Level 1)	1,059,104	1,059,104
<b>Financial liabilities:</b>		
Credit facility, net (Level 2)	87,993,468	89,000,000
Accrued interest payable (Level 1)	290,426	290,426

	<b>2018</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Financial assets:</b>		
Cash and cash equivalents (Level 1)	\$ 8,983,921	\$ 8,983,921
Loan receivables, net (Level 2)	87,552,267	88,070,289
Accrued interest receivable (Level 1)	996,146	996,146
<b>Financial liabilities:</b>		
Credit facility, net (Level 2)	74,275,376	75,000,000
Accrued interest payable (Level 1)	352,063	352,063

Assets measured at fair value on a non-recurring basis are summarized in the table below at December 31, 2019 and 2018. There were no liabilities measured at fair value on a non-recurring basis at December 31, 2019 and 2018.

	<b>2019</b>	
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Non-accrual loans (Level 3):</b>		
Term loans	\$ 1,611,410	\$1,220,765
<b>2018</b>		
	<u>Carrying Value</u>	<u>Fair Value</u>
<b>Non-accrual loans (Level 3):</b>		
Term loans	\$ 1,814,277	\$1,390,015

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**Gemino Healthcare Finance, LLC and Subsidiary**

Notes to Consolidated Financial Statements  
December 31, 2019 and 2018

**12. Related Party Transaction**

An employee of an affiliated entity provides marketing and sales services to the Company for which the Company reimburses the affiliated entity. For the years ended December 31, 2019 and 2018, the Company has expensed approximately \$163,000 and \$128,000, respectively, for these services.

**13. Reclassification of Prior Year Presentation**

Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported consolidated statement of operations. The Company concluded that it was appropriate to classify the debt issuance costs and related unamortized debt issuance costs as a direct deduction from the principal amount of debt at December 31, 2019 and 2018.

**14. Subsequent Events**

The Company evaluated subsequent events for recognition or disclosure through February 14, 2020, which was the date the consolidated financial statements were available to be issued.

**North Mill Holdco LLC  
and Subsidiaries**

Consolidated Financial Report  
December 31, 2019

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**North Mill Holdco LLC and Subsidiaries**

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## Independent Auditor's Report

Audit Committee  
North Mill Holdco LLC

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of North Mill Holdco LLC and Subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of operations, members' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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.

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**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Mill Holdco LLC and Subsidiaries as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

*RSM VS LLP*

Philadelphia, Pennsylvania  
February 18, 2020

North Mill Holdco LLC and Subsidiaries

Consolidated Balance Sheets

December 31, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash	\$ 3,484,559	\$ 5,606,256
Finance receivables:		
Loans receivable	100,375,122	88,416,892
Less: unearned fee income	75,016	129,577
	100,300,106	88,287,315
Accounts receivable	70,769,215	33,906,316
Less: allowance for uncollectible finance receivables	2,189,341	4,861,666
<b>Finance receivables, net</b>	<b>168,879,980</b>	<b>117,331,965</b>
Equity subscription receivable	—	11,000,000
Foreclosed assets	157,839	2,233,464
Goodwill	24,478,018	18,228,018
Accrued interest receivable	982,402	893,788
Other assets	241,257	176,454
Furniture and equipment, net	223,231	98,497
Right of use asset	969,631	—
<b>Total assets</b>	<b>\$ 199,416,917</b>	<b>\$ 155,568,442</b>
<b>Liabilities and Members' Equity</b>		
<b>Liabilities:</b>		
Note payable, net of issuance costs	\$ 122,364,373	\$ 88,482,136
Due to factoring clients	18,797,172	6,821,940
Accounts payable and accrued expenses	1,508,931	1,071,904
Lease liability	969,631	—
<b>Total liabilities</b>	<b>143,640,107</b>	<b>96,375,980</b>
Commitments (Note 8)		
Members' equity	55,776,810	59,192,462
<b>Total liabilities and members' equity</b>	<b>\$ 199,416,917</b>	<b>\$ 155,568,442</b>

See notes to consolidated financial statements.

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**North Mill Holdco LLC and Subsidiaries**

**Consolidated Statements of Operations**

Years Ended December 31, 2019 and 2018

	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
Interest and finance charges	\$17,156,953	\$17,239,572
Less: interest expense	<u>5,087,845</u>	<u>5,100,230</u>
<b>Net interest income</b>	<b>12,069,108</b>	<b>12,139,342</b>
Service fees and other finance charges	<u>3,055,457</u>	<u>4,549,739</u>
	<b>15,124,565</b>	<b>16,689,081</b>
Provision for uncollectible finance receivables	<u>1,075,000</u>	<u>11,300,000</u>
<b>Net interest income after provision for uncollectible finance receivables</b>	<b><u>14,049,565</u></b>	<b><u>5,389,081</u></b>
Expenses:		
Personnel	7,008,332	5,759,664
Acquisition expenses	1,177,556	—
General and administrative	3,369,119	2,045,512
Legal and professional fees	<u>310,210</u>	<u>337,918</u>
	<b>11,865,217</b>	<b>8,143,094</b>
<b>Net income (loss)</b>	<b><u>\$ 2,184,348</u></b>	<b><u>\$ (2,754,013)</u></b>

See notes to consolidated financial statements.

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**North Mill Holdco LLC and Subsidiaries**

**Consolidated Statements of Members' Equity**

Years Ended December 31, 2019 and 2018

Balance, December 31, 2017	\$51,371,600
Net loss	(2,754,013)
Distribution to members	(5,425,125)
Purchase of equity units	16,000,000
Balance, December 31, 2018	\$59,192,462
Net income	2,184,348
Distribution to members	(5,600,000)
Balance, December 31, 2019	<u>\$55,776,810</u>

See notes to consolidated financial statements.

**North Mill Holdco LLC and Subsidiaries**

**Consolidated Statements of Cash Flows**

Years Ended December 31, 2019 and 2018

	<b>Year Ended December 31, 2019</b>	<b>Year Ended December 31, 2018</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,184,348	\$ (2,754,013)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	110,941	53,189
Amortization of deferred financing costs	248,296	234,307
Provision for uncollectible finance receivables	1,075,000	11,300,000
<b>Changes in assets and liabilities:</b>		
(Increase) decrease in:		
Accrued interest receivable	(88,614)	127,437
Foreclosed assets	2,075,625	—
Other assets	38,355	244,425
Increase (decrease) in:		
Unearned fee income	(54,561)	96,494
Accounts payable and accrued expenses	(744,313)	334,430
Due to factoring clients	2,202,023	(1,377,316)
<b>Net cash provided by operating activities</b>	<u>7,047,100</u>	<u>8,258,953</u>
<b>Cash flows from investing activities:</b>		
(Increase) decrease in finance receivables, net	(2,287,049)	20,509,481
Acquisition of business, net of cash acquired	(15,317,620)	—
Purchases of furniture and equipment	(156,302)	(67,262)
<b>Net cash (used in) provided by investing activities</b>	<u>(17,760,971)</u>	<u>20,442,219</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from (repayments of) note payable	3,217,174	(27,682,683)
Purchase of equity units	11,000,000	5,000,000
Payment of debt issuance costs	(25,000)	(115,625)
Distribution to members	(5,600,000)	(5,425,125)
<b>Net cash provided by (used in) financing activities</b>	<u>8,592,174</u>	<u>(28,223,433)</u>
<b>Net (decrease) increase in cash</b>	<u>(2,121,697)</u>	<u>477,739</u>
<b>Cash:</b>		
Beginning	5,606,256	5,128,517
Ending	<u>\$ 3,484,559</u>	<u>\$ 5,606,256</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	<u>\$ 4,644,205</u>	<u>\$ 4,831,587</u>
Transfer of loan to foreclosed asset	<u>\$ —</u>	<u>\$ 2,233,464</u>
Equity subscription receivable	<u>\$ —</u>	<u>\$ 11,000,000</u>
<b>Impact of ASC 842 adoption:</b>		
Right of use asset and lease liability	<u>\$ 940,446</u>	<u>\$ —</u>

See notes to consolidated financial statements.

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements****Note 1 . Nature of the Business**

The operations of North Mill Holdco LLC and Subsidiaries (collectively, the Company) consist primarily of those financial activities common to the commercial asset-based finance industry.

Holdco, a subsidiary of Solar Senior Capital Ltd. (“Solar”), was formed on May 17, 2019 in connection with the acquisition of Summit Financial Resources, LLC (“Summit”).

North Mill Capital LLC (“NMC”) was formed as a single-member Delaware limited liability company on August 18, 2010 and commenced operations on October 29, 2010. As part of a corporate reorganization, Solar contributed its interests in NMC to Holdco on June 28, 2019. NMC is a wholly owned subsidiary of Holdco.

NMC is a specialty finance company engaged in providing asset-based commercial financing to small and medium-sized businesses. The Company’s core business is providing and servicing loans ranging from \$200,000 to \$12,500,000 secured by accounts receivable, inventory, and equipment. Borrowers are located throughout the United States.

PrinSource Capital Companies, LLC, a wholly owned subsidiary of NMC, and their wholly owned subsidiary Partner Plus, LLC (collectively, “PrinSource”), were acquired by NMC on December 30, 2011. PrinSource provides financial services through the funding and financing of working capital assets, primarily accounts receivable and inventory.

Summit was acquired on June 28, 2019 (Note 2). Summit provides financial services through the funding and financing of working capital assets, primarily accounts receivable and inventory.

**Note 2 : Acquisition**

On June 28, 2019, Holdco acquired 100% interest in Summit. The total purchase price was \$15,536,135. The acquisition was accounted for as a purchase transaction and the assets acquired and liabilities assumed were recorded at their respective fair values as of the date of the acquisition. The excess of the purchase price over the fair value of assets acquired and liabilities assumed has been recorded as goodwill on the accompanying consolidated balance sheets.

<b>Assets Acquired</b>	
Cash	\$ 218,515
Loans receivable	50,281,400
Goodwill	6,250,000
Other assets	182,531
Fair value of assets acquired	56,932,446
<b>Liabilities Assumed</b>	
Other liabilities and accrued expenses	1,181,340
Note payable	30,441,762
Due to factoring clients	9,773,209
Fair value of liabilities assumed	41,396,311
Purchase price	<u>\$15,536,135</u>

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## North Mill Holdco LLC and Subsidiaries

### Notes to Consolidated Financial Statements

Upon allocating the purchase price to the fair value of assets acquired and liabilities assumed, the book value of intangible assets, consisting of goodwill, increased by \$6,250,000. The book value of assets acquired and liabilities assumed approximates fair value. The fair value of the loans acquired also effectively remove the Company's allowance for loan losses for such acquired loans.

Acquisition related costs of \$1,177,556, including legal, profession and other expenses, were recorded in the period incurred and not included in the purchase price.

Pursuant to an Assignment of Loan Agreement on December 31, 2019, NMC was assigned accounts receivable aggregating \$8,208,283. These accounts have been recorded at their respective fair values. As compensation for these accounts, the assignor will be paid a monthly fee based on the aggregate amount of the monthly interest and fees earned on the assigned accounts.

#### Note 3 : Significant Accounting Policies

Significant accounting policies are as follows:

**Principles of consolidation:** The financial statements include the accounts of NMC and its subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation.

**Revenue recognition:** The Company recognizes and measures revenue recognition in accordance with ASC 606, *Revenue from Contracts With Customers*. Fees received for the origination of loans are deferred and amortized into interest income over the contractual lives of the loans and annual fees received for loans are deferred and amortized into interest income over a twelve-month period using the straight-line method, which approximates the effective interest rate method. Unamortized amounts are recognized as income at the time that loans are paid in full. Interest income on loans receivable is recognized using the interest method. Interest and fee income are accrued based on the outstanding loan balance and charged monthly to the loan balance as earned, except in instances that a reasonable doubt exists as to the collectability of interest, in which case the accrual of income may be suspended. Other fee income, which includes wire transfers, field examination charges, late reporting fees and other items charged to borrowers, is recognized as charged.

**Cash:** The Company maintains its cash balances at several financial institutions which at various times during the year have exceeded the threshold for insurance provided by the Federal Deposit Insurance Corporation.

**Loans and accounts receivable:** The Company provides asset-based financing primarily in the form of revolving credit facilities collateralized by the borrower's assets, including, but not limited to, accounts receivable, inventory, equipment and general intangibles. The loan term is generally two years and management has the intention and ability to hold until maturity or payoff. Provisions for credit losses for loans receivable are charged to operations in amounts sufficient to maintain the allowance for credit losses at an amount considered adequate to cover the estimated losses of principal and accrued interest in the existing loan portfolio. The Company's charge-off policy is based on a loan-by-loan review for all receivables. Management periodically evaluates the adequacy of the allowance for credit losses by reviewing credit loss experience, change in size and character of credit risks, the value of collateral and general economic conditions. Loans are charged off against the allowance when management determines the loan to be permanently impaired.



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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

Specific allowances for loan losses are generally applied to impaired loans and are typically measured based on a comparison of the recorded value of the loan to the present value of the loan's expected future cash flows from the liquidation of the underlying collateral.

Finance receivables are stated at cost, net of an allowance for credit losses. The allowance for credit losses is based on management's assessment of the collectability of specific customer accounts, the aging of the accounts receivable, historical experience and other currently available evidence. If there is a deterioration of a major customer's credit worthiness or actual defaults are higher than the historical experience, management's estimates of the recoverability of amounts due to the Company could be adversely affected.

When the Company determines there is insufficient collateral to support an outstanding loan or accounts receivable balance and believes it is no longer probable that principal and/or interest payments will be collected, the Company will place the loan on non-accrual status. Such non-accrual loans may be restored to accrual status if past due principal and interest are paid in cash, and, in management's judgment, are likely to continue.

**Participation funding:** The Company enters into participation funding and servicing arrangements with other lending institutions whereby the other institutions pay the Company a processing fee for servicing financing arrangements that the other institutions have entered into with their customers. Under these arrangements, the Company, as the participant, assumes the risk related to their percentage share of the arrangement. The Company pays the lending institutions a pro rata percentage of the fee income earned. The arrangements are presented in accounts receivable in the accompanying consolidated balance sheets net of the amount due to the institution.

The Company enters into participation funding arrangements with third-party lending institutions, whereby those institutions participate in loans originated by the Company. These arrangements are used by the Company to manage risk associated with loans and accounts receivable that may potentially exceed funding limits. Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

**Foreclosed Assets:** Foreclosed assets consist primarily of accounts receivable and carried at the lower of cost or fair value. Losses from property obtained in partial satisfaction of debt are treated as credit losses. Gains or losses are recorded when assets are sold.

**Furniture and Equipment:** Property and equipment acquired in acquisitions is recorded at fair value. Additions are recorded at cost and stated net of accumulated depreciation. Depreciation and amortization are provided using the straight-line method over the estimated lives of the assets, which is generally three to five years for equipment and ten years for furniture and fixtures.

**Debt issuance costs:** Costs incurred in connection with the placement of the revolving credit facility have been capitalized and recorded as a reduction to the note payable on the balance sheets. These costs are amortized as interest expense over the life of the facility using the effective interest method or straight line method if it approximates the effective interest method.

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

**Impairment of long-lived assets:** The Company reviews long-lived assets, including furniture and equipment and intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. An impairment loss would be recognized when undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount. No impairments have occurred to date.

**Goodwill:** Goodwill represents the excess of consideration paid for an acquired business over the fair value of the related assets acquired and liabilities assumed. Goodwill arose from the acquisition of the Company on October 20, 2017 and Summit (Note 2). The Company is required to assess its goodwill for impairment annually, or more frequently if events or changes in circumstances indicate impairment may have occurred.

The Company assesses goodwill for impairment by comparing the carrying value of the Company to its fair value. If the fair value were less than the carrying value, an impairment loss would be recorded for the difference between the fair value and carrying value. For the years ended December 31, 2019 and 2018, there was no impairment.

**Income taxes:** No provision has been made for income taxes, if any, as these are the obligation of the members. The Company files income tax returns as a partnership in the U.S. federal jurisdiction and in various state jurisdictions.

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%. 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% 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.

**Interest rate risk:** Inherent in the Company's principal business activities is the potential for the Company to assume interest rate risks that result from differences in the maturities and re-pricing characteristics of certain assets and liabilities.

**Use of estimates:** The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) 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 consolidated financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ materially from those estimates.

**Leases:** The Company recognizes and measures its leases in accordance with FASB ASC 842, *Leases*. The Company elected the package of practical expedient which allows the entity to not assess whether any expired or existing contracts are on certain leases, the lease classification for any expired leases or existing leases, or initial direct cost for any existing leases. The Company is a lessee in several non-cancellable operating leases for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a right of use (ROU) asset and a lease liability asset, initially and subsequently, based on the present value of its future lease payments. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The implicit rates of the Company's leases are not readily determinable and accordingly, the Company uses an incremental borrowing rate based on the information available at the commencement date for all leases. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The Company used a weighted average discount rate of 5% and the weighted average remaining lease terms is 3.0 years. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepared (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. The Company adopted this standard for the 2019 financial statements. The impact of the adoption resulted in an increase to the Company's operating lease assets and liabilities on January 1, 2019 of \$940,446. The implementation did not have a material impact on the Company's consolidated statements of operations and statements of cash flow.

**Subsequent events:** The Company has evaluated its subsequent events (events occurring after December 31, 2019) through February 18, 2020, which represents the date the consolidated financial statements were available to be issued, and determined that there were no material subsequent events requiring adjustment to, or disclosure in the consolidated financial statements for the year ended December 31, 2019.

**Recent Accounting Pronouncement:** In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statements of operations as the amounts expected to be collected change. In October 2019, the FASB voted to defer the effective date of ASU 2016-13 for public business entities not considered an accelerated filer to fiscal years beginning after December 15, 2022. The Company continues to evaluate the impact the new standard will have on the accounting for credit losses, but the Company may recognize a one-time cumulative-effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. The Company cannot yet determine the magnitude of any such one-time cumulative adjustment or of the overall impact of the new standard on its consolidated financial statements.

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

In January 2017, the FASB issued ASU2017-04, *Simplifying the Test for Goodwill Impairment* (Topic 350), which simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal year 2021, with early adoption permitted for annual or interim tests performed on testing dates after January 1, 2017. The amendments included in this ASU are to be applied prospectively. The Company does not expect implementation of this new standard to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU2018-13, *Fair Value Measurement* (Topic 820), Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, *Fair Value Measurement*, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-13 on the consolidated financial statements and disclosures.

**Note 4. Fair Value of Financial Instruments**

FASB ASC 820, *Fair Value Measurements* (“ASC 820”), establishes a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect management’s market assumptions.

These two types of inputs create the following fair value hierarchy:

*Level 1* – Quoted prices for identical instruments in active markets.

*Level 2* – Observable inputs other than quoted prices in active markets for identical assets and liabilities, such as interest rates and foreign exchange rates that are observable at commonly quoted intervals. Financial assets utilizing Level 2 inputs include currency swaps and interest rate caps.

*Level 3* – Unobservable inputs.

ASC 820 also requires that the Company disclose estimated fair values for its financial instruments. No quoted market exists for the Company’s financial instruments. Therefore, fair market estimates are based on judgments, risk characteristics of various financial instruments and other factors. Changes in these assumptions could significantly affect the estimates.

The Company estimates the carrying amounts of cash approximated its fair value as of December 31, 2019 and 2018. Since there is no liquid secondary market for the Company’s financing receivables, the Company estimated the fair value of its secured loans by comparing the average yield of the portfolio to recent issuances of similar loans. The Company has determined that the secured loans and note payable are considered level three under the fair value hierarchy described above.

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

The carrying amount and estimated fair values of the Company's financial instruments at December 31, 2019 and 2018 were as follows:

	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>	<u>Carrying Amount</u>	<u>Estimated Fair Value</u>
Financial assets:				
Cash	\$ 3,484,559	\$ 3,484,559	\$ 5,606,256	\$ 5,606,256
Finance receivables: Net of allowance	168,879,980	168,879,980	117,331,965	117,331,965
Liabilities:				
Note Payable	\$122,364,373	\$122,364,373	\$ 88,482,136	\$ 88,482,136

**Note 5. Loans and Accounts Receivable and Allowance for Credit Losses**

Loans receivable at December 31, 2019 and 2018 consist of revolving lines of credit to commercial customers that range from one to three years and are secured by accounts receivable, inventory and equipment. There are commitments to borrowers that are dependent on the borrowing base. The commitments are generally limited to 85% of the collateral being presented.

Changes in the allowance for credit losses for loans receivable and accounts receivable are as follows:

Balance, December 31, 2017	\$ 100,000
Provision for uncollectible finance receivables	11,300,000
Charge-offs	<u>(6,538,334)</u>
Balance, December 31, 2018	4,861,666
Provision for uncollectible finance receivables	1,075,000
Charge-offs	<u>(3,747,325)</u>
Balance, December 31, 2019	<u>\$ 2,189,341</u>

All balances were individually evaluated for impairment.

The Company has implemented and adheres to an internal review system and credit loss allowance methodology designed to provide for the detection of problem receivables and an adequate allowance to cover credit losses. At least quarterly, a risk rating is assigned to individual balances. Management assigns a higher risk rating when they determine that their credit exposure has increased. Management assigns these risk ratings based on a number of factors including, but not limited to, the profitability, cash flow position, tangible net worth, strength of collateral performance and coverage, the probability of a loss being realized and results of internal audits and verifications related to each specific receivable.

The Company typically classifies all loans as held to maturity. On the Acquisition Date, the acquired loans were recorded at their estimated Acquisition Date fair values. The estimated fair

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

values include consideration of discounted cash flows as well as various other factors including the type of loan and related collateral, estimated future cash flows, as well as a discount rate that reflects the Company's assessment of risk inherent in the cash flow estimates. The fair value of the loans acquired also effectively removed the Company's allowance for loan losses for such acquired loans. Loans funded subsequent to the Acquisition Date are recorded at the amount of unpaid principal, net of unearned fees, discounts and includes an allowance for loan losses.

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 in accordance with the contractual terms of the loan. Factors considered in determining impairment include payment status, collateral value and the probability of collecting payments when due. The significance of payment delays and/or shortfalls is determined on a case-by-case basis. All circumstances surrounding the loan are taken into account. Such factors include the length of the delinquency, the underlying reasons and the borrower's prior payment record. Impairment is measured on these loans on a loan-by-loan basis. Impaired loans include non-accrual loans and other loans deemed to be impaired based on the aforementioned factors.

NMC did not have any loans or accounts receivable that are non-performing, impaired, modified or past due as of December 31, 2019. NMC had a non-performing loan of \$3,738,540 as of December 31, 2018. The allowance for uncollectible finance receivables at December 31, 2018 included a specific reserve of \$3,500,000 related to the non-performing loan. The Company charged off this balance in 2019.

**Note 6. Furniture and Equipment**

Furniture and equipment consists of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Furniture and fixtures	\$ 275,011	\$ 65,412
Equipment	<u>1,585,019</u>	<u>384,943</u>
	1,860,030	450,355
Accumulated depreciation	<u>1,636,799</u>	<u>351,858</u>
	<u>\$ 223,231</u>	<u>\$ 98,497</u>

Depreciation expense was \$110,941 for the year ended December 31, 2019 and \$53,189 for the year ended December 31, 2018.

**Note 7. Note Payable**

The Company has entered into a \$160,000,000 credit facility which expires October 20, 2020. Borrowings are secured by substantially all of the Company's assets. Interest on borrowings under the facility is payable monthly and is based on the LIBOR plus an applicable margin, as defined. The interest rate is 3.94 percent as of December 31, 2019. Outstanding borrowings under the credit facility are generally limited to 85 percent of eligible receivables, less any reserves established by the bank, as defined. The Company is required to maintain specified financial ratios and to comply with other covenants. The balance outstanding under this credit facility was \$122,550,598 at December 31, 2019 and \$88,891,662 at December 31, 2018. Note payable as of December 31, 2019 and 2018 consist of the following:

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**North Mill Holdco LLC and Subsidiaries****Notes to Consolidated Financial Statements**

	<u>2019</u>	<u>2018</u>
Outstanding principal balance	\$122,550,598	\$88,891,662
Less: debt issuance costs, net of accumulated amortization of \$533,296 and \$285,000, respectively	<u>186,225</u>	<u>409,526</u>
	<u>\$122,364,373</u>	<u>\$88,482,136</u>

Total interest expense related to note payable was \$4,684,607 and \$4,748,540 for the years ended December 31, 2019 and 2018, respectively.

**Note 8. Commitments**

**Employment agreements:** The Company has entered into service agreements with certain members of management. Annual base compensation due under these agreements is included in personnel expenses in the consolidated statements of operations. The annual base compensation is subject to review and adjustment by the Company. The employees are also eligible to receive bonus compensation at the discretion of the Board of Managers. The agreements can be terminated by either the Company or the employees at any time upon written notice. Certain additional amounts may be paid to the employees, contingent upon the circumstances surrounding the termination, as defined in the service agreements.

**Operating lease:** The Company rents its office space under non-cancelable operating leases that expire through September 2024. Base rents due under the leases escalate throughout the term of the leases. These leases generally contain renewal options but the Company is not reasonably certain to exercise these options. The optionable periods are not included in determining the lease term and the associated payments under the renewal options are excluded from lease payments.

The total minimum rental commitment at December 31, 2019, is due as follows:

Years ending December 31:

2020	\$ 391,641
2021	334,247
2022	179,410
2023	97,433
2024	<u>74,443</u>
Total lease commitments	\$1,077,174
Less: interest	<u>(107,543)</u>
Present value of lease liability	<u>\$ 969,631</u>

Rent expense was \$406,571 and \$346,053 for the years ended December 31, 2019 and 2018, respectively.

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**North Mill Holdco LLC and Subsidiaries**

**Notes to Consolidated Financial Statements**

**Note 9. Related Party Transactions**

An employee of NMC provides marketing and sales services to an affiliated entity for which NMC was reimbursed \$136,400 in 2019 and \$113,200 in 2018 for these services and has been recorded as a reduction of personnel expenses.



**Report of Independent Registered Public Accounting Firm on Supplemental Information**

To the Stockholders and Board of Directors  
Solar Senior Capital Ltd.:

We have audited and reported separately herein on the consolidated financial statements of Solar Senior Capital Ltd. (and subsidiaries)(the Company) as of December 31, 2019 and 2018 and for each of the years in the three-year period ended December 31, 2019, and our report dated February 20, 2020 expressed an unqualified opinion on those financial statements.

We have also previously audited, in accordance with the standards of the PCAOB, the consolidated balance sheets of the Company, including consolidated schedules of investments, as of December 31, 2017, 2016, 2015, 2014, 2013, 2012, 2011, and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years ended December 31, 2016, 2015, 2014, 2013, 2012, 2011, and 2010 (none of which is presented herein), and we expressed unqualified opinions on these consolidated financial statements.

The senior securities table included in Part II, Item 7 of the Annual Report on Form 10-K of the Company for the year ended December 31, 2019, under the caption "Senior Securities" (the Senior Securities Table) has been subjected to audit procedures performed in conjunction with the audit of the Company's consolidated financial statements. The Senior Securities Table is the responsibility of the Company's management. Our audit procedures included determining whether the Senior Securities Table reconciles to the respective consolidated financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Senior Securities Table. In forming our opinion on the Senior Securities Table, we evaluated whether the Senior Securities Table, including its form and content, is presented in conformity with the instructions to Form N-2. In our opinion, the Senior Securities Table is fairly stated, in all material respects, in relation to the respective consolidated financial statements as a whole.

*/s/ KPMG LLP*

New York, New York  
February 20, 2020