

Solar Senior Capital Ltd.
Form 10-Q
November 01, 2012
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter Ended September 30, 2012

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

SOLAR SENIOR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

Maryland
(State or Incorporation)

27-4288022
(I.R.S. Employer

Identification No.)

500 Park Avenue

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

10022
(Zip Code)

(212) 993-1670

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of October 31, 2012 was 9,500,100.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Consolidated Statements of Assets and Liabilities as of September 30, 2012 (unaudited) and December 31, 2011</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2012 (unaudited), the three months ended September 30, 2011 (unaudited) and the period from January 28, 2011 (commencement of operations) through September 30, 2011 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2012 (unaudited) and the period from January 28, 2011 (commencement of operations) through December 31, 2011</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2012 (unaudited) and the period from January 28, 2011 (commencement of operations) through September 30, 2011 (unaudited)</u>	6
<u>Consolidated Schedule of Investments as of September 30, 2012 (unaudited)</u>	7
<u>Consolidated Schedule of Investments as of December 31, 2011</u>	9
<u>Notes to Consolidated Financial Statements (unaudited)</u>	11
<u>Report of Independent Registered Public Accounting Firm</u>	23
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	24
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	33
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	34
Item 1A. <u>Risk Factors</u>	34
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	34
Item 3. <u>Defaults upon Senior Securities</u>	34
Item 4. <u>Mine Safety Disclosures</u>	34
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	35
<u>Signatures</u>	36

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES****(in thousands, except shares)**

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Non-controlled, non-affiliated investments, at fair value (cost: \$233,680 and \$180,023, respectively)	\$ 234,951	\$ 177,749
Cash and cash equivalents	3,631	2,934
Receivable for investments sold	5,018	4,931
Interest receivable	1,446	1,687
Deferred offering costs	89	
Prepaid expenses and other receivables	24	94
Total Assets	245,159	187,395
Liabilities		
Credit facility payable, at fair value (cost: \$55,900 and \$8,600, respectively)	55,900	8,600
Payable for investments purchased	9,925	4,912
Dividends payable	1,121	
Investment advisory and management fee payable	594	944
Accrued performance-based incentive fees	331	
Administrative service fees payable	270	141
Other accrued expenses and payables	320	363
Total Liabilities	68,461	14,960
Net Assets		
Common stock, par value \$0.01 per share, 9,500,100 and 9,500,100 shares issued and outstanding, respectively, 200,000,000 authorized	95	95
Paid-in capital in excess of par	177,827	177,815
Distributions in excess of net investment income	(2,463)	(2,625)
Accumulated net realized loss on investments	(32)	(576)
Net unrealized appreciation (depreciation) on investments	1,271	(2,274)
Total Net Assets	\$ 176,698	\$ 172,435
Number of shares outstanding	9,500,100	9,500,100
Net Asset Value Per Share	\$ 18.60	\$ 18.15

See notes to the consolidated financial statements.

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

(in thousands, except shares)

	For the three months ended September 30, 2012	For the three months ended September 30, 2011	For the nine months ended September 30, 2012	For the period January 28, 2011 ⁽¹⁾ to September 30, 2011
INVESTMENT INCOME ⁽²⁾:				
Interest income	\$ 4,890	\$ 2,874	\$ 14,398	\$ 4,336
EXPENSES:				
Investment advisory and management fees	594	334	1,635	490
Interest and other credit facility expenses	407	52	1,046	
Performance-based incentive fees	244	(64)	743	
Administrative service fee	170	87	660	206
Insurance expense	102	101	301	242
Other general and administrative expenses	372	234	892	594
Total expenses before debt issuance costs	1,889	744	5,277	1,532
Debt issuance costs		2,774	53	2,774
Total expenses	1,889	3,518	5,330	4,306
Net investment income	3,001	(644)	9,068	30
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS ⁽²⁾:				
Net realized gain	143	89	544	89
Net change in unrealized gain (loss)	663	(4,933)	3,545	(4,615)
Net realized and unrealized gain (loss) on investments	806	(4,844)	4,089	(4,526)
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	\$ 3,807	\$ (5,488)	\$ 13,157	\$ (4,496)
Earnings (loss) per share	\$ 0.40	\$ (0.58)	\$ 1.38	\$ (0.54)

⁽¹⁾ Commencement of operations⁽²⁾ From non-controlled, non-affiliated investments

See notes to the consolidated financial statements.

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

(in thousands, except shares)

	For the nine months ended September 30, 2012 (unaudited)	For the period January 28, 2011 ⁽¹⁾ to December 31, 2011
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$ 9,068	\$ 2,600
Net realized gain (loss) on investments	544	(576)
Net change in unrealized gain (loss) on investments	3,545	(2,274)
Net increase (decrease) in net assets resulting from operations	13,157	(250)
Dividends to shareholders	(8,906)	(5,225)
Capital share transactions:		
Proceeds from shares sold		190,002
Common stock offering costs and other	12	(12,092)
Net increase in net assets resulting from capital share transactions	12	177,910
Net increase in net assets	4,263	172,435
Net assets at beginning of period	172,435	
Net assets at end of period	\$ 176,698	\$ 172,435

(1) Commencement of operations

See notes to the consolidated financial statements.

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

(in thousands except shares)

	For the nine months ended September 30, 2012	For the period January 28, 2011 ⁽¹⁾ to September 30, 2011
Cash Flows from Operating Activities:		
Net increase (decrease) in net assets from operations	\$ 13,157	\$ (4,496)
Adjustments to reconcile net increase in net assets from operations to net cash used in operating activities:		
Net realized (gain) on investments	(544)	(89)
Net change in unrealized (gain) loss on investments	(3,545)	4,615
Debt issuance costs	53	2,774
(Increase) decrease in operating assets:		
Purchase of investment securities	(134,825)	(152,524)
Proceeds from disposition of investment securities	81,712	9,586
Receivable for investments sold	(87)	(1,990)
Deferred offering costs	(89)	
Interest receivable	241	(1,244)
Prepaid expenses and other receivables	70	(156)
Increase (decrease) in operating liabilities:		
Payable for investments purchased	5,013	4,700
Investment advisory and management fee payable	(350)	490
Accrued performance-based incentive fees	331	
Administrative service fees payable	129	115
Debt issuance costs payable		300
Offering costs payable		222
Other accrued expenses and payables	(43)	362
Net Cash Used in Operating Activities	(38,777)	(137,535)
Cash Flows from Financing Activities:		
Proceeds from shares sold		190,002
Common stock offering costs and other	12	(12,111)
Dividends paid	(7,785)	(1,900)
Debt issuance costs	(53)	(2,774)
Proceeds from borrowings	99,583	
Repayments of borrowings	(52,283)	
Net Cash Provided by Financing Activities	39,474	173,217
NET INCREASE IN CASH AND CASH EQUIVALENTS	697	35,882
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,934	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 3,631	\$ 35,882
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 645	\$
Cash paid for income taxes	\$ 99	\$

(1) Commencement of operations

See notes to the consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)**

September 30, 2012

(in thousands, except shares)

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Basis Point Spread Above Index ⁽⁵⁾	Maturity	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Investments 129.0%							
AmeriQual Group, LLC	Food Products	6.50%	L+500	3/28/2016	\$ 12,522	\$ 12,382	\$ 12,084
Amwins Group, LLC	Insurance	9.25%	L+800	12/6/2019	2,500	2,452	2,500
ATI Holdings, Inc. ⁽⁶⁾	Healthcare, Education & Childcare	7.50%	L+550	3/12/2016	12,933	12,879	12,804
Attachmate Corporation ⁽⁴⁾	Software	7.25%	L+575	11/22/2017	11,775	11,556	11,896
Asurion, LLC	Insurance	9.00%	L+750	5/24/2019	4,793	4,758	4,972
Bellisio Foods, Inc. ⁽⁴⁾	Food Products	7.00%	L+550	12/16/2017	4,740	4,698	4,740
BJ's Wholesale Club, Inc.	Food & Staples Retailing	9.75%	L+850	3/26/2020	5,000	4,950	4,950
Catapult Learning LLC ⁽⁶⁾	Education Services	7.50%	L+600	4/5/2017	3,950	3,887	3,812
Citadel Plastics Holdings, Inc. ⁽⁴⁾	Chemicals, Plastics & Rubber	6.75%	L+525	2/28/2018	4,988	4,942	4,988
EIG Investors Corp. ⁽⁴⁾	Internet Software & Services	7.75%	L+625	12/22/2017	11,970	11,859	12,030
EIG Investors Corp. 2nd lien	Internet Software & Services	11.00%	L+950	10/22/2018	4,000	3,922	4,000
Engineering Solutions & Products, LLC	Aerospace & Defense	7.75%	L+625	4/21/2017	10,264	9,970	8,211
FleetPride Corporation ⁽⁴⁾	Cargo Transport	6.75%	L+550	12/6/2017	9,950	9,805	9,950
Grocery Outlet Inc.	Grocery	10.50%	L+900	12/15/2017	6,304	6,135	6,336
Hoffmaster Group, Inc. ⁽⁴⁾	Paper & Forest Products	6.50%	L+525	1/3/2018	3,000	2,972	2,970
Hoffmaster Group, Inc. 2nd Lien	Paper & Forest Products	10.25%	L+900	1/3/2019	4,963	4,939	4,938
Insight Pharmaceuticals LLC ⁽⁴⁾	Personal & Nondurable Consumer Products	7.50%	L+600	8/26/2016	7,920	7,824	7,920
KIK Custom Products, Inc.	Diversified / Conglomerate Service	8.50%	L+700	5/31/2014	14,762	14,505	14,762
Landslide Holdings, Inc. ⁽⁴⁾	Software	7.00%	L+575	6/19/2018	4,938	4,845	4,938
Marshall Retail Group, LLC ⁽⁶⁾	Specialty Retail	8.00%	L+650	10/19/2016	4,812	4,752	4,812
National Vision, Inc. ⁽⁶⁾	Specialty Retail	7.00%	L+575	8/2/2018	10,000	9,856	10,000
Porex Corporation ⁽⁶⁾	Chemicals, Plastics & Rubber	6.75%	L+525	3/31/2015	4,500	4,453	4,500
Renaissance Learning, Inc. ⁽⁶⁾	Education Services	7.75%	L+625	10/19/2017	7,920	7,646	7,920
Shield Finance Co. SARL ^(3,6,7)	IT Services	6.50%	L+525	6/15/2016	9,975	9,833	9,975
Shoes for Crews, Inc. ⁽⁶⁾	Textiles & Leather	6.50%	L+500	3/27/2017	4,815	4,804	4,815
Six3 Systems, Inc. ⁽⁶⁾	Aerospace & Defense	6.00%	L+400	12/31/2014	9,639	9,558	9,639
Smart Balance, Inc. ⁽⁴⁾	Food Products	7.00%	L+575	7/2/2018	3,990	3,913	3,990
Sotera Defense Solutions, Inc.	Aerospace & Defense	7.00%	L+550	4/22/2017	7,900	7,837	7,821
SLT Environmental, Inc. ⁽⁶⁾	Chemicals, Plastics & Rubber	7.00%	L+550	5/27/2016	9,975	9,862	9,875
T&D Solutions	Utilities	13.00%		1/29/2015	3,491	3,491	3,491
Things Remembered, Inc. ⁽⁶⁾	Specialty Retail	8.00%	L+650	5/24/2018	9,000	8,830	8,910
Water Pik, Inc. ⁽⁶⁾	Personal & Nondurable Consumer Products	6.75%	L+525	8/10/2017	3,443	3,414	3,443
Total Bank Debt/Senior Secured Investments					\$ 230,732	\$ 227,529	\$ 227,992
Unsecured Bank Debt/Bonds 4.0%							
Apollo Investment Corporation ⁽⁷⁾	Finance	5.75%		1/15/2016	3,650	3,235	3,759
Asurion Holdco ⁽⁸⁾	Insurance	11.00%	L+950	3/2/2019	3,000	2,916	3,200
Unsecured Bank Debt/Bonds					\$ 6,650	\$ 6,151	\$ 6,959
Total Investments ⁽⁹⁾ 133.0%					\$ 237,382	\$ 233,680	\$ 234,951 (58,253)

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

Liabilities in Excess of Other

Assets (33.0%)

Net Assets 100.0%

\$ 176,698

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act. As of September 30, 2012, we do not hold any equity interests in our investments.
- (2) Variable rate debt investments may bear interest at a rate determined by reference to either the London Interbank Offer Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of September 30, 2012. As of September 30, 2012 all investments are paying cash interest.
- (3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars. All other investments are domiciled in the United States.
- (4) Indicates an investment partially held by Solar Senior Capital Ltd. through its wholly-owned subsidiary SUNS SPV LLC. Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 5 to the consolidated financial statements) and are not generally available to the creditors, if any, of Solar Senior Capital Ltd. Par amounts held through SUNS SPV LLC include: Attachmate Corporation \$9,813; Bellisio Foods, Inc. \$3,792; Citadel Plastics Holdings, Inc. \$3,990; EIG Investors Corp. \$5,985; FleetPride Corporation \$6,965; Hoffmaster Group, Inc. \$3,970; Insight Pharmaceuticals LLC \$5,459; Landslide Holdings, Inc. \$1,975; and Smart Balance, Inc. \$1,995. Remaining par balances are held directly by Solar Senior Capital Ltd.
- (5) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (6) Indicates an investment held by Solar Senior Capital Ltd. through its wholly-owned subsidiary SUNS SPV LLC. (See Note 4 above for further explanation.)
- (7) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (8) Asurion Holdco has the option to pay interest in kind at L+1025 if certain specified conditions are met.
- (9) Aggregate gross unrealized appreciation for federal income tax purposes is \$1,310; aggregate gross unrealized depreciation for federal tax purposes is \$3,132. Net unrealized depreciation is \$1,822 based on a tax cost of \$236,773.

See notes to the consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

September 30, 2012

(unaudited)

Industry Classification	Percentage of Total Investments (at fair value)
Aerospace & Defense	11%
Specialty Retail	10%
Food Products	9%
Chemicals, Plastics & Rubber	9%
Software	7%
Internet Software & Services	7%
Diversified / Conglomerate Service	6%
Education Services	5%
Healthcare, Education & Childcare	5%
Insurance	5%
Personal & Nondurable Consumer Products	5%
Cargo Transport	4%
IT Services	4%
Paper & Forest Products	3%
Grocery	3%
Textiles & Leather	2%
Finance	2%
Food & Staples Retailing	2%
Utilities	1%
	100%

See notes to the consolidated financial statements.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2011****(in thousands, except shares)**

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Basis Point Spread		Maturity	Par Amount	Cost	Fair Value
			Above Index					
Bank Debt/Senior Secured Investments 101.3%								
AmeriQual Group, LLC	Beverage, Food & Tobacco	6.50%	L+500 ⁽⁵⁾		3/28/2016	\$ 13,670	\$ 13,494	\$ 12,646
ATI Holdings, Inc. ⁽⁴⁾	Healthcare, Education & Childcare	7.50%	L+550 ⁽⁵⁾		3/12/2016	7,983	7,947	7,942
Asurion, LLC	Insurance	9.00%	L+750 ⁽⁵⁾		5/24/2019	10,750	10,684	10,620
Bellisio Foods, Inc. ⁽⁴⁾	Beverage, Food & Tobacco	7.00%	L+550 ⁽⁵⁾		12/16/2017	5,000	4,950	4,950
Decision Resources, LLC	Healthcare, Education & Childcare	9.50%	L+800 ⁽⁵⁾		5/6/2018	16,000	15,851	15,360
EIG Investors Corp. ⁽⁴⁾	Personal, Food & Misc. Services	7.75%	L+625 ⁽⁵⁾		12/22/2017	8,000	7,841	7,840
Engineering Solutions & Products, LLC	Aerospace & Defense	7.75%	L+625 ⁽⁵⁾		4/21/2017	10,667	10,325	9,600
FleetPride Corporation ⁽⁴⁾	Cargo Transport	6.75%	L+550 ⁽⁵⁾		12/6/2017	8,000	7,842	7,920
Grocery Outlet Inc.	Grocery	10.50%	L+900 ⁽⁵⁾		12/15/2017	6,400	6,209	6,208
Hearthside Food Solutions, LLC ⁽⁴⁾	Beverage, Food & Tobacco	8.00%	P+475 ⁽⁵⁾		5/10/2016	18,884	18,456	18,601
Hoffmaster Group, Inc. ⁽⁴⁾	Personal & Nondurable Consumer Products	7.00%	L+550 ⁽⁵⁾		1/3/2018	5,000	4,900	4,900
Insight Pharmaceuticals LLC ⁽⁴⁾	Personal & Nondurable Consumer Products	7.50%	L+600 ⁽⁵⁾		8/26/2016	7,980	7,867	7,860
KIK Custom Products, Inc.	Diversified / Conglomerate Service	8.50%	L+700 ⁽⁵⁾		5/31/2014	19,900	19,408	19,303
Marshall Retail Group, LLC ⁽⁴⁾	Retail Stores	8.00%	L+650 ⁽⁵⁾		10/19/2016	5,000	4,928	4,950
Porex Corporation ⁽⁴⁾	Chemicals, Plastics & Rubber	6.75%	L+525 ⁽⁵⁾		3/31/2015	4,787	4,724	4,643
Renaissance Learning, Inc. ⁽⁴⁾	Healthcare, Education & Childcare	7.75%	L+625 ⁽⁵⁾		10/19/2017	7,980	7,669	7,820
Sotera Defense Solutions, Inc.	Aerospace & Defense	7.00%	L+550 ⁽⁵⁾		4/22/2017	7,960	7,888	7,841
Shield Finance Co. SARL ⁽³⁾⁽⁴⁾⁽⁶⁾	Telecommunications	7.63%	L+562.5 ⁽⁵⁾		6/15/2016	4,975	4,952	4,851
STHI Holding Corp.	Healthcare, Education & Childcare	8.00%			3/18/2018	3,000	3,000	3,105
Water Pik, Inc ⁽⁴⁾	Personal & Nondurable Consumer Products	6.75%	L+525 ⁽⁵⁾		8/10/2017	7,980	7,904	7,741
Total Bank Debt/Senior Secured Investments 101.3%						\$ 179,916	\$ 176,839	\$ 174,701
Unsecured Bonds 1.8%								
Apollo Investment Corporation ⁽⁶⁾	Finance	5.75%			1/15/2016	3,650	3,184	3,048
Total Unsecured Bonds 1.8%						\$ 3,650	\$ 3,184	\$ 3,048
Total Investments 103.1%						\$ 183,566	\$ 180,023	\$ 177,749
Liabilities in Excess of Other Assets (3.1%)								(5,314)
Net Assets 100.0%								\$ 172,435

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act. As of December 31, 2011, we do not hold any equity interests in our investments.

(2) Variable rate debt investments may bear interest at a rate determined by reference to either the London Interbank Offer Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which may reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

in effect as of December 31, 2011 or the expected reset rate if lower. As of December 31, 2011 all investments are paying cash interest.

- (3) Shield Finance Co. SARL is domiciled in Luxembourg and is denominated in U.S. dollars. All other investments are domiciled in the United States.
- (4) Indicates an investment partially held by Solar Senior Capital Ltd. through its wholly-owned subsidiary SUNS SPV LLC. Such investments are pledged as collateral under the Senior Secured Revolving Credit Facility (see Note 5 to the consolidated financial statements) and are not generally available to the creditors of Solar Senior Capital Ltd. Par amounts held through Solar SPV LLC include: ATI Holdings, Inc. \$5,495; Bellisio Foods, Inc. \$4,000; EIG Investors Corp. \$6,000; FleetPride Corporation \$5,000; Hearthsides Food Solutions LLC \$7,337; Hoffmaster Group, Inc. \$4,000; Insight Pharmaceutical LLC \$5,500; Marshall Retail Group, LLC \$4,000; Porex Corporation \$2,909; Renaissance Learning, Inc \$5,985; Shield Finance Co. SARL \$3,990; and Water Pik, Inc. \$5,500. Remaining par balances are held directly by Solar Senior Capital Ltd.
- (5) Represents floating rate instruments that accrued interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are subject to a LIBOR or PRIME rate floor.
- (6) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.

See notes to the consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2011

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2011
Beverage, Food & Tobacco	20%
Healthcare, Education & Childcare	19%
Personal & Nondurable Consumer Products	12%
Diversified / Conglomerate Service	11%
Aerospace & Defense	10%
Insurance	6%
Cargo Transport	4%
Personal, Food & Misc. Services	4%
Grocery	3%
Retail Stores	3%
Telecommunications	3%
Chemicals, Plastics & Rubber	3%
Finance	2%
	100%

See notes to the consolidated financial statements.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

Note 1. Organization

Solar Senior Capital Ltd. (Solar Senior or the Company), a Maryland corporation formed on December 16, 2010, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). In addition, for tax purposes the Company intends to be treated 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, at a price of \$20.00 per share. Concurrent with this offering, management purchased an additional 500,000 shares through a private placement, also at \$20.00 per share.

Solar Senior invests primarily in U.S. middle-market companies, where the Company believes the supply of primary capital is limited and the investment opportunities are the most attractive. The Company s investment objective is to seek to maximize current income consistent with the preservation of capital. The Company seeks to achieve its investment objective by investing primarily in senior secured loans, including first lien, unitranche and second lien debt instruments, made primarily to private middle-market companies whose debt is rated below investment grade, which the Company refers to collectively as senior loans. The Company may also invest in debt of public companies that are thinly traded. Under normal market conditions, at least 80% of the value of the Company s net assets will be invested in senior loans.

Note 2. Significant Accounting Policies

Basis of Presentation The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of the Company and its wholly-owned financing subsidiary, SUNS SPV LLC (the SPV), a Delaware limited liability company formed on June 24, 2011, in order to establish a senior secured revolving credit facility (the Credit Facility). 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 have been reclassified to conform to current year presentation.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2012.

Investments 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 under the 1940 Act. Securities transactions are accounted for on trade date.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

Securities 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 security. If determined reliable, the Company uses the quote obtained.

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

The recommendation of fair value will generally consider one or more of the following factors, as relevant: the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flow; the markets in which the issuer does business; and yield comparisons to publicly traded securities and indices.

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

Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

Credit Facility The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with Accounting Standards Codification (ASC) 825-10. The Company uses an independent third-party valuation firm to assist in measuring the fair value of our Credit Facility.

Cash and Cash Equivalents Cash and cash equivalents include investments in money market accounts or investments with original maturities of three months or less.

Revenue Recognition The Company's revenue recognition policies are as follows:

Sales: Gains or losses on the sale of investments are calculated by using the specific identification method.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

Interest Income: Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as part of interest income. The Company may purchase loans in its portfolio that contain a payment-in-kind (PIK) provision. PIK interest is accrued at the contractual rates and added to the loan principal on the payment/recapitalization dates.

Non-accrual: Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

U.S. Federal Income Taxes The Company intends to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, intends to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, the Company may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company estimates current year annual taxable income will be in excess of estimated current year dividend distributions, the Company may accrue an excise tax, if probable and measurable, on estimated excess taxable income as it is earned.

The Company evaluates tax positions taken or expected to be taken in the course of preparing its financial statements to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are reversed and recorded as a tax benefit or expense in the current year. All penalties and interest associated with income taxes would be included in income tax expense, if any. Conclusions regarding tax positions are subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. The Company did not have any uncertain tax positions that met the recognition or measurement criteria of the guidance nor did the Company have any unrecognized tax benefits as of the periods presented herein.

Capital Accounts Certain capital accounts including undistributed net investment income or distributions in excess of net investment income, accumulated net realized gain or loss, net unrealized appreciation or depreciation on investments, and paid in capital in excess of par, are adjusted, at least annually, for permanent differences between book and tax. Such adjustments do not impact net asset value or earnings per share. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)**

Dividends Dividends and distributions to common stockholders are recorded on the ex-dividend date. Monthly dividend payments are determined by the Board and are generally based upon taxable earnings estimated by management. Net realized capital gains, if any, are typically distributed at least annually, although the Company may decide to retain such capital gains for investment. The Company has adopted a dividend

reinvestment plan that provides for reinvestment of any distributions the Company declares in cash on behalf of its stockholders, unless a stockholder elects to receive cash. As a result, if the Board authorizes and declares a cash dividend, then the Company's stockholders who have not opted out of the dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of its common stock, rather than receiving the cash dividend. While the Company can use newly issued shares to implement the plan, the Company may purchase shares in the open market in connection with its obligations under the dividend reinvestment plan.

Deferred Offering Costs The Company records expenses related to shelf registration statement filings and other applicable offering costs as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with the ASC 946-20-25.

Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

Subsequent Events Evaluation The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued and determined that none are required.

Note 3. Investments

Investments consisted of the following as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Investments	\$ 227,529	\$ 227,992	\$ 176,839	\$ 174,701
Unsecured Bank Debt/Bonds	6,151	6,959	3,184	3,048
Total	\$ 233,680	\$ 234,951	\$ 180,023	\$ 177,749

There were no non-accrual assets as of September 30, 2012 or December 31, 2011.

Note 4. Agreements

Solar Senior has an Investment Advisory and Management Agreement with the Investment Adviser, under which the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, Solar Senior. For providing these services, the Investment Adviser receives a fee from Solar Senior, consisting of two components—a base management fee and an incentive fee. The base management fee

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

is calculated at an annual rate of 1.00% of gross assets. For services rendered under the Investment Advisory and Management Agreement, the base management fee is payable quarterly in arrears. The base management fee is

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

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 is appropriately pro-rated.

The incentive fee has two parts, as follows: one is calculated and payable quarterly in arrears based on our pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (other than fees for providing managerial assistance) accrued during the calendar quarter, minus our operating expenses for the quarter (excluding the incentive fee). Pre-incentive fee net investment income includes, in the case of investments 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). The Company pays the Investment Adviser an incentive fee with respect to pre-incentive fee net investment income in each calendar quarter as follows:

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

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

and

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

For the quarter ended September 30, 2012, the pre-incentive net investment income was above the hurdle and \$84 was accrued for the related incentive fee.

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 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 on a cumulative basis and gross unrealized capital depreciation, less the aggregate amount of any previously paid capital gain incentive fees. For financial statement presentation purposes only, a fee is accrued to include unrealized capital appreciation. As of September 30, 2012, the Company has recorded \$247 as an accrued capital gains based incentive fee.

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

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

Note 5. Borrowing Facilities

Senior Secured Revolving Credit Facility On August 26, 2011, the Company established a \$200 million senior secured revolving credit facility with Citigroup Global Markets Inc. acting as administrative agent. In connection with this senior secured revolving credit facility, the SPV, as borrower, entered into a Loan and Servicing Agreement, dated as of August 26, 2011 (the Loan and Servicing Agreement), whereby the Company transferred certain loans it has originated or acquired or will originate or acquire (the Loans) from time to time to the SPV via a Contribution Agreement, dated as of August 26, 2011 (the Contribution Agreement). The Contribution Agreement, together with the Loan and Servicing Agreement and various supporting documentation form the Credit Facility.

The Credit Facility, among other things, matures on August 26, 2016 and generally bears interest at a rate of LIBOR plus 2.25%. Under the Credit Facility, \$150 million will be available initially with an additional \$50 million available as a delayed draw. The Credit Facility can also be expanded up to \$600 million. The Credit Facility is secured by all of the assets held by the SPV. Under the Credit Facility, the Company and the 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 includes usual and customary events of default for credit facilities of this nature.

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. Accounting for the Credit Facility at fair value will better align the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. As a result of this election \$2,848 of costs related to the establishment of the Credit Facility was expensed rather than being deferred and amortized over the life of the Credit Facility. ASC 825-10 requires entities to record the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility are reported in the Consolidated Statement of Operations. For the three and nine months ended September 30, 2012, the Credit Facility had no net change in unrealized (appreciation) depreciation.

The weighted average annualized interest cost for all borrowings for the nine months ended September 30, 2012 was 2.55% under the Credit Facility. The average debt outstanding for the nine months ended September 30, 2012 was \$36,671. The maximum amount borrowed on the Credit Facility during the nine months ended September 30, 2012 and for the period from January 28, 2011 to December 31, 2011 was \$74,500 and \$12,650, respectively. There was \$55,900 and \$8,600 drawn on the Credit Facility as of September 30, 2012 and December 31, 2011, respectively. At September 30, 2012 and December 31, 2011, the Company was in compliance with all financial and operational covenants required by the Credit Facility.

Table of Contents

SOLAR SENIOR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2012

(in thousands, except shares)

(unaudited)

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 (examples include active exchange-traded equity securities, exchange-traded derivatives, and most U.S. Government and agency securities).

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 (examples include corporate and municipal bonds, which trade infrequently);
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain of our private debt investments and our Credit Facility) and long-dated or complex derivatives (including certain equity and currency derivatives).

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore gains and losses for such assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Levels 1 and 2 financial instruments entered into by the Company that economically hedge certain exposures to the Level 3 positions.

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)**

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2012 and December 31, 2011:

Fair Value Measurements**As of September 30, 2012**

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 16,868	\$ 211,124	\$ 227,992
Unsecured Bank Debt/Bonds		6,959		6,959
Total Investments	\$	\$ 23,827	\$ 211,124	\$ 234,951
Liabilities:				
Credit Facility	\$	\$	\$ 55,900	\$ 55,900

Fair Value Measurements**As of December 31, 2011**

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 13,725	\$ 160,976	\$ 174,701
Unsecured Bonds		3,048		3,048
Total Investments	\$	\$ 16,773	\$ 160,976	\$ 177,749
Liabilities:				
Credit Facility	\$	\$	\$ 8,600	\$ 8,600

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)**

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the nine months ended September 30, 2012 and for the period from January 28, 2011 to December 31, 2011, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2012 and December 31, 2011:

Fair Value Measurements Using Level 3 Inputs**As of September 30, 2012**

	Bank Debt/Senior Secured Loans
Fair value, December 31, 2011	\$ 160,976
Total gains or losses included in earnings:	
Net realized gain	544
Net change in unrealized gain	2,152
Purchase of investment securities	113,405
Dispositions of investment securities	(65,953)
Transfers in/out of Level 3	
Fair value, September 30, 2012	\$ 211,124
Unrealized gains 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:	\$ 1,628

During the nine month period ended September 30, 2012, there were no transfers in and out of Levels 1, 2, or 3. The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the period.

Fair Value Measurements Using Level 3 Inputs**As of December 31, 2011**

	Bank Debt/Senior Secured Loans
Fair value, January 28, 2011	\$
Total gains or losses included in earnings:	
Net realized gain	415

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

Net change in unrealized gain (loss)		(2,179)
Purchase of investment securities		176,895
Proceeds from dispositions of investment securities		(14,155)
Transfers in/out of Level 3		
Fair value, December 31, 2011	\$	160,976
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 loss:	\$	(2,179)

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)**

During the period from January 28, 2011 to December 31, 2011, there were no transfers in and out of Levels 1, 2, or 3.

The following tables show a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the nine months ended September 30, 2012 and for the period January 28, 2011 to December 31, 2011:

Credit Facility	For the nine months ended September 30, 2012	For the period January 28, 2011 ⁽¹⁾ to December 31, 2011
Beginning fair value	\$ 8,600	\$
Total unrealized appreciation		
Borrowings	99,583	20,450
Repayments	(52,283)	(11,850)
Transfers in/out of Level 3		
Ending fair value	\$ 55,900	\$ 8,600

(1) Commencement of operations

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. On September 30, 2012 and December 31, 2011, there were borrowings of \$55,900 and \$8,600, respectively, on the Credit Facility. For the nine months ended September 30, 2012 and for the period January 28, 2011 to December 31, 2011, the Credit Facility had no net change in unrealized (appreciation) depreciation. The Company uses an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility.

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 as indicated by market comparable assets and liabilities, including indices, comparable market transactions, and readily available quotes from brokers, dealers, and pricing services. Quantitative information about the Company's Level 3 asset and liability fair value measurements as of September 30, 2012 is summarized on the following table:

Quantitative Information about Level 3 Fair Value Measurements

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

	Asset or Liability	Fair Value at September 30, 2012	Valuation Techniques/ Methodology	Unobservable Input	Range (Weighted Average)
Secured & Unsecured Bank Debt/Bonds	Asset	\$ 211,124	Yield Analysis/Market Approach	Market Yields	6.1% - 14.7% (8.1%)
Credit Facility	Liability	(\$ 55,900)	Yield Analysis/Market Approach	Market Yields	L+0.5% - L+5.5% (L+2.7%)

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)**

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.

Note 7. Earnings Per Share

The following information sets forth the computation of basic and diluted earnings per share, pursuant to ASC 260-10, for the three and nine months ended September 30, 2012 and for the three months ended September 30, 2011 and the period January 28, 2011 to September 30, 2011:

	Three months ended September 30, 2012	Three months ended September 30, 2011	For the nine months ended September 30, 2012	For the period January 28, 2011 ⁽¹⁾ to September 30, 2011
Numerator for basic and diluted increase in net assets per share:	\$ 3,807	\$ (5,488)	\$ 13,157	\$ (4,496)
Denominator for basic and diluted weighted average share:	9,500,100	9,500,100	9,500,100	8,300,100
Basic and diluted earnings per share:	\$ 0.40	\$ (0.58)	\$ 1.38	\$ (0.54)

(1) Commencement of operations

Table of Contents**SOLAR SENIOR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****September 30, 2012****(in thousands, except shares)****(unaudited)****Note 8. Financial Highlights**

The following is a schedule of financial highlights for the nine months ended September 30, 2012 and for the period from January 28, 2011 to December 31, 2011:

	Nine months ended September 30, 2012	For the period January 28, 2011 ^(a) to December 31, 2011
Per Share Data: ^(b)		
Net asset value, beginning of period	\$ 18.15	\$
Net investment income	0.95	0.30
Net realized and unrealized gain (loss) on investments	0.43	(0.33)
Net increase (decrease) in net assets resulting from operations	1.38	(0.03)
Issuance of common stock		20.00
Offering costs		(1.27)
Dividends to shareholders declared	(0.93)	(0.55)
Net asset value, end of period	\$ 18.60	\$ 18.15
Total return ^(c,d)	20.14%	(18.49)%
Net assets, end of period	\$ 176,698	\$ 172,435
Per share market value at end of period	\$ 17.91	\$ 15.75
Shares outstanding end of period	9,500,100	9,500,100
Ratio to average net assets ^(d) :		
Expenses without incentive fees	2.63%	3.08%
Incentive fees	0.43%	0.00%
Total expenses	3.05%	3.08%
Net investment income	5.19%	1.51%
Portfolio turnover ratio	39.37%	36.96%

(a) Commencement of operations

(b) Calculated using the average shares outstanding method

(c)

Edgar Filing: Solar Senior Capital Ltd. - Form 10-Q

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

- (d) Not annualized for periods less than one year

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Senior Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd. (the Company) as of September 30, 2012, and the consolidated statements of operations for the three and nine month periods ended September 30, 2012, the three month period ended September 30, 2011, and the period from January 28, 2011 (commencement of operations) to September 30, 2011, the consolidated statement of changes in net assets for the nine month period ended September 30, 2012, and the statements of cash flows for the nine months ended September 30, 2012 and the period from January 28, 2011 (commencement of operations) to September 30, 2011. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial accounting and reporting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Senior Capital Ltd. as of December 31, 2011 and the related consolidated statement of changes in net assets for the period from January 28, 2011 (commencement of operations) to December 31, 2011, and we expressed an unqualified opinion on them in our report dated February 22, 2012.

/s/ KPMG LLP

New York, New York

November 1, 2012

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this report.

Overview

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

On February 24, 2011, we priced our initial public offering, selling 9.0 million shares, including the underwriters' over-allotment, at a price of \$20.00 per share. Concurrent with this offering, management purchased an additional 500,000 shares through a private placement transaction exempt from registration under the Securities Act of 1933, as amended, or the Securities Act (the Concurrent Private Placement), also at \$20.00 per share.

On August 26, 2011, we established a \$200 million senior secured revolving credit facility (the Credit Facility) with Citigroup Global Markets Inc. acting as administrative agent. In connection with the Credit Facility, our wholly-owned subsidiary, SUNS SPV LLC (the SPV) was formed. The Credit Facility matures on August 26, 2016 and generally bears interest at a rate of LIBOR plus 2.25%. Under the Credit Facility, \$150 million will be available initially with an additional \$50 million available as a delayed draw. The Credit Facility can also be expanded up to \$600 million. The Credit Facility is secured by all of the assets held by the SPV. Under the Credit Facility, Solar Senior and the 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 includes usual and customary events of default for credit facilities of this nature.

We invest primarily in U.S. middle-market companies, where we believe the supply of primary market capital is limited and the investment opportunities are highly attractive. Our investment objective is to seek to maximize current income consistent with the preservation of capital. We seek to achieve our investment objective by investing primarily in senior loans, including first lien, unitranche, and second lien debt instruments, made to private middle-market companies whose debt is rated below investment grade, which we refer to collectively as senior loans. We may also invest in debt of public companies that are thinly traded. Under normal market conditions, at least 80% of the value of our net assets (including the amount of any borrowings for investment purposes) will be invested in senior loans. Senior loans typically pay interest at rates which are determined periodically on the basis of a floating base lending rate, primarily LIBOR, plus a premium. Senior loans in which we expect to invest are typically made to U.S. and, to a limited extent, non-U.S. corporations, partnerships and other business entities which operate in various industries and geographical regions. Senior loans typically are rated below investment grade. Securities rated below investment grade are often referred to as leveraged loans or high yield securities, and may be considered high risk compared to debt instruments that are rated above investment grade.

We expect to invest in senior loans made primarily to private leveraged middle market companies with approximately \$20 million to \$100 million of EBITDA. Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. We expect that our investments will generally range between \$5 million and \$30 million each, although we expect that this investment size will vary proportionately with the size of our capital base, among other factors. 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

Table of Contents

investments may include, but are not limited to, direct investments in public companies that are not thinly traded and securities of leveraged companies located in select countries outside of the United States. We may invest up to 30% of our total assets in such opportunistic investments, including senior loans issued by non-U.S. issuers, subject to compliance with our regulatory obligations as a BDC under the 1940 Act.

As of September 30, 2012, our long term investments totaled approximately \$235.0 million and our net asset value was approximately \$176.7 million. Our portfolio was comprised of debt investments in 31 portfolio companies and our income producing assets, which represented 100% of our total portfolio, had a weighted average annualized yield on a fair value basis of approximately 8.1%.

Recent Developments

On November 1, 2012, our board of directors declared a monthly dividend of \$0.1175 per share payable on December 4, 2012 to holders of record as of November 22, 2012. We expect the dividend to be paid from taxable earnings with specific tax characteristics reported to stockholders after the end of the calendar year.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting policies (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 financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

Valuation of Portfolio Investments

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

Securities for which market quotations are readily available on an exchange are valued at the closing price on the valuation date. We may also obtain quotes with respect to certain of our investments from pricing services or brokers or dealers in order to value assets. When doing so, we determine whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined reliable, we use the quote obtained.

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

The recommendation of fair value will generally consider one or more of the following factors, as relevant: the nature and realizable value of any collateral; the portfolio company's ability to make payments; the portfolio company's earnings and discounted cash flow; the markets in which the issuer does business; and yield comparisons to publicly traded securities and indices.

Table of Contents

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

private placements and restricted securities that do not have an active trading market;

securities whose trading has been suspended or for which market quotes are no longer available;

debt securities that have recently gone into default and for which there is no current market;

securities whose prices are stale;

securities affected by significant events; and

securities that the Investment Adviser believes were priced incorrectly.

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

GAAP fair value measurement guidance classifies the inputs used to measure these fair values into the following hierarchy:

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 (examples include active exchange-traded equity securities and exchange-traded derivatives).

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 (examples include corporate and municipal bonds, which trade infrequently);

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain of our private debt and equity investments) and long-dated or complex derivatives (including certain equity and currency derivatives).

Table of Contents

The following table shows the level of our investments and Credit Facility as of September 30, 2012:

Fair Value Measurements**As of September 30, 2012**

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 16,868	\$ 211,124	\$ 227,992
Unsecured Bank Debt/Bonds		6,959		6,959
Total Investments	\$	\$ 23,827	\$ 211,124	\$ 234,951
Liabilities:				
Credit Facility	\$	\$	\$ 55,900	\$ 55,900

There were no investments transferred into or out of Levels 1, 2, or 3 during the nine months ended September 30, 2012.

Credit Facility

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, in accordance with ASC 825-10. Accounting for the Credit Facility at fair value will better align the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. As a result of this election, approximately \$2.85 million of costs related to the establishment of the Credit Facility have been expensed through September 30, 2012, rather than being deferred and amortized over the life of the Credit Facility. For the three and nine month periods ending September 30, 2012, the Credit Facility had no net change in unrealized (appreciation) depreciation. We use an independent third-party valuation firm to assist the Company in measuring the fair value of the Credit Facility.

Revenue Recognition

Our revenue recognition policies are as follows:

Sales: Gains or losses on the sale of investments are calculated by using the specific identification method.

Interest Income: Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as part of interest income. We may have loans in our portfolio that contain a PIK provision. PIK interest is accrued at the contractual rates and added to the loan principal on the payment/capitalization dates.

Non-accrual: Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment about ultimate collectability of principal. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

Table of Contents**Payment-in-Kind Interest**

We may have investments in our portfolio which contain a PIK interest provision. Over time, PIK interest increases the principal balance of the investment, but is recorded as interest income. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even though we have not currently collected cash with respect to the PIK interest.

Portfolio Investments

The total value of our investments was approximately \$235.0 million and \$177.7 million at September 30, 2012 and December 31, 2011, respectively. During the three months ended September 30, 2012, we originated approximately \$27.5 million of new investments in three new and two existing portfolio companies. We also had sales of approximately \$8.0 million from two portfolio companies and had principal repayments of approximately \$7.4 million from 24 portfolio companies. During the nine months ended September 30, 2012, we originated approximately \$136.3 million of new investments in 15 new and 7 existing portfolio companies. We also had sales of approximately \$19.7 million from five portfolio companies and had principal repayments of approximately \$62.2 million from 30 portfolio companies.

At September 30, 2012, we had investments in debt securities of 31 portfolio companies, totaling approximately \$235.0 million. At December 31, 2011, we had investments in debt securities of 21 portfolio companies, totaling approximately \$177.7 million.

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2012 and December 31, 2011:

	September 30, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Investments	\$ 227,529	\$ 227,992	\$ 176,839	\$ 174,701
Unsecured Bank Debt/Bonds	6,151	6,959	3,184	3,048
Total	\$ 233,680	\$ 234,951	\$ 180,023	\$ 177,749

As of September 30, 2012, the weighted average yield on income producing investments in our portfolio measured at fair value was approximately 8.1% compared to 8.5% at December 31, 2011. The weighted average yield on income producing investments in our portfolio based on cost was approximately 8.2% and 8.4%, respectively. The decrease in yield for the nine months period ended September 30, 2012 was primarily due to an increase in the fair value of portfolio assets and the repayment of certain higher yielding assets. As of September 30, 2012 and December 31, 2011, there were no investments on non-accrual status.

Results of Operations*Revenue*

For the three and nine month periods ended September 30, 2012, investment income totaled \$4.9 million and \$14.4 million, respectively. For the three month period ended September 30, 2011 and the period January 28, 2011 through September 30, 2011, investment income totaled \$2.9 million and \$4.3 million, respectively. Investment income growth for each of the respective comparative periods was due to the ongoing deployment of the Company's initial equity and corresponding debt capital raised since the IPO.

Expenses

Investment advisory and management fees for the three and nine month periods ended September 30, 2012 increased relative to the comparative periods in 2011. The increase was driven primarily from the Company's continued net portfolio growth since its IPO in January 2011. Performance-based incentive fees also increased

Table of Contents

for the three and nine month periods ended September 30, 2012 due to the increase in net investment income and net unrealized appreciation generated from a larger and appreciating portfolio of investments.

Interest and other credit facility expenses are primarily based upon outstanding loan balances of the Credit Facility during the periods presented. That said, interest and other credit facility expenses for the three and nine month periods ended September 30, 2012 are not comparable to the same periods in 2011 since the Company had not established the Credit Facility until August 2011.

Administrative services fees and other general administrative expenses were higher for the three and nine months ended September 30, 2012 as compared to the three month period ended September 30, 2011 and the period January 28, 2011 through September 30, 2011 primarily due to generally lower operating expenses during the Company's initial year of start-up operations.

Net Realized and Unrealized Gain on Investments

For the three and nine month periods ended September 30, 2012, net realized and unrealized gains totaled \$0.8 million and \$4.1 million, respectively. This compared to net realized and unrealized (losses) totaling (\$4.8) million and (\$4.5) million, respectively, for the comparable 2011 periods. The general increase in net realized and unrealized gains was primarily attributable to the increasing fair market values on our portfolio company investments at September 30, 2012 due to the general tightening of credit spreads and the continued financial good health of our overall portfolio.

Liquidity and Capital Resources

Our liquidity and capital resources are generated and generally available through the Credit Facility, the proceeds of our initial public offering and concurrent private placement, cash flows from operations, investment sales of liquid assets, repayments of loans, income earned on investments and cash equivalents, and we expect through periodic follow-on equity and/or debt offerings. We may from time to time issue securities in either public or private offerings. 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.

The primary use of existing funds and any funds raised in the future is expected to be for investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

At September 30, 2012 and December 31, 2011, we had cash and cash equivalents of approximately \$3.6 million and \$2.9 million, respectively. Cash used in operating activities for the nine months ended September 30, 2012 was approximately \$38.8 million. We expect that all current liquidity needs will be met with cash flows from operations, borrowings, and other activities. As of September 30, 2012, we had approximately \$144.1 million of unused borrowing capacity under the Credit Facility.

Credit Facility

On August 26, 2011, we established a \$200 million senior secured revolving credit facility with Citigroup Global Markets Inc. acting as administrative agent. The Credit Facility matures on August 26, 2016 and generally bears interest at a rate of LIBOR plus 2.25%. Under the Credit Facility, \$150 million will be available initially with an additional \$50 million available as a delayed draw. The Credit Facility can also be expanded up to \$600 million. The Credit Facility is secured by all of the assets held by the SPV. Under the Credit Facility, Solar Senior and the 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 includes usual and customary events of default for credit facilities of this nature.

Table of Contents***Contractual Obligations***

A summary of our significant contractual payment obligations are as follows:

Payments Due by Period

(in millions)	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Senior secured revolving credit facility ⁽¹⁾	\$ 55.9	\$	\$	\$ 55.9	\$

(1) As of September 30, 2012, we had \$144.1 million of unused borrowing capacity under the Credit Facility.

We have certain commitments pursuant to our Investment Advisory and Management Agreement entered into with the Investment Adviser. We have agreed to pay a fee for investment advisory and management services consisting of two components a base management fee and an incentive fee. Payments under the Investment Advisory and Management Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. We have also entered into a contract with Solar Capital Management LLC, (Solar Capital Management) to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of Solar Capital Management's overhead in performing its obligation under the agreement, including rent, fees, and other expenses inclusive of our allocable portion of the compensation of our chief financial officer and any administrative staff.

Off-Balance Sheet Arrangements

In the normal course of our business, we trade various financial instruments and may enter into various investment activities with off-balance sheet risk, which 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 Statement of Assets and Liabilities.

Borrowings

We had borrowings of approximately \$55.9 million and \$8.6 million outstanding as of September 30, 2012 and December 31, 2011, respectively.

Table of Contents***Distributions and Dividends***

The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock since our initial public offering:

Date Declared	Record Date	Payment	Amount
<u>Fiscal 2012</u>			
October 4, 2012	October 25, 2012	November 2, 2012	\$ 0.1175
September 11, 2012	September 20, 2012	October 2, 2012	0.1175
July 31, 2012	August 23, 2012	September 5, 2012	0.115
July 9, 2012	July 19, 2012	August 2, 2012	0.105
June 11, 2012	June 21, 2012	July 2, 2012	0.10
May 1, 2012	May 18, 2012	June 4, 2012	0.10
April 5, 2012	April 18, 2012	May 2, 2012	0.10
February 22, 2012	March 20, 2012	April 3, 2012	0.10
February 3, 2012	February 17, 2012	March 2, 2012	0.10
January 9, 2012	January 19, 2012	February 2, 2012	0.10
Total 2012			\$ 1.055
<u>Fiscal 2011</u>			
December 6, 2011	December 15, 2011	December 29, 2011	\$ 0.10
November 1, 2011	November 18, 2011	December 2, 2011	0.09
October 7, 2011	October 19, 2011	November 2, 2011	0.08
September 12, 2011	September 20, 2011	October 4, 2011	0.08
August 2, 2011	August 19, 2011	September 2, 2011	0.08
July 7, 2011	July 18, 2011	August 1, 2011	0.07
June 6, 2011	June 16, 2011	June 30, 2011	0.05
Total 2011			\$ 0.55

Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Our monthly dividends, if any, will be determined by our board of directors.

We intend 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 typically would distribute net realized capital gains (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 dividend, then stockholders cash dividends 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 dividends.

Related Parties

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

We have entered into an Investment Advisory and Management Agreement with Solar Capital Partners. Mr. Gross, our chairman and chief executive officer, is the managing member and a senior investment professional of, and has financial and controlling interests in, Solar Capital Partners. In addition, Mr. Spohler, our chief operating officer is a partner and a senior investment professional of,

and has financial interests in, Solar Capital Partners.

Table of Contents

Solar Capital Management provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff. Solar Capital Partners, our investment adviser, is the sole member of and controls Solar Capital Management.

We have entered into a license agreement with Solar Capital Partners, pursuant to which Solar Capital Partners has granted us a non-exclusive, royalty-free license to use the name Solar Senior Capital. In addition, Solar Capital Partners presently serves as investment adviser to Solar Capital Ltd., a publicly-traded business development company with investable capital in excess of \$1.3 billion that invests primarily in the mezzanine debt and equity securities of middle-market leveraged companies similar to those we intend to target for investment. In addition, Mr. Gross, our chairman and chief executive officer, Mr. Spohler, our chief operating officer, and Mr. Peteka, our chief financial officer, serve in similar capacities for Solar Capital Ltd. 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. Solar Capital Partners and its affiliates may determine that an investment is appropriate for us and for Solar Capital Ltd. or 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.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

We are subject to financial market risks, including changes in interest rates. During the period ended September 30, 2012, certain of the loans in our portfolio had floating interest rates. Interest rates on these types of loans are typically based on floating LIBOR and reset to current market rates every one to six months. A change in interest rates may have a material effect on our net investment income as noted in the table below. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps, caps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2012, we did not engage in interest rate hedging activities.

The following table attempts to quantify the potential changes in interest income should interest rates increase by 100 or 200 basis points or decrease by 25 basis points. Investment income is calculated as revenue from loans and other lending investments held at September 30, 2012. The base interest rate case assumes the rates on our portfolio investments remain as they were on September 30, 2012. All of the hypothetical calculations are based on a model of our portfolio as of September 30, 2012 and assume no change to any input other than the underlying base interest rates.

Change in Interest Rates	Estimated Percentage Change in Interest Income Net of Interest Expense (unaudited)
-25 Basis Points	0.79%
Base Interest Rate	0.00%
+100 Basis Points	(2.90%)
+200 Basis Points	4.45%

Actual results could differ significantly from those estimated in the table.

Table of Contents

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of September 30, 2012 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) 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 third quarter of 2012 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, Solar Capital Management, LLC and Solar Capital Partners, LLC are not currently subject to any material pending legal proceedings threatened against us. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including 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 business, financial condition or results of operations.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

We did not engage in unregistered sales of securities during the quarter ended September 30, 2012.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

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

Exhibit

Number	Description
3.1	Articles of Amendment and Restatement*
3.2	Amended and Restated Bylaws*
4.1	Form of Common Stock Certificate*
10.1	Dividend Reinvestment Plan*
10.2	Investment Advisory and Management Agreement by and between Registrant and Solar Capital Partners, LLC*
10.3	Form of Custody Agreement*
10.4	Administration Agreement by and between Registrant and Solar Capital Management, LLC*
10.5	Form of Indemnification Agreement by and between Registrant and each of its directors*
10.6	Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC*
10.7	Form of Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC*
10.8	Form of Loan and Servicing Agreement, dated as of August 26, 2011, by and among 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 collateral agent, Wells Fargo Bank, N.A., as the account bank, the backup servicer and the collateral custodian, and Citigroup Global Markets Inc., as the administrative agent.**
10.9	Form of Contribution Agreement, dated as of August 26, 2011, by and between SUNS SPV LLC, as the contributee, and Solar Senior Capital Ltd., as the contributor.**
10.10	Amendment No. 1 to Share Purchase Agreement by and between Registrant and Solar Senior Capital Investors, LLC.***
11	Computation of Per Share Earnings (included in the notes to the financial statements contained in this report).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

* Previously filed in connection with Solar Senior Capital Ltd. s registration statement on Form N-2 (File No. 333-171330) filed on February 14, 2011.

** Previously filed in connection with Solar Senior Capital Ltd. s report on Form 8-K filed on August 31, 2011.

*** Previously filed in connection with Solar Senior Capital Ltd. s annual report on Form 10-K filed on February 22, 2012.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 1, 2012.

SOLAR SENIOR CAPITAL LTD.

By: /s/ MICHAEL S. GROSS
Michael S. Gross

Chief Executive Officer

(Principal Executive Officer)

By: /s/ RICHARD L. PETEKA
Richard L. Peteka

Chief Financial Officer

(Principal Financial and Accounting Officer)