

Solar Capital Ltd.  
Form 10-Q  
May 07, 2018  
Table of Contents

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

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the Quarter Ended March 31, 2018**

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Commission File Number: 814-00754**

**SOLAR CAPITAL LTD.**

**(Exact name of registrant as specified in its charter)**

**Maryland**  
**(State of Incorporation)**

**26-1381340**  
**(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, a non-accelerated filer, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of May 4, 2018 was 42,260,826.

**Table of Contents**

**SOLAR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2018**

**TABLE OF CONTENTS**

|  | <b>PAGE</b> |
|--|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  |             |
| Item 1. <u>Financial Statements</u>  |             |
| <u>Consolidated Statements of Assets and Liabilities as of March 31, 2018 (unaudited) and December 31, 2017</u>  | 3           |
| <u>Consolidated Statements of Operations for the three months ended March 31, 2018 (unaudited) and the three months ended March 31, 2017 (unaudited)</u> | 4           |
| <u>Consolidated Statements of Changes in Net Assets for the three months ended March 31, 2018 (unaudited) and the year ended December 31, 2017</u>       | 5           |
| <u>Consolidated Statements of Cash Flows for the three months ended March 31, 2018 (unaudited) and the three months ended March 31, 2017 (unaudited)</u> | 6           |
| <u>Consolidated Schedule of Investments as of March 31, 2018 (unaudited)</u>   | 7           |
| <u>Consolidated Schedule of Investments as of December 31, 2017</u>  | 14          |
| <u>Notes to Consolidated Financial Statements (unaudited)</u>  | 21          |
| <u>Report of Independent Registered Public Accounting Firm</u>   | 47          |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>   | 48          |
| Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | 72          |
| Item 4. <u>Controls and Procedures</u>   | 73          |
| <b><u>PART II. OTHER INFORMATION</u></b>   |             |
| Item 1. <u>Legal Proceedings</u>   | 74          |
| Item 1A. <u>Risk Factors</u>   | 74          |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 74          |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 74          |
| Item 4. <u>Mine Safety Disclosures</u>   | 74          |
| Item 5. <u>Other Information</u>   | 74          |
| Item 6. <u>Exhibits</u>  | 75          |
| <u>Signatures</u>  | 77          |

**Table of Contents****PART I. FINANCIAL INFORMATION**

In this Quarterly Report, Solar Capital, Company, Fund, we, us, and our refer to Solar Capital Ltd. unless the states otherwise.

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

(in thousands, except share amounts)

|  | March 31, 2018<br>(unaudited) | December 31,<br>2017 |
|--|-------------------------------|----------------------|
| <b>Assets</b>  |                               |                      |
| Investments at fair value:   |                               |                      |
| Companies less than 5% owned (cost: \$835,765 and \$835,041, respectively)   | \$ 837,782                    | \$ 834,410           |
| Companies more than 25% owned (cost: \$618,425 and \$609,226, respectively)  | 634,135                       | 626,760              |
| Cash   | 4,847                         | 5,963                |
| Cash equivalents (cost: \$139,853 and \$144,826, respectively)   | 139,853                       | 144,826              |
| Receivable for investments sold  | 4,836                         | 6,160                |
| Interest receivable  | 6,670                         | 7,336                |
| Dividends receivable   | 14,309                        | 15,013               |
| Other receivable   | 58                            | 58                   |
| Prepaid expenses and other assets  | 840                           | 1,039                |
| <b>Total assets</b>  | <b>\$ 1,643,330</b>           | <b>\$ 1,641,565</b>  |
| <b>Liabilities</b>   |                               |                      |
| Revolving credit facility (see notes 6 and 8)  | \$ 249,500                    | \$ 245,600           |
| Unsecured senior notes due 2022 (see notes 6 and 8)  | 150,000                       | 150,000              |
| Unsecured tranche c senior notes due 2022 (\$21,000 and \$21,000 face amounts, respectively, reported net of unamortized debt issuance costs of \$302 and \$316, respectively. See note 8) | 20,698                        | 20,684               |
| Unsecured senior notes due 2023 (\$75,000 and \$75,000 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,735 and \$1,813, respectively. See note 8)       | 73,265                        | 73,187               |
| Term loans (see notes 6 and 8)   | 50,000                        | 50,000               |
| Distributions payable  | 17,327                        | 16,904               |
| Payable for investments and cash equivalents purchased   | 140,245                       | 145,118              |
| Management fee payable (see note 3)  | 6,473                         | 7,373                |
| Performance-based incentive fee payable (see note 3)   | 4,714                         | 4,660                |
| Interest payable (see note 8)  | 4,511                         | 2,485                |
| Administrative services expense payable (see note 3)   | 296                           | 2,756                |

|   |    |          |    |          |
|---|----|----------|----|----------|
| Other liabilities and accrued expenses  |    | 1,975    |    | 1,193    |
| <b>Total liabilities</b>  | \$ | 719,004  | \$ | 719,960  |
| Commitments and contingencies (see notes 11, 12, 13 and 14)   |    |          |    |          |
| <b>Net Assets</b>   |    |          |    |          |
| Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 42,260,826 and 42,260,826 shares issued and outstanding, respectively | \$ | 423      | \$ | 423      |
| Paid-in capital in excess of par  |    | 991,340  |    | 991,340  |
| Distributions in excess of net investment income  |    | (11,789) |    | (13,319) |
| Accumulated net realized loss   |    | (73,375) |    | (73,742) |
| Net unrealized appreciation   |    | 17,727   |    | 16,903   |
| <b>Total net assets</b>   | \$ | 924,326  | \$ | 921,605  |
| <b>Net Asset Value Per Share</b>  | \$ | 21.87    | \$ | 21.81    |

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

|   | <b>Three months ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2018</b>               | <b>2017</b>      |
| <b>INVESTMENT INCOME:</b>   |                           |                  |
| Interest:   |                           |                  |
| Companies less than 5% owned  | \$ 24,181                 | \$ 21,818        |
| Companies more than 25% owned   | 285                       | 334              |
| Dividends:  |                           |                  |
| Companies less than 5% owned  | 6                         | 10               |
| Companies more than 25% owned   | 14,363                    | 11,678           |
| Other income:   |                           |                  |
| Companies less than 5% owned  | 62                        | 492              |
| Companies more than 25% owned   | 63                        | 60               |
| <b>Total investment income</b>  | <b>38,960</b>             | <b>34,392</b>    |
| <b>EXPENSES:</b>  |                           |                  |
| Management fees (see note 3)  | \$ 6,473                  | \$ 6,719         |
| Performance-based incentive fees (see note 3)   | 4,714                     | 4,083            |
| Interest and other credit facility expenses (see note 8)  | 5,909                     | 5,669            |
| Administrative services expense (see note 3)  | 1,286                     | 1,335            |
| Other general and administrative expenses   | 1,721                     | 256              |
| <b>Total expenses</b>   | <b>20,103</b>             | <b>18,062</b>    |
| <b>Net investment income</b>  | <b>\$ 18,857</b>          | <b>\$ 16,330</b> |
| <b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b> |                           |                  |
| Net realized gain (loss) on investments and cash equivalents:                                       |                           |                  |
| Companies less than 5% owned  | \$ 197                    | \$ 588           |
| Companies 5% to 25% owned   | 175                       | (15)             |
| Companies more than 25% owned   | (5)                       |                  |
| <b>Net realized gain on investments and cash equivalents</b>  | <b>367</b>                | <b>573</b>       |
| <b>Net realized gain (loss) on foreign currencies</b>   |                           | <b>(1)</b>       |
| <b>Net realized gain</b>  | <b>367</b>                | <b>572</b>       |

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|  |           |           |
|--|-----------|-----------|
| Net change in unrealized gain (loss) on investments and cash equivalents:                |           |           |
| Companies less than 5% owned   | 2,648     | 821       |
| Companies 5% to 25% owned  |           | (777)     |
| Companies more than 25% owned  | (1,824)   | 212       |
| Net change in unrealized gain  | 824       | 256       |
| Net realized and unrealized gain on investments, cash equivalents and foreign currencies | 1,191     | 828       |
| <b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>                              | \$ 20,048 | \$ 17,158 |
| <b>EARNINGS PER SHARE (see note 5)</b>   | \$ 0.47   | \$ 0.41   |

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

|  | <b>Three months ended<br/>March 31, 2018<br/>(unaudited)</b> | <b>Year ended<br/>December 31,<br/>2017</b> |
|--|--|---|
| <b>Increase in net assets resulting from operations:</b>       |  |   |
| Net investment income  | \$ 18,857  | \$ 68,363                                   |
| Net realized gain (loss)                                       | 367  | (12,015)                                    |
| Net change in unrealized gain                                  | 824  | 14,082                                      |
| Net increase in net assets resulting from operations           | 20,048   | 70,430                                      |
| <b>Distributions to stockholders:</b>                          |  |   |
| From net investment income                                     | (17,327)   | (67,612)                                    |
| <b>Capital transactions (see note 16):</b>                     |  |   |
| Reinvestment of distributions                                  |  | 280   |
| Net increase in net assets resulting from capital transactions |  | 280   |
| Total increase in net assets                                   | 2,721  | 3,098                                       |
| Net assets at beginning of period                              | 921,605  | 918,507                                     |
| Net assets at end of period (1)                                | \$ 924,326   | \$ 921,605                                  |
| <b>Capital stock activity (see note 16):</b>                   |  |   |
| Common stock issued from reinvestment of distributions         |  | 12,301                                      |
| Net increase from capital stock activity                       |  | 12,301                                      |

(1) Includes overdistributed net investment income of (\$11,789) and (\$13,319), respectively.  
See notes to consolidated financial statements.



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

(in thousands)

|   | <b>Three months ended</b> |                  |
|---|---------------------------|------------------|
|   | <b>March 31,</b>          | <b>March 31,</b> |
|   | <b>2018</b>               | <b>2017</b>      |
| <b>Cash Flows from Operating Activities:</b>  |                           |                  |
| <b>Net increase in net assets resulting from operations</b>   | \$ 20,048                 | \$ 17,158        |
| Adjustments to reconcile net increase in net assets resulting from operations to net cash provided by (used in) operating activities: |                           |                  |
| Net realized (gain) loss on investments and cash equivalents  | (367)                     | (573)            |
| Net realized (gain) loss on foreign currencies  |                           | 1                |
| Net change in unrealized (gain) loss on investments and cash equivalents  | (824)                     | (256)            |
| <b>(Increase) decrease in operating assets:</b>   |                           |                  |
| Purchase of investments   | (153,103)                 | (101,369)        |
| Proceeds from disposition of investments  | 142,856                   | 83,347           |
| Capitalization of payment-in-kind interest  | (49)                      | (40)             |
| Collections of payment-in-kind interest   | 740                       | 173              |
| Receivable for investments sold   | 1,324                     | (3,924)          |
| Interest receivable   | 666                       | 2,181            |
| Dividends receivable  | 704                       | (642)            |
| Other receivable  |                           | (1)              |
| Prepaid expenses and other assets   | 199                       | (368)            |
| <b>Increase (decrease) in operating liabilities:</b>  |                           |                  |
| Payable for investments and cash equivalents purchased  | (4,873)                   | 150,086          |
| Management fee payable  | (900)                     | (151)            |
| Performance-based incentive fee payable   | 54                        | (329)            |
| Administrative services expense payable   | (2,460)                   | (2,852)          |
| Interest payable  | 2,026                     | 1,834            |
| Other liabilities and accrued expenses  | 782                       | (309)            |
| <b>Net Cash Provided by Operating Activities</b>  | <b>6,823</b>              | <b>143,966</b>   |
| <b>Cash Flows from Financing Activities:</b>  |                           |                  |
| Cash distributions paid   | (16,904)                  | (16,899)         |
| Proceeds from issuance of unsecured debt  |                           | 100,000          |
| Deferred financing costs  | 92                        | 27               |
| Proceeds from secured borrowings  | 130,700                   | 97,500           |
| Repayment of secured borrowings   | (126,800)                 | (212,700)        |
| <b>Net Cash Used in Financing Activities</b>  | <b>(12,912)</b>           | <b>(32,072)</b>  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>   | <b>(6,089)</b>            | <b>111,894</b>   |

|  |            |            |
|--|------------|------------|
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>  | 150,789    | 312,046    |
| <b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>        | \$ 144,700 | \$ 423,940 |
| <b>Supplemental disclosure of cash flow information:</b> |            |            |
| Cash paid for interest                                   | \$ 3,883   | \$ 3,835   |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****March 31, 2018****(in thousands, except share/unit amounts)**

| Description  | Industry                         | Spread<br>Above LIBOR<br>Index (9) | Floor | Interest<br>Rate (1) | Acquisition<br>Date | Maturity<br>Date | Par<br>Amount | Cost     | Fair<br>Value |
|--|----------------------------------|------------------------------------|-------|----------------------|---------------------|------------------|---------------|----------|---------------|
| <b>Senior Secured Loans</b>                                |                                  |                                    |       |                      |                     |                  |               |          |               |
| <b>31.0%</b>   |                                  |                                    |       |                      |                     |                  |               |          |               |
| <b>Bank Debt/Senior Secured Loans</b>                      |                                  |                                    |       |                      |                     |                  |               |          |               |
| AccentCare, Inc. (10)                                      | Health Care Providers & Services | L+950                              | 1.00% | 11.53%               | 9/3/2015            | 9/3/2022         | \$ 10,000     | \$ 9,875 | \$ 10,000     |
| Legis Toxicology Sciences Corporation (10)                 | Health Care Providers & Services | L+850                              | 1.00% | 10.79%               | 2/20/2014           | 8/24/2021        | 31,000        | 30,628   | 31,000        |
| American Teleconferencing Services, Ltd. (GI) (10)         | Communications Equipment         | L+650                              | 1.00% | 8.29%                | 5/5/2016            | 12/8/2021        | 21,330        | 20,878   | 21,220        |
| Merilife Group, LLC (10)                                   | Insurance                        | L+875                              | 1.00% | 10.60%               | 7/9/2015            | 1/10/2023        | 15,000        | 14,784   | 14,920        |
| Shop Lifting Products, Inc. (7)(10)                        | Trading Companies & Distributors | L+800                              | 1.00% | 9.88%                | 3/24/2014           | 3/27/2022        | 25,000        | 24,864   | 24,000        |
| Atto, Inc. (10)  | IT Services                      | L+800                              | 1.00% | 9.72%                | 12/6/2017           | 12/7/2022        | 25,000        | 24,525   | 24,500        |
| <b>SA Holdings</b>   |                                  |                                    |       |                      |                     |                  |               |          |               |
| Acquisition Subsidiary Corp. (10)                          | Professional Services            | L+850                              | 1.00% | 10.19%               | 12/9/2014           | 6/9/2021         | 46,476        | 46,079   | 46,476        |
| <b>Empower Payments</b>                                    |                                  |                                    |       |                      |                     |                  |               |          |               |
| Acquisition, Inc. (LevSpring) (10)                         | Professional Services            | L+450                              | 1.00% | 6.80%                | 1/26/2018           | 11/30/2023       | 18,583        | 18,583   | 18,583        |
| <b>Plymouth Group Holdings Corp.</b>                       |                                  |                                    |       |                      |                     |                  |               |          |               |
| MPAC) (10)   | Chemicals                        | L+675                              | 1.00% | 8.63%                | 12/7/2015           | 12/14/2021       | 9,298         | 9,267    | 9,298         |
| Global Tel*Link Corporation                                | Communications Equipment         | L+400                              | 1.25% | 6.30%                | 11/6/2015           | 5/23/2020        | 7,173         | 6,277    | 7,220         |
| Global Tel*Link Corporation                                | Communications Equipment         | L+825                              | 1.25% | 10.55%               | 5/21/2013           | 11/23/2020       | 18,500        | 18,331   | 18,540        |
| Freystone Select Holdings LLC & Freystone & Co., Inc. (10) | Thriffs & Mortgage Finance       | L+800                              | 1.00% | 9.76%                | 3/29/2017           | 4/17/2024        | 20,000        | 19,820   | 20,000        |

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|   |   |       |       |        |            |            |        |            |            |
|---|---|-------|-------|--------|------------|------------|--------|------------|------------|
| S Intermediate,<br>c. (10)                                | Health Care Providers &<br>Services       | L+825 | 1.00% | 10.00% | 6/19/2015  | 7/20/2022  | 25,000 | 24,655     | 24,500     |
| 2 Pure Solutions<br>oCal, L.P. (10)                       | Chemicals                                 | L+900 | 1.00% | 10.88% | 8/19/2013  | 2/19/2021  | 7,475  | 7,404      | 7,475      |
| ore Wireless Group,<br>c. (10)                            | Wireless<br>Telecommunication<br>Services | L+825 | 1.00% | 10.55% | 9/12/2014  | 3/12/2021  | 55,500 | 54,909     | 54,390     |
| RI Software<br>C (10)                                     | Software                                  | L+625 | 1.00% | 8.02%  | 6/7/2017   | 6/30/2023  | 12,607 | 12,490     | 12,540     |
| n Location Events,<br>C & PrimeSport<br>oldings Inc. (10) | Media                                     | L+550 | 1.00% | 7.57%  | 12/7/2017  | 9/29/2021  | 14,760 | 14,589     | 14,650     |
| yMed Management<br>C (10)                                 | Health Care Providers &<br>Services       | L+875 | 1.00% | 10.71% | 12/18/2015 | 5/18/2021  | 32,321 | 31,486     | 31,670     |
| KW, LLC & PDR,<br>C (10)                                  | Health Care Providers &<br>Services       | L+826 | 1.00% | 10.56% | 10/24/2017 | 11/25/2021 | 3,461  | 3,397      | 3,390      |
| diology Partners,<br>c. (10)                              | Health Care Providers &<br>Services       | L+575 | 1.00% | 7.59%  | 11/28/2017 | 12/4/2023  | 11,399 | 11,289     | 11,280     |
| g Doctor<br>C (3)(10)                                     | Diversified Consumer<br>Services          | L+975 | 1.50% | 12.18% | 12/23/2013 | 12/31/2018 | 9,111  | 9,042      | 9,110      |
| lient Partners,<br>P. (10)                                | Asset Management                          | L+850 | 1.00% | 10.32% | 6/10/2015  | 6/9/2021   | 13,680 | 13,518     | 13,680     |
| uthern Auto Finance<br>ompany (5)(10)                     | Consumer Finance                          |       |       | 11.15% | 10/19/2011 | 12/4/2019  | 25,000 | 24,862     | 25,000     |
| he Octave Music<br>roup, Inc.<br>ra TouchTunes) (10)      | Media                                     | L+825 | 1.00% | 9.94%  | 5/28/2015  | 5/27/2022  | 14,000 | 13,859     | 14,000     |
| arilase Finance,<br>c. (10)                               | Multi-Sector Holdings                     | L+825 | 1.00% | 9.94%  | 8/22/2014  | 8/24/2020  | 43,000 | 42,627     | 43,000     |
| Total Bank Debt/Senior Secured Loans                      |   |       |       |        |            |            |        | \$ 508,038 | \$ 510,470 |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

| <b>Description</b>                       | <b>Industry</b>                        | <b>Spread<br/>Above LIBOR<br/>Index (9) Floor</b> | <b>Interest<br/>Rate (1)</b> | <b>Acquisition<br/>Date</b> | <b>Maturity<br/>Date</b> | <b>Par<br/>Amount</b> | <b>Cost</b> | <b>Fair<br/>Value</b> |           |
|--|--|---|------------------------------|-----------------------------|--------------------------|-----------------------|-------------|-----------------------|-----------|
| <u>Life Science</u>                      |  |   |                              |                             |                          |                       |             |                       |           |
| <u>Senior Secured</u>                    |  |   |                              |                             |                          |                       |             |                       |           |
| <u>Loans</u>                             |  |   |                              |                             |                          |                       |             |                       |           |
| Alimera Sciences, Inc. (10)              | Pharmaceuticals                        | L+765   |                              | 9.34%                       | 1/5/2018                 | 7/1/2022              | \$ 35,000   | \$ 34,747             | \$ 34,650 |
| aTyr Pharma, Inc. (10)                   | Pharmaceuticals                        | P+410   |                              | 8.60%                       | 11/18/2016               | 11/18/2020            | 10,000      | 10,061                | 10,150    |
| Axcella Health Inc. (10)                 | Pharmaceuticals                        | L+850   |                              | 10.15%                      | 1/9/2018                 | 1/9/2022              | 21,000      | 21,051                | 21,000    |
| Breathe Technologies, Inc. (10)          | Health Care<br>Equipment &<br>Supplies | L+850   |                              | 10.15%                      | 1/5/2018                 | 1/5/2022              | 22,000      | 22,070                | 22,000    |
| CardioDx, Inc. (10)                      | Health Care<br>Providers &<br>Services | P+670   |                              | 11.45%                      | 6/18/2015                | 4/1/2019              | 3,250       | 3,823                 | 3,640     |
| CardioFocus, Inc. (10)                   | Health Care<br>Equipment &<br>Supplies | L+750   |                              | 9.19%                       | 3/31/2017                | 7/1/2020              | 5,300       | 5,341                 | 5,697     |
| Cardiva Medical, Inc. (10)               | Health Care<br>Equipment &<br>Supplies | L+865   | 0.63%                        | 10.30%                      | 2/2/2017                 | 2/2/2021              | 9,000       | 9,180                 | 9,090     |
| CAS Medical Systems, Inc. (10)           | Health Care<br>Equipment &<br>Supplies | L+875   |                              | 10.40%                      | 6/30/2016                | 7/1/2020              | 5,600       | 5,704                 | 5,656     |
| Cianna Medical, Inc. (10)                | Health Care<br>Equipment &<br>Supplies | L+900   |                              | 10.65%                      | 9/28/2016                | 9/28/2020             | 9,000       | 9,151                 | 9,068     |
| Claret Medical, Inc. (10)                | Health Care<br>Equipment &<br>Supplies | P+450   |                              | 9.25%                       | 11/22/2017               | 10/1/2020             | 5,000       | 4,982                 | 4,975     |
| Clinical Ink, Inc. (10)                  | Health Care<br>Technology              | L+850   | 0.70%                        | 10.16%                      | 3/8/2016                 | 3/8/2020              | 5,056       | 5,174                 | 5,363     |
| Corindus Vascular Robotics, Inc. (5)(10) | Health Care<br>Equipment &<br>Supplies | L+725   |                              | 9.04%                       | 3/9/2018                 | 3/1/2022              | 6,783       | 6,696                 | 6,691     |

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|  |                                  |       |       |        |            |            |        |                   |                   |
|--|----------------------------------|-------|-------|--------|------------|------------|--------|-------------------|-------------------|
| Delphinus Medical Technologies, Inc. (10)      | Health Care Equipment & Supplies | L+850 |       | 10.19% | 8/18/2017  | 9/1/2021   | 3,750  | 3,681             | 3,731             |
| Lumeris Solutions Company, LLC (10)            | Health Care Technology           | L+860 | 0.25% | 10.29% | 3/22/2017  | 2/1/2020   | 16,000 | 16,233            | 16,240            |
| Nabsys 2.0 LLC (10)                            | Life Sciences Tools & Services   |       |       | 8.90%  | 4/22/2016  | 10/13/2018 | 1,611  | 2,126             | 2,095             |
| PQ Bypass, Inc. (10)                           | Health Care Equipment & Supplies | L+885 | 1.00% | 10.50% | 4/21/2016  | 4/21/2020  | 5,000  | 5,031             | 4,975             |
| Rapid Micro Biosystems, Inc. (10)              | Life Sciences Tools & Services   | L+880 |       | 10.46% | 6/30/2015  | 6/30/2019  | 15,360 | 16,210            | 16,716            |
| scPharmaceuticals, Inc. (10)                   | Pharmaceuticals                  | L+845 |       | 10.14% | 5/23/2017  | 5/1/2021   | 5,000  | 4,964             | 5,025             |
| Scynexis, Inc. (10)                            | Pharmaceuticals                  | L+849 |       | 10.18% | 9/30/2016  | 9/30/2020  | 15,000 | 15,110            | 15,000            |
| SentreHeart, Inc. (10)                         | Health Care Equipment & Supplies | L+885 |       | 10.50% | 11/15/2016 | 11/15/2020 | 10,000 | 10,003            | 10,025            |
| Sunesis Pharmaceuticals, Inc. (10)             | Pharmaceuticals                  | L+854 |       | 10.23% | 3/31/2016  | 4/1/2020   | 3,750  | 3,782             | 3,769             |
| Trevi Therapeutics, Inc. (10)                  | Pharmaceuticals                  | L+775 |       | 9.41%  | 12/29/2014 | 6/29/2018  | 1,375  | 1,799             | 1,581             |
| Vapotherm, Inc. (10)                           | Health Care Equipment & Supplies | L+899 |       | 10.64% | 11/16/2016 | 5/16/2021  | 20,000 | 20,101            | 21,100            |
| <b>Total Life Science Senior Secured Loans</b> |                                  |       |       |        |            |            |        | <b>\$ 237,020</b> | <b>\$ 238,237</b> |
| <b>Total Senior Secured Loans</b>              |                                  |       |       |        |            |            |        | <b>\$ 745,058</b> | <b>\$ 748,712</b> |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

| Description   | Industry                       | Interest Rate (1) | Acquisition Date | Maturity Date      | Par Amount | Cost     | Fair Value |
|---|--------------------------------|-------------------|------------------|--------------------|------------|----------|------------|
| <b>Equipment Financing</b><br><b>26.2%</b>            |                                |                   |                  |                    |            |          |            |
| Althoff Crane Service, Inc. (10)(12)                  | Commercial Services & Supplies | 10.55%            | 7/31/2017        | 6/8/2022           | \$ 1,487   | \$ 1,487 | \$ 1,519   |
| BB578, LLC (10)(12)                                   | Media                          | 10.00%            | 7/31/2017        | 11/1/2021          | 769        | 769      | 777        |
| Beverly Hills Limo and Corporate Coach, Inc. (10)(12) | Road & Rail                    | 10.59%            | 3/19/2018        | 9/9/2019           | 568        | 609      | 577        |
| Blackhawk Mining, LLC (10)(12)                        | Oil, Gas & Consumable Fuels    | 11.34%            | 2/16/2018        | 3/1/2022           | 3,716      | 3,446    | 3,716      |
| Blue Star Materials II, LLC (10)(12)                  | Construction Materials         | 39.06%            | 7/31/2017        | 5/1/2018           | 27         | 27       | 27         |
| Carl R. Bieber, Inc. (10)(12)                         | Hotels, Restaurants & Leisure  | 9.92%             | 7/31/2017        | 1/13/2024          | 1,335      | 1,335    | 1,321      |
| Central Freight Lines, Inc. (10)(12)                  | Road & Rail                    | 7.16%             | 7/31/2017        | 1/14/2024          | 1,914      | 1,914    | 1,914      |
| Cfactor Leasing Corp. & CZM USA, Corp. (10)(12)       | Machinery                      | 12.00-12.59%      | 7/31/2017        | 5/31/2019-4/1/2021 | 2,327      | 2,323    | 2,371      |
| Champion Air, LLC (10)(12)                            | Airlines                       | 10.00%            | 3/19/2018        | 1/1/2019           | 3,565      | 3,533    | 3,522      |
| Family First Freight, LLC (10)(12)                    | Road & Rail                    | 9.29-11.52%       | 7/31/2017        | 7/2/2019-1/22/2022 | 862        | 862      | 869        |
| Garda CL Technical Services,                          | Commercial Services & Supplies | 8.12%             | 3/22/2018        | 5/16/2023          | 1,137      | 1,137    | 1,137      |

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|   |                                |              |            |                      |       |       |       |  |
|---|--------------------------------|--------------|------------|----------------------|-------|-------|-------|--|
| Inc. (10)(12)   |                                |              |            |                      |       |       |       |  |
| Georgia Jet, Inc. (10)(12)  | Airlines                       | 8.00%        | 12/4/2017  | 12/4/2021            | 2,786 | 2,786 | 2,786 |  |
| Great Plains Gas Compression Holdings, LLC (10)(12)                 | Oil, Gas & Consumable Fuels    | 9.39%        | 3/19/2018  | 8/31/2018            | 7,595 | 7,585 | 7,531 |  |
| Haljoe Coaches USA, LLC (10)(12)                                    | Road & Rail                    | 8.12-9.90%   | 7/31/2017  | 7/1/2022-11/17/2022  | 6,034 | 6,034 | 6,034 |  |
| Hawkeye Contracting Company, LLC (10)(12)(13)                       | Oil, Gas & Consumable Fuels    | 10.00%       | 11/15/2017 | 11/15/2020           | 4,896 | 4,896 | 4,896 |  |
| Knight Transfer Services, Inc. & Dumpstr Xpress, Inc. (10)(12)      | Commercial Services & Supplies | 12.05-12.76% | 7/31/2017  | 4/11/2020-4/30/2020  | 772   | 772   | 783   |  |
| Kool Pak, LLC (10)(12)  | Road & Rail                    | 8.58%        | 2/5/2018   | 3/1/2024             | 810   | 810   | 810   |  |
| Logicorp Enterprises, LLC (10)(12)                                  | Road & Rail                    | 12.18%       | 7/31/2017  | 2/3/2021             | 3,673 | 3,673 | 3,832 |  |
| Marcal Manufacturing, LLC dba Soundview Paper Company, LLC (10)(12) | Paper & Forest Products        | 12.91-12.98% | 7/31/2017  | 7/30/2022-10/25/2022 | 1,572 | 1,572 | 1,582 |  |
| Meridian Consulting I Corp, Inc. (10)(12)                           | Hotels, Restaurants & Leisure  | 10.72%       | 7/31/2017  | 12/4/2021            | 3,734 | 3,734 | 3,852 |  |
| Mountain Air Helicopters, Inc. (10)(12)                             | Commercial Services & Supplies | 10.00%       | 7/31/2017  | 4/30/2022            | 1,861 | 1,861 | 1,883 |  |
| OKK Equipment, LLC (10)(12)   | Commercial Services & Supplies | 10.15%       | 7/31/2017  | 8/27/2023            | 686   | 686   | 673   |  |
| Reston Limousine & Travel Service, Inc. (10)(12)                    | Road & Rail                    | 11.81%       | 9/13/2017  | 10/1/2021            | 1,771 | 1,795 | 1,771 |  |
| Rosco Crane & Rigging, Inc. (10)(12)                                | Commercial Services & Supplies | 11.13-11.53% | 8/25/2017  | 4/1/2021-9/1/2022    | 944   | 944   | 944   |  |
|   | Road & Rail                    | 10.03%       | 7/31/2017  | 8/28/2018            | 211   | 211   | 209   |  |



Royal Coach  
Lines,  
Inc. (10)(12)

|  |          |        |           |          |       |       |       |
|--|----------|--------|-----------|----------|-------|-------|-------|
| RVR Air<br>Charter, LLC &<br>RVR Aviation,<br>LLC (10)(12) | Airlines | 12.00% | 7/31/2017 | 1/1/2022 | 1,498 | 1,498 | 1,543 |
|--|----------|--------|-----------|----------|-------|-------|-------|

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

| <b>Description</b>   | <b>Industry</b>                  | <b>Interest Rate (1)</b> | <b>Acquisition Date</b> | <b>Maturity Date</b>  | <b>Par Amount</b> | <b>Cost</b> | <b>Fair Value</b> |
|--|----------------------------------|--------------------------|-------------------------|-----------------------|-------------------|-------------|-------------------|
| Santek Environmental, LLC (10)(12)                         | Commercial Services & Supplies   | 10.00%                   | 7/31/2017               | 3/1/2021              | 142               | 142         | 143               |
| Santek Environmental of Alabama, LLC (10)(12)              | Commercial Services & Supplies   | 8.95-10.00%              | 7/31/2017               | 12/18/2020-11/29/2021 | 235               | 235         | 234               |
| Sidelines Tree Service LLC (10)(12)                        | Diversified Consumer Services    | 10.31-10.52%             | 7/31/2017               | 8/1/2022-10/1/2022    | 501               | 502         | 505               |
| South Texas Oilfield Solutions, LLC (10)(12)               | Energy Equipment & Services      | 16.89%                   | 3/29/2018               | 6/1/2023              | 982               | 982         | 982               |
| Southern Nevada Oral & Maxillofacial Surgery, LLC (10)(12) | Health Care Providers & Services | 12.00%                   | 7/31/2017               | 3/1/2024              | 1,493             | 1,493       | 1,538             |
| Southwest Traders, Inc. (10)(12)                           | Road & Rail                      | 9.13%                    | 11/21/2017              | 11/1/2020             | 187               | 187         | 187               |
| ST Coaches, LLC (10)(12)                                   | Road & Rail                      | 8.21-8.48%               | 7/31/2017               | 10/1/2022-11/18/2022  | 3,650             | 3,650       | 3,650             |
| Star Coaches Inc. (10)(12)                                 | Road & Rail                      | 8.42%                    | 3/9/2018                | 4/1/2025              | 4,168             | 4,168       | 4,168             |
| Sturgeon Services International Inc. (10)(12)              | Energy Equipment & Services      | 18.41%                   | 7/31/2017               | 2/28/2022             | 2,045             | 2,045       | 2,057             |
| Sun-Tech Leasing of Texas, L.P. (10)(12)                   | Road & Rail                      | 8.68-10.62%              | 7/31/2017               | 5/4/2019-7/25/2021    | 1,204             | 1,204       | 1,204             |
| Superior Transportation, Inc. (10)(12)                     | Road & Rail                      | 9.77-10.26%              | 7/31/2017               | 4/23/2022-7/1/2023    | 3,499             | 3,497       | 3,490             |
| The Smedley Company & Smedley Services,                    | Commercial Services & Supplies   | 11.63%                   | 7/31/2017               | 2/10/2024             | 3,046             | 3,046       | 3,138             |

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|   |                                |             |            |                     |        |                   |                   |                          |
|---|--------------------------------|-------------|------------|---------------------|--------|-------------------|-------------------|--------------------------|
| Inc. (10)(12)..   |                                |             |            |                     |        |                   |                   |                          |
| Tornado Bus Company (10)(12)  | Road & Rail                    | 10.78%      | 7/31/2017  | 9/1/2021            | 2,589  | 2,589             | 2,624             |                          |
| Up Trucking Services, LLC (10)(12)  | Road & Rail                    | 11.91%      | 3/23/2018  | 4/1/2022            | 2,642  | 2,693             | 2,642             |                          |
| Waste Services of Tennessee, LLC (10)(12)                                 | Commercial Services & Supplies | 8.95-10.15% | 7/31/2017  | 2/7/2021-11/29/2021 | 925    | 925               | 917               |                          |
| Waste Services of Texas, LLC (10)(12)                                     | Commercial Services & Supplies | 8.95%       | 7/31/2017  | 12/6/2021           | 179    | 179               | 177               |                          |
| WJV658, LLC (10)(12)  | Airlines                       | 8.50%       | 7/31/2017  | 7/1/2022            | 8,315  | 8,315             | 8,271             |                          |
| W.P.M., Inc., WPM-Southern, LLC, WPM Construction Services, Inc.(10)(12). | Construction & Engineering     | 7.50%       | 7/31/2017  | 10/1/2022           | 3,831  | 3,831             | 3,774             |                          |
|   |                                |             |            |                     |        |                   |                   | <b>Shares/<br/>Units</b> |
| NEF Holdings, LLC Equity Interests (3)(10)(11)                            | Multi-Sector Holdings          |             | 7/31/2017  |                     | 200    | 145,000           | 145,000           |                          |
| <b>Total Equipment Financing</b>  |                                |             |            |                     |        | <b>\$ 240,982</b> | <b>\$ 241,580</b> |                          |
| <b>Preferred Equity</b>   |                                |             |            |                     |        |                   |                   |                          |
| <b>1.3%</b>   |                                |             |            |                     |        |                   |                   |                          |
| SOAGG LLC (3)(5)(6)(10)   | Aerospace & Defense            | 8.00%       | 12/14/2010 | 6/30/2020           | 3,727  | \$ 3,727          | \$ 4,137          |                          |
| SOINT, LLC (3)(5)(6)(10)  | Aerospace & Defense            | 15.00%      | 6/8/2012   | 6/30/2020           | 72,398 | 7,240             | 7,914             |                          |
| <b>Total Preferred Equity</b>   |                                |             |            |                     |        | <b>\$ 10,967</b>  | <b>\$ 12,051</b>  |                          |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

| <b>Description</b>  | <b>Industry</b>                    | <b>Acquisition Date</b> | <b>Shares/<br/>Units</b> | <b>Cost</b> | <b>Fair Value</b> |
|---|------------------------------------|-------------------------|--------------------------|-------------|-------------------|
| <b>Common Equity/Equity Interests/Warrants 50.8%</b>        |                                    |                         |                          |             |                   |
| Ark Real Estate Partners LP (2)(3)(10)*                     | Diversified Real Estate Activities | 3/12/2007               |                          | \$ 527      | \$ 154            |
| Ark Real Estate Partners II LP (2)(3)(10)*                  | Diversified Real Estate Activities | 10/23/2012              |                          | 12          | 4                 |
| aTyr Pharma, Inc. Warrants (10)*                            | Pharmaceuticals                    | 11/18/2016              | 88,792                   | 106         | 51                |
| B Riley Financial Inc. (5)                                  | Research & Consulting Services     | 3/16/2007               | 38,015                   | 2,684       | 741               |
| CardioDx, Inc. Warrants (10)*                               | Health Care Providers & Services   | 6/18/2015               | 3,986                    | 129         |                   |
| CardioFocus, Inc. Warrants (10)*                            | Health Care Equipment & Supplies   | 3/31/2017               | 440,816                  | 51          | 61                |
| CAS Medical Systems, Inc. Warrants (10)*                    | Health Care Equipment & Supplies   | 6/30/2016               | 48,491                   | 38          | 14                |
| Cianna Medical, Inc. Warrants (10)*                         | Health Care Equipment & Supplies   | 9/28/2016               | 134,590                  | 56          | 68                |
| Claret Medical, Inc. Warrants (10)*                         | Health Care Equipment & Supplies   | 11/22/2017              | 367,737                  | 42          | 60                |
| Conventus Orthopaedics, Inc. Warrants (10)*                 | Health Care Equipment & Supplies   | 6/15/2016               | 157,500                  | 65          | 61                |
| Corindus Vascular Robotics, Inc. Warrants (5)(10)*          | Health Care Equipment & Supplies   | 3/9/2018                | 79,855                   | 40          | 47                |
| Crystal Financial LLC (3)(5)(10)                            | Diversified Financial Services     | 12/28/2012              | 280,303                  | 280,737     | 300,000           |
| Delphinus Medical Technologies, Inc. Warrants (10)*         | Health Care Equipment & Supplies   | 8/18/2017               | 380,904                  | 74          | 88                |
| Essence Group Holdings Corporation (Lumeris) Warrants (10)* | Health Care Technology             | 3/22/2017               | 208,000                  | 63          | 205               |
| PQ Bypass, Inc. Warrants (10)*                              | Health Care Equipment & Supplies   | 4/21/2016               | 176,471                  | 70          | 54                |
| RD Holdco Inc. (Rug Doctor) (3)(10)*                        | Diversified Consumer Services      | 12/23/2013              | 231,177                  | 15,683      | 12,699            |
|   | Diversified Consumer Services      | 12/23/2013              | 522                      | 5,216       | 5,216             |

RD Holdco Inc. (Rug Doctor)  
Class B (3)(10)\*

|  |                                  |            |         |                     |                     |  |
|--|----------------------------------|------------|---------|---------------------|---------------------|--|
| RD Holdco Inc. (Rug Doctor)                          |                                  |            |         |                     |                     |  |
| Warrants (3)(10)*                                    | Diversified Consumer Services    | 12/23/2013 | 30,370  | 381                 | 39                  |  |
| Scynexis, Inc. Warrants (10)*                        | Pharmaceuticals                  | 9/30/2016  | 122,435 | 105                 | 1                   |  |
| Senior Secured Unitranche                            |                                  |            |         |                     |                     |  |
| Loan Program LLC (3)(5)                              | Asset Management                 | 11/25/2015 |         | 95,106              | 93,727              |  |
| Senior Secured Unitranche                            |                                  |            |         |                     |                     |  |
| Loan Program II LLC (3)(5)                           | Asset Management                 | 8/5/2016   |         | 55,754              | 56,134              |  |
| SentreHeart, Inc. Warrants                           |                                  |            |         |                     |                     |  |
| (10)*  | Health Care Equipment & Supplies | 11/15/2016 | 261,825 | 126                 | 113                 |  |
| Sunesis Pharmaceuticals, Inc.                        |                                  |            |         |                     |                     |  |
| Warrants (10)*                                       | Pharmaceuticals                  | 3/31/2016  | 104,001 | 118                 | 37                  |  |
| <b>Total Common Equity/Equity Interests/Warrants</b> |                                  |            |         | <b>\$ 457,183</b>   | <b>\$ 469,574</b>   |  |
| <b>Total Investments (8) 159.3%</b>                  |                                  |            |         | <b>\$ 1,454,190</b> | <b>\$ 1,471,917</b> |  |

| Description  | Industry   | Acquisition Date | Maturity Date | Par Amount          | Cost                | Fair Value        |
|--|------------|------------------|---------------|---------------------|---------------------|-------------------|
| <b>Cash Equivalents 15.1%</b>                          |            |                  |               |                     |                     |                   |
| U.S. Treasury Bill                                     | Government | 3/29/2018        | 4/26/2018     | \$ 140,000          | \$ 139,853          | \$ 139,853        |
| <b>Total Investments &amp; Cash Equivalents 174.4%</b> |            |                  |               | <b>\$ 1,594,043</b> | <b>\$ 1,611,770</b> |                   |
| Liabilities in Excess of Other Assets (74.4%)          |            |                  |               |                     |                     | (687,444)         |
| <b>Net Assets 100.0%</b>                               |            |                  |               |                     |                     | <b>\$ 924,326</b> |

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to the London Interbank Offered Rate ( LIBOR ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current rate of interest in effect as of March 31, 2018.
- (2) Ark Real Estate Partners is held through SLRC ADI Corp., a wholly-owned taxable subsidiary.

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

(3) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 ( 1940 Act ), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the three months ended March 31, 2018 in these controlled investments are as follows:

| Name of Issuer  | Fair Value at<br>December 31,<br>2017 | Gross<br>Additions | Gross<br>Reductions | Change<br>in               |                              | Interest/Dividend<br>/Other Income | Fair Value at<br>March 31,<br>2018 |
|---|---------------------------------------|--------------------|---------------------|----------------------------|------------------------------|------------------------------------|------------------------------------|
|   |                                       |                    |                     | Realized<br>Gain<br>(Loss) | Unrealized<br>Gain<br>(Loss) |                                    |                                    |
| Ark Real Estate Partners LP                                     | \$ 263                                | \$                 | \$                  | \$ (5)                     | \$ (109)                     | \$                                 | \$ 154                             |
| Ark Real Estate Partners II<br>LP                               | 6                                     |                    |                     |                            | (2)                          |                                    | 4                                  |
| AviatorCap SII, LLC I   | 10                                    |                    | 10                  |                            |                              |                                    |                                    |
| Crystal Financial LLC   | 303,200                               |                    |                     |                            | (3,200)                      | 7,720                              | 300,000                            |
| NEF Holdings, LLC   | 145,500                               |                    |                     |                            | (500)                        | 3,000                              | 145,000                            |
| RD Holdco Inc. (Rug<br>Doctor, common equity)                   | 10,102                                |                    |                     |                            | 2,597                        |                                    | 12,699                             |
| RD Holdco Inc. (Rug<br>Doctor, class B)                         | 5,216                                 |                    |                     |                            |                              |                                    | 5,216                              |
| RD Holdco Inc. (Rug<br>Doctor, warrants)                        | 35                                    |                    |                     |                            | 4                            |                                    | 39                                 |
| Rug Doctor LLC  | 9,111                                 |                    |                     |                            | (23)                         | 289                                | 9,111                              |
| Senior Secured Unitranche<br>Loan Program LLC ( SSLP )          | 88,736                                | 6,790              | 1,400               |                            | (399)                        | 1,979                              | 93,727                             |
| Senior Secured Unitranche<br>Loan Program II LLC ( SSLP<br>II ) | 51,744                                | 6,694              | 2,016               |                            | (288)                        | 1,375                              | 56,134                             |
| SOAGG LLC   | 4,537                                 |                    | 420                 |                            | 20                           | 78                                 | 4,137                              |
| SOINT, LLC (preferred<br>equity)                                | 8,300                                 |                    | 462                 |                            | 76                           | 270                                | 7,914                              |
|   | <b>\$ 626,760</b>                     | <b>\$ 13,484</b>   | <b>\$ 4,308</b>     | <b>\$ (5)</b>              | <b>\$ (1,824)</b>            | <b>\$ 14,711</b>                   | <b>\$ 634,135</b>                  |

- (4) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the three months ended March 31, 2018 in these affiliated investments are as follows:

| Name of Issuer         | Fair Value at     |                 | Change           |                      | Interest/Dividend Income | Fair Value at |
|------------------------|-------------------|-----------------|------------------|----------------------|--------------------------|---------------|
|                        | December 31, 2017 | Gross Additions | Gross Reductions | Realized Gain (Loss) |                          |               |
| DSW Group Holdings LLC | \$                | \$              | \$               | \$ 175               | \$                       | \$            |

- (5) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 ( 1940 Act ), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of March 31, 2018, on a fair value basis, non-qualifying assets in the portfolio represented 29.8% of the total assets of the Company.
- (6) Solar Capital Ltd. s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (7) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
- (8) Aggregate net unrealized appreciation for U.S. federal income tax purposes is \$12,003; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$24,959 and \$12,956, respectively, based on a tax cost of \$1,459,914. All of the Company s investments are pledged as collateral against the borrowings outstanding on the revolving credit facility.
- (9) 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.
- (10) Level 3 investment valued using significant unobservable inputs.
- (11) NEF Holdings, LLC is held through NEFCORP LLC, a wholly-owned consolidated taxable subsidiary and NEFPASS LLC, a wholly-owned consolidated subsidiary.
- (12) Indicates an investment that is wholly held by Solar Capital Ltd. through NEFPASS LLC.

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share/unit amounts)**

(13) Hawkeye Contracting Company, LLC, Eagle Creek Mining, LLC & Falcon Ridge Leasing, LLC are co-borrowers.

\* Non-income producing security.

Represents estimated change in receivable balance.

| <b>Industry Classification</b>                         | <b>Percentage of Total<br/>Investments (at fair value)<br/>as of March 31, 2018</b> |
|--|---|
| Diversified Financial Services (Crystal Financial LLC) | 20.4%   |
| Multi-Sector Holdings (includes NEF Holdings, LLC)     | 12.8%   |
| Asset Management (includes SSLP and SSLP II)           | 11.1%   |
| Health Care Providers & Services                       | 7.9%  |
| Health Care Equipment & Supplies                       | 7.0%  |
| Pharmaceuticals  | 6.2%  |
| Professional Services                                  | 4.4%  |
| Wireless Telecommunication Services                    | 3.7%  |
| Communications Equipment                               | 3.2%  |
| Road & Rail  | 2.3%  |
| Media  | 2.0%  |
| Diversified Consumer Services                          | 1.9%  |
| Consumer Finance                                       | 1.7%  |
| IT Services  | 1.7%  |
| Trading Companies & Distributors                       | 1.6%  |
| Health Care Technology                                 | 1.5%  |
| Thriffs & Mortgage Finance                             | 1.3%  |
| Life Sciences Tools & Services                         | 1.3%  |
| Chemicals  | 1.1%  |
| Oil, Gas & Consumable Fuels                            | 1.1%  |
| Airlines   | 1.1%  |
| Insurance  | 1.0%  |
| Software   | 0.9%  |
| Aerospace & Defense                                    | 0.8%  |
| Commercial Services & Supplies                         | 0.8%  |
| Hotels, Restaurants & Leisure                          | 0.3%  |
| Construction & Engineering                             | 0.3%  |
| Energy Equipment & Services                            | 0.2%  |
| Machinery  | 0.2%  |



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|                                    |        |
|------------------------------------|--------|
| Paper & Forest Products            | 0.1%   |
| Research & Consulting Services     | 0.1%   |
| Diversified Real Estate Activities | 0.0%   |
| Construction Materials             | 0.0%   |
| Total Investments                  | 100.0% |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2017****(in thousands, except share/unit amounts)**

| Description   | Industry                         | Spread<br>Above<br>Index (9) | LIBOR<br>Floor | Interest<br>Rate (1) | Acquisition<br>Date | Maturity<br>Date | Par<br>Amount | Cost     | Fair<br>Value |
|---|----------------------------------|------------------------------|----------------|----------------------|---------------------|------------------|---------------|----------|---------------|
| <b>Senior Secured Loans 83.5%</b>                   |                                  |                              |                |                      |                     |                  |               |          |               |
| <b>Bank Debt/Senior Secured Loans</b>               |                                  |                              |                |                      |                     |                  |               |          |               |
| AccentCare, Inc. (11)                               | Health Care Providers & Services | L+525                        | 1.00%          | 6.94%                | 12/29/2017          | 3/3/2022         | \$ 2,580      | \$ 2,567 | \$ 2,567      |
| AccentCare, Inc. (1)                                | Health Care Providers & Services | L+950                        | 1.00%          | 11.01%               | 9/3/2015            | 9/3/2022         | 10,000        | 9,869    | 9,900         |
| Regis Toxicology Sciences Corporation (11)          | Health Care Providers & Services | L+850                        | 1.00%          | 10.17%               | 2/20/2014           | 8/24/2021        | 31,000        | 30,606   | 30,070        |
| American Teleconferencing Services, Ltd. (PGI) (11) | Communications Equipment         | L+650                        | 1.00%          | 7.90%                | 5/5/2016            | 12/8/2021        | 21,627        | 21,127   | 21,300        |
| Merilife Group, LLC (11)                            | Insurance                        | L+875                        | 1.00%          | 10.25%               | 7/9/2015            | 1/10/2023        | 15,000        | 14,775   | 14,880        |
| Argo Turboserve Corporation & Argo Tech, LLC (11)   | Air Freight & Logistics          | L+1425 (10)                  |                | 15.73%               | 5/2/2014            | 5/2/2018         | 6,660         | 6,235    | 6,660         |
| AviatorCap SII, LLC I (3)(11)                       | Aerospace & Defense              |                              |                | 12.00%               | 5/31/2011           | 1/31/2019        | 10            | 10       | 10            |
| Whishop Lifting Products, Inc. (7)(11)              | Trading Companies & Distributors | L+800                        | 1.00%          | 9.57%                | 3/24/2014           | 3/27/2022        | 25,000        | 24,857   | 23,500        |
| Matto, Inc. (11)                                    | IT Services                      | L+800                        | 1.00%          | 9.41%                | 12/6/2017           | 12/7/2022        | 25,000        | 24,505   | 24,500        |
| ISA Holdings Acquisition Subsidiary Corp. (11)      | Professional Services            | L+850                        | 1.00%          | 9.84%                | 12/9/2014           | 6/9/2021         | 51,476        | 51,008   | 51,476        |
| Almouth Group Holdings Corp. (AMPAC) (11)           | Chemicals                        | L+675                        | 1.00%          | 8.44%                | 12/7/2015           | 12/14/2021       | 9,298         | 9,265    | 9,298         |
|   |                                  | L+400                        | 1.25%          | 5.69%                | 11/6/2015           | 5/23/2020        | 7,194         | 6,205    | 7,230         |

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|  |                                     |       |       |        |            |            |        |            |           |  |
|--|-------------------------------------|-------|-------|--------|------------|------------|--------|------------|-----------|--|
| Global Tel*Link Corporation                              | Communications Equipment            |       |       |        |            |            |        |            |           |  |
| Global Tel*Link Corporation                              | Communications Equipment            | L+825 | 1.25% | 9.94%  | 5/21/2013  | 11/23/2020 | 18,500 | 18,317     | 18,54     |  |
| Freystone Select Holdings LLC & Freystone & Co., c. (11) | Thrifths & Mortgage Finance         | L+800 | 1.00% | 9.40%  | 3/29/2017  | 4/17/2024  | 20,000 | 19,815     | 20,00     |  |
| HS Intermediate, c. (11)                                 | Health Care Providers & Services    | L+825 | 1.00% | 9.62%  | 6/19/2015  | 7/20/2022  | 25,000 | 24,639     | 24,56     |  |
| 2 Pure Solutions CoCal, L.P. (11)                        | Chemicals                           | L+900 | 1.00% | 10.57% | 8/19/2013  | 2/19/2021  | 7,475  | 7,398      | 7,40      |  |
| Core Wireless Group, Inc. (11)                           | Wireless Telecommunication Services | L+825 | 1.00% | 9.94%  | 9/12/2014  | 3/12/2021  | 55,500 | 54,866     | 54,94     |  |
| RI Software LC (11)                                      | Software                            | L+625 | 1.00% | 7.83%  | 6/7/2017   | 6/30/2023  | 16,352 | 16,197     | 16,27     |  |
| n Location Events, LLC & PrimeSport Holdings c. (11)     | Media                               | L+550 | 1.00% | 7.04%  | 12/7/2017  | 9/29/2021  | 60,000 | 59,260     | 59,25     |  |
| nyMed Management LC (11)                                 | Health Care Providers & Services    | L+875 | 1.00% | 10.21% | 12/18/2015 | 5/18/2021  | 32,321 | 31,430     | 31,27     |  |
| SKW, LLC & DR, LLC (11)                                  | Health Care Providers & Services    | L+826 | 1.00% | 9.95%  | 10/24/2017 | 11/25/2021 | 3,461  | 3,394      | 3,39      |  |
| radiology Partners, Inc. (11)                            | Health Care Providers & Services    | L+575 | 1.00% | 7.44%  | 11/28/2017 | 12/4/2023  | 9,122  | 9,032      | 9,03      |  |
| ug Doctor LLC (11)                                       | Diversified Consumer Services       | L+975 | 1.50% | 11.42% | 12/23/2013 | 12/31/2018 | 9,111  | 9,019      | 9,11      |  |
| lient Partners, P. (11)                                  | Asset Management                    | L+850 | 1.00% | 9.85%  | 6/10/2015  | 6/9/2021   | 13,980 | 13,803     | 13,98     |  |
| outhern Auto Finance Company (5)(11)                     | Consumer Finance                    |       |       | 11.15% | 10/19/2011 | 12/4/2018  | 25,000 | 24,905     | 25,00     |  |
| ne Octave Music Group, Inc. (aka TouchTunes) (11)        | Media                               | L+825 | 1.00% | 9.62%  | 5/28/2015  | 5/27/2022  | 14,000 | 13,852     | 14,00     |  |
| arilase Finance, Inc. (11)                               | Multi-Sector Holdings               | L+825 | 1.00% | 9.58%  | 8/22/2014  | 8/24/2020  | 48,000 | 47,548     | 48,00     |  |
| Total Bank Debt/Senior Secured Loans                     |                                     |       |       |        |            |            |        | \$ 554,504 | \$ 556,15 |  |

See notes to consolidated financial statements.



Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

| <b>Description</b>                         | <b>Industry</b>                        | <b>Spread<br/>Above LIBOR<br/>Index (9) Floor</b> | <b>Interest<br/>Rate (1)</b> | <b>Acquisition<br/>Date</b> | <b>Maturity<br/>Date</b> | <b>Par<br/>Amount</b> | <b>Cost</b> | <b>Fair<br/>Value</b> |           |
|--|--|---|------------------------------|-----------------------------|--------------------------|-----------------------|-------------|-----------------------|-----------|
| <u>Life Science</u>                        |  |   |                              |                             |                          |                       |             |                       |           |
| <u>Senior Secured</u>                      |  |   |                              |                             |                          |                       |             |                       |           |
| <u>Loans</u>                               |  |   |                              |                             |                          |                       |             |                       |           |
| Achaogen, Inc.<br>(5)(11)                  | Pharmaceuticals                        | L+699   | 1.00%                        | 8.34%                       | 8/5/2015                 | 8/5/2019              | \$ 20,833   | \$ 21,783             | \$ 22,500 |
| aTyr Pharma, Inc.<br>(11)                  | Pharmaceuticals                        | P+410   |                              | 8.35%                       | 11/18/2016               | 11/18/2020            | 10,000      | 9,986                 | 10,100    |
| Axcella Health<br>Inc. (11)                | Pharmaceuticals                        | L+880   |                              | 10.15%                      | 8/7/2015                 | 8/31/2019             | 20,000      | 20,600                | 20,900    |
| Breathe<br>Technologies,<br>Inc. (11)      | Health Care<br>Equipment &<br>Supplies | L+830   |                              | 9.65%                       | 11/5/2015                | 11/5/2019             | 15,000      | 16,774                | 16,800    |
| CardioDx, Inc.<br>(11)                     | Health Care<br>Providers &<br>Services | P+670   |                              | 11.20%                      | 6/18/2015                | 4/1/2019              | 4,000       | 4,507                 | 4,480     |
| CardioFocus, Inc.<br>(11)                  | Health Care<br>Equipment &<br>Supplies | L+750   |                              | 8.88%                       | 3/31/2017                | 7/1/2020              | 5,300       | 5,307                 | 5,300     |
| Cardiva Medical,<br>Inc. (11)              | Health Care<br>Equipment &<br>Supplies | L+865   | 0.63%                        | 10.00%                      | 2/2/2017                 | 2/2/2021              | 9,000       | 9,125                 | 9,045     |
| CAS Medical<br>Systems, Inc. (11)          | Health Care<br>Equipment &<br>Supplies | L+875   |                              | 10.10%                      | 6/30/2016                | 7/1/2020              | 6,000       | 6,083                 | 6,045     |
| Cianna Medical,<br>Inc. (11)               | Health Care<br>Equipment &<br>Supplies | L+900   |                              | 10.35%                      | 9/28/2016                | 9/28/2020             | 7,500       | 7,613                 | 7,556     |
| Claret Medical,<br>Inc. (11)               | Health Care<br>Equipment &<br>Supplies | P+450   |                              | 9.00%                       | 11/22/2017               | 10/1/2020             | 5,000       | 4,947                 | 4,933     |
| Clinical Ink, Inc.<br>(11)                 | Health Care<br>Technology              | L+850   | 0.70%                        | 9.86%                       | 3/8/2016                 | 3/8/2020              | 5,056       | 5,153                 | 5,056     |
| Delphinus<br>Medical<br>Technologies, Inc. | Health Care<br>Equipment &<br>Supplies | L+850   |                              | 9.88%                       | 8/18/2017                | 9/1/2021              | 3,750       | 3,664                 | 3,722     |

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|  |  |       |       |        |            |            |        |                   |                   |
|--|--|-------|-------|--------|------------|------------|--------|-------------------|-------------------|
| (11)   |  |       |       |        |            |            |        |                   |                   |
| Lumeris Solutions<br>Company, LLC<br>(11)      | Health Care<br>Technology              | L+860 | 0.25% | 9.98%  | 3/22/2017  | 2/1/2020   | 16,000 | 16,147            | 16,160            |
| Mitralign, Inc.<br>(11)                        | Health Care<br>Equipment &<br>Supplies |       |       | 9.48%  | 4/22/2016  | 12/1/2018  | 833    | 843               | 829               |
| Nabsys 2.0 LLC<br>(11)                         | Life Sciences<br>Tools &<br>Services   |       |       | 8.90%  | 4/22/2016  | 10/13/2018 | 2,302  | 2,695             | 2,532             |
| PQ Bypass, Inc.<br>(11)                        | Health Care<br>Equipment &<br>Supplies | L+885 | 1.00% | 10.20% | 4/21/2016  | 4/21/2020  | 5,000  | 5,012             | 4,975             |
| Rapid Micro<br>Biosystems,<br>Inc. (11)        | Life Sciences<br>Tools &<br>Services   | L+880 |       | 10.16% | 6/30/2015  | 6/30/2019  | 15,360 | 16,126            | 15,322            |
| scPharmaceuticals,<br>Inc. (11)                | Pharmaceuticals                        | L+845 |       | 9.83%  | 5/23/2017  | 5/1/2021   | 5,000  | 4,952             | 5,000             |
| Scynexis, Inc. (11)                            | Pharmaceuticals                        | L+849 |       | 9.87%  | 9/30/2016  | 9/30/2020  | 15,000 | 15,049            | 14,850            |
| SentreHeart, Inc.<br>(11)                      | Health Care<br>Equipment &<br>Supplies | L+885 |       | 10.20% | 11/15/2016 | 11/15/2020 | 10,000 | 9,958             | 10,000            |
| Sunesis<br>Pharmaceuticals,<br>Inc. (11)       | Pharmaceuticals                        | L+854 |       | 9.92%  | 3/31/2016  | 4/1/2020   | 3,750  | 3,765             | 3,769             |
| Trevi<br>Therapeutics,<br>Inc. (11)            | Pharmaceuticals                        | L+775 |       | 9.11%  | 12/29/2014 | 6/29/2018  | 2,406  | 2,786             | 2,623             |
| Vapotherm, Inc.<br>(11)                        | Health Care<br>Equipment &<br>Supplies | L+899 |       | 10.34% | 11/16/2016 | 5/16/2021  | 20,000 | 20,040            | 20,450            |
| <b>Total Life Science Senior Secured Loans</b> |  |       |       |        |            |            |        | <b>\$ 212,915</b> | <b>\$ 212,947</b> |
| <b>Total Senior Secured Loans</b>              |  |       |       |        |            |            |        | <b>\$ 767,419</b> | <b>\$ 769,101</b> |

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

| <b>Description</b>                                    | <b>Industry</b>                | <b>Interest Rate (1)</b> | <b>Acquisition Date</b> | <b>Maturity Date</b> | <b>Par Amount</b> | <b>Cost</b> | <b>Fair Value</b> |
|---|--------------------------------|--------------------------|-------------------------|----------------------|-------------------|-------------|-------------------|
| <b>Equipment Financing</b><br><b>23.7%</b>            |                                |                          |                         |                      |                   |             |                   |
| Althoff Crane Service, Inc. (11)(13)                  | Commercial Services & Supplies | 10.55%                   | 7/31/2017               | 6/8/2022             | \$ 1,526          | \$ 1,526    | \$ 1,526          |
| BB578, LLC (11)(13)                                   | Media                          | 10.00%                   | 7/31/2017               | 11/1/2021            | 801               | 801         | 821               |
| Beverly Hills Limo and Corporate Coach, Inc. (11)(13) | Road & Rail                    | 10.67%                   | 7/31/2017               | 2/28/2018            | 38                | 38          | 37                |
| Blue Star Materials II, LLC (11)(13)                  | Construction Materials         | 39.06%                   | 7/31/2017               | 5/1/2018             | 102               | 102         | 102               |
| Carl R. Bieber, Inc. (11)(13)                         | Hotels, Restaurants & Leisure  | 9.92%                    | 7/31/2017               | 1/13/2024            | 1,363             | 1,363       | 1,347             |
| Central Freight Lines, Inc. (11)(13)                  | Road & Rail                    | 7.16%                    | 7/31/2017               | 1/14/2024            | 1,979             | 1,979       | 1,940             |
| Cfactor Leasing Corp. & CZM USA, Corp. (11)(13)       | Machinery                      | 12.00-12.05%             | 7/31/2017               | 5/31/2019-1/15/2021  | 2,090             | 2,090       | 2,135             |
| Family First Freight, LLC (11)(13)                    | Road & Rail                    | 10.11%                   | 7/31/2017               | 1/22/2022            | 505               | 505         | 513               |
| Georgia Jet, Inc. (11)(13)                            | Airlines                       | 8.00%                    | 12/4/2017               | 12/4/2021            | 2,918             | 2,918       | 2,918             |
| Haljoe Coaches USA, LLC (11)(13)                      | Road & Rail                    | 8.12-9.90%               | 7/31/2017               | 7/1/2022-11/17/2022  | 6,172             | 6,172       | 6,172             |
| Hawkeye Contracting Company, LLC (11)(13)(14)         | Oil, Gas & Consumable Fuels    | 10.00%                   | 11/15/2017              | 11/15/2020           | 5,292             | 5,292       | 5,292             |

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|   |                                  |               |            |                       |       |       |       |
|---|----------------------------------|---------------|------------|-----------------------|-------|-------|-------|
| Knight Transfer Services, Inc. & Dumpstr Xpress, Inc. (11)(13)      | Commercial Services & Supplies   | 12.05-12.76%  | 7/31/2017  | 4/11/2020-4/30/2020   | 852   | 852   | 854   |
| Logicorp Enterprises, LLC (11)(13)                                  | Road & Rail                      | 12.18%        | 7/31/2017  | 2/3/2021              | 4,016 | 4,016 | 4,096 |
| Marcal Manufacturing, LLC dba Soundview Paper Company, LLC (11)(13) | Paper & Forest Products          | 12.91-12.98%  | 7/31/2017  | 7/30/2022-10/25/2022  | 1,637 | 1,637 | 1,637 |
| Meridian Consulting I Corp, Inc. (11)(13)                           | Hotels, Restaurants & Leisure    | 10.72%        | 7/31/2017  | 12/4/2021             | 3,784 | 3,784 | 3,873 |
| Mountain Air Helicopters, Inc. (11)(13)                             | Commercial Services & Supplies   | 10.00%        | 7/31/2017  | 4/30/2022             | 1,882 | 1,882 | 1,882 |
| OKK Equipment, LLC (11)(13)   | Commercial Services & Supplies   | 10.15%        | 7/31/2017  | 8/27/2023             | 709   | 709   | 696   |
| Reston Limousine & Travel Service, Inc. (11)(13)                    | Road & Rail                      | 11.81%        | 9/13/2017  | 10/1/2021             | 1,868 | 1,895 | 1,868 |
| Rosco Crane & Rigging, Inc. (11)(13)                                | Commercial Services & Supplies   | 11.53%        | 8/25/2017  | 9/1/2022              | 711   | 711   | 711   |
| Royal Coach Lines, Inc. (11)(13)                                    | Road & Rail                      | 10.03%        | 7/31/2017  | 8/28/2018             | 364   | 364   | 361   |
| RVR Air Charter, LLC & RVR Aviation, LLC (11)(13)                   | Airlines                         | 12.00%        | 7/31/2017  | 1/1/2022              | 1,550 | 1,550 | 1,581 |
| Santek Environmental, LLC (11)(13)                                  | Commercial Services & Supplies   | 10.00%        | 7/31/2017  | 3/1/2021              | 154   | 154   | 153   |
| Santek Environmental of Alabama, LLC (11)(13)                       | Commercial Services & Supplies   | 8.95-10.00%   | 7/31/2017  | 12/18/2020-11/29/2021 | 252   | 252   | 250   |
| Sidelines Tree Service LLC (11)(13)                                 | Diversified Consumer Services    | 10.31%-10.52% | 7/31/2017  | 8/1/2022-10/1/2022    | 523   | 525   | 523   |
| Southern Nevada Oral & Maxillofacial Surgery, LLC (11)(13)          | Health Care Providers & Services | 12.00%        | 7/31/2017  | 3/1/2024              | 1,521 | 1,521 | 1,544 |
|   | Road & Rail                      | 9.13%         | 11/21/2017 | 11/1/2020             | 202   | 202   | 202   |



|   |            |           |                      |       |       |       |  |  |
|---|------------|-----------|----------------------|-------|-------|-------|--|--|
| Southwest Traders, Inc. (11)(13)              |            |           |                      |       |       |       |  |  |
| ST Coaches, LLC (11)(13)                      |            |           |                      |       |       |       |  |  |
| Road & Rail                                   | 8.23-8.72% | 7/31/2017 | 10/1/2022-11/18/2022 | 3,703 | 3,703 | 3,703 |  |  |
| Sturgeon Services International Inc. (11)(13) |            |           |                      |       |       |       |  |  |
| Energy Equipment & Services                   | 17.21%     | 7/31/2017 | 2/28/2022            | 2,212 | 2,212 | 2,225 |  |  |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

| <b>Description</b>  | <b>Industry</b>                | <b>Interest Rate (1)</b> | <b>Acquisition Date</b> | <b>Maturity Date</b> | <b>Par Amount</b>        | <b>Cost</b>       | <b>Fair Value</b> |
|---|--------------------------------|--------------------------|-------------------------|----------------------|--------------------------|-------------------|-------------------|
| Sun-Tech Leasing of Texas, L.P. (11)(13)                                  | Road & Rail                    | 8.68-10.60%              | 7/31/2017               | 5/4/2019-7/25/2021   | 1,253                    | 1,253             | 1,252             |
| Superior Transportation, Inc. (11)(13)                                    | Road & Rail                    | 9.77-10.26%              | 7/31/2017               | 4/23/2022-11/25/2022 | 3,451                    | 3,451             | 3,423             |
| The Smedley Company & Smedley Services, Inc. (11)(13)                     | Commercial Services & Supplies | 11.63%                   | 7/31/2017               | 2/10/2024            | 3,119                    | 3,119             | 3,181             |
| Tornado Bus Company (11)(13)  | Road & Rail                    | 10.78%                   | 7/31/2017               | 9/1/2021             | 2,727                    | 2,727             | 2,749             |
| Waste Services of Tennessee, LLC (11)(13)                                 | Commercial Services & Supplies | 8.95-10.15%              | 7/31/2017               | 2/7/2021-11/29/2021  | 983                      | 983               | 968               |
| Waste Services of Texas, LLC (11)(13)                                     | Commercial Services & Supplies | 8.95%                    | 7/31/2017               | 12/6/2021            | 190                      | 190               | 185               |
| WJV658, LLC (11)(13)  | Airlines                       | 8.50%                    | 7/31/2017               | 7/1/2022             | 8,452                    | 8,452             | 8,452             |
| W.P.M., Inc., WPM-Southern, LLC, WPM Construction Services, Inc. (11)(13) | Construction & Engineering     | 7.50%                    | 7/31/2017               | 10/1/2022            | 4,004                    | 4,004             | 3,911             |
|   |                                |                          |                         |                      | <b>Shares/<br/>Units</b> |                   |                   |
| NEF Holdings, LLC Equity Interests (3)(11)(12)                            | Multi-Sector Holdings          |                          |                         | 7/31/2017            | 200                      | 145,000           | 145,500           |
| <b>Total Equipment Financing</b>  |                                |                          |                         |                      |                          | <b>\$ 217,934</b> | <b>\$ 218,583</b> |

**Preferred Equity**

| <b>1.4%</b>                   |                        |        |            |           |        |           |           |  |
|-------------------------------|------------------------|--------|------------|-----------|--------|-----------|-----------|--|
| SOAGG LLC<br>(3)(5)(6)        | Aerospace &<br>Defense | 8.00%  | 12/14/2010 | 6/30/2020 | 4,147  | \$ 4,147  | \$ 4,537  |  |
| SOINT, LLC<br>(3)(5)(6)       | Aerospace &<br>Defense | 15.00% | 6/8/2012   | 6/30/2020 | 77,014 | 7,701     | 8,300     |  |
| <b>Total Preferred Equity</b> |                        |        |            |           |        | \$ 11,848 | \$ 12,837 |  |

| Description   | Industry                           | Acquisition Date | Shares/<br>Units | Cost    | Fair Value |
|---|------------------------------------|------------------|------------------|---------|------------|
| <b>Common Equity/Equity Interests/Warrants 50.0%</b>        |                                    |                  |                  |         |            |
| Ark Real Estate Partners LP (2)(3)(11)*                     | Diversified Real Estate Activities | 3/12/2007        |                  | \$ 527  | \$ 263     |
| Ark Real Estate Partners II LP (2)(3)(11)*                  | Diversified Real Estate Activities | 10/23/2012       |                  | 12      | 6          |
| aTyr Pharma, Inc. Warrants (11)*                            | Pharmaceuticals                    | 11/18/2016       | 88,792           | 106     | 73         |
| B Riley Financial Inc. (5)                                  | Research & Consulting Services     | 3/16/2007        | 38,015           | 2,684   | 688        |
| CardioDx, Inc. Warrants (11)*                               | Health Care Providers & Services   | 6/18/2015        | 3,986            | 129     |            |
| CardioFocus, Inc. Warrants (11)*                            | Health Care Equipment & Supplies   | 3/31/2017        | 440,816          | 51      | 43         |
| CAS Medical Systems, Inc. Warrants (11)*                    | Health Care Equipment & Supplies   | 6/30/2016        | 48,491           | 38      |            |
| Cianna Medical, Inc. Warrants (11)*                         | Health Care Equipment & Supplies   | 9/28/2016        | 112,158          | 47      | 39         |
| Claret Medical, Inc. Warrants (11)*                         | Health Care Equipment & Supplies   | 11/22/2017       | 367,737          | 42      | 42         |
| Conventus Orthopaedics, Inc. Warrants (11)*                 | Health Care Equipment & Supplies   | 6/15/2016        | 157,500          | 65      | 43         |
| Crystal Financial LLC (3)(5)(11)                            | Diversified Financial Services     | 12/28/2012       | 280,303          | 280,737 | 303,200    |
| Delphinus Medical Technologies, Inc. Warrants (11)*         | Health Care Equipment & Supplies   | 8/18/2017        | 380,904          | 74      | 66         |
| Essence Group Holdings Corporation (Lumeris) Warrants (11)* | Health Care Technology             | 3/22/2017        | 208,000          | 63      | 155        |
| PQ Bypass, Inc. Warrants (11)*                              | Health Care Equipment & Supplies   | 4/21/2016        | 176,471          | 70      | 38         |
| RD Holdco Inc. (Rug Doctor) (3)(11)*                        | Diversified Consumer Services      | 12/23/2013       | 231,177          | 15,683  | 10,102     |
| RD Holdco Inc. (Rug Doctor) Class B (3)(11)*                | Diversified Consumer Services      | 12/23/2013       | 522              | 5,216   | 5,216      |
|   |                                    | 12/23/2013       | 30,370           | 381     | 35         |

RD Holdco Inc. (Rug Doctor)  
Warrants (3)(11)\*

Diversified Consumer  
Services

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

| <b>Description</b>                                       | <b>Industry</b>                  | <b>Acquisition Date</b> | <b>Shares/ Units</b> | <b>Cost</b>         | <b>Fair Value</b>   |
|--|----------------------------------|-------------------------|----------------------|---------------------|---------------------|
| Scynexis, Inc. Warrants (11)*                            | Pharmaceuticals                  | 9/30/2016               | 122,435              | 105                 | 3                   |
| Senior Secured Unitranche Loan Program LLC (3)(5)(11)    | Asset Management                 | 11/25/2015              |                      | 89,716              | 88,736              |
| Senior Secured Unitranche Loan Program II LLC (3)(5)(11) | Asset Management                 | 8/5/2016                |                      | 51,076              | 51,744              |
| SentreHeart, Inc. Warrants (11)*                         | Health Care Equipment & Supplies | 11/15/2016              | 261,825              | 126                 | 79                  |
| Sunesis Pharmaceuticals, Inc. Warrants (11)*             | Pharmaceuticals                  | 3/31/2016               | 104,001              | 118                 | 78                  |
| <b>Total Common Equity/Equity Interests/Warrants</b>     |                                  |                         |                      | <b>\$ 447,066</b>   | <b>\$ 460,649</b>   |
| <b>Total Investments (8)</b>                             | <b>158.6%</b>                    |                         |                      | <b>\$1,444,267</b>  | <b>\$1,461,170</b>  |
|  |                                  | <b>Maturity Date</b>    | <b>Par Amount</b>    |                     |                     |
| <b>Cash Equivalents</b>                                  |                                  |                         |                      |                     |                     |
| <b>15.7%</b>   |                                  |                         |                      |                     |                     |
| U.S. Treasury Bill                                       | Government                       | 12/28/2017              | 2/8/2018             | \$ 145,000          | \$ 144,826          |
| <b>Total Investments &amp; Cash Equivalents</b>          |                                  |                         |                      | <b>\$ 1,589,093</b> | <b>\$ 1,605,996</b> |
| Liabilities in Excess of Other Assets (74.3%)            |                                  |                         |                      |                     | (684,391)           |
| <b>Net Assets</b>  | <b>100.0%</b>                    |                         |                      |                     | <b>\$ 921,605</b>   |

(1) Floating rate debt investments typically bear interest at a rate determined by reference to the London Interbank Offered Rate ( LIBOR ), and which typically reset monthly, quarterly or semi-annually. For each debt investment

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we have provided the current rate of interest in effect as of December 31, 2017.

- (2) Ark Real Estate Partners is held through SLRC ADI Corp., a wholly-owned taxable subsidiary.
- (3) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 ( 1940 Act ), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2017 in these controlled investments are as follows:

| Name of Issuer  | Fair Value at<br>December 31,<br>2016 | Gross<br>Additions | Gross<br>Reductions | Realized<br>Gain<br>(Loss) | Change<br>in<br>Unrealized<br>Gain<br>(Loss) | Interest/<br>Dividend/<br>Other<br>Income | Fair Value at<br>December 31,<br>2017 |
|---|---------------------------------------|--------------------|---------------------|----------------------------|--|---|---------------------------------------|
| Ark Real Estate Partners LP                               | \$ 336                                | \$                 | \$                  | \$ (6)                     | \$ (73)                                      | \$  | \$ 263                                |
| Ark Real Estate Partners II LP                            | 8                                     |                    |                     |                            | (2)  |   | 6                                     |
| AviatorCap SII, LLC I                                     | 497                                   |                    | 487                 |                            |  | 31  | 10                                    |
| Crystal Financial LLC                                     | 305,000                               |                    |                     |                            | (1,800)                                      | 31,600                                    | 303,200                               |
| NEF Holdings, LLC   |                                       | 145,000            |                     |                            | 500  | 5,898                                     | 145,500                               |
| RD Holdco Inc. (Rug Doctor, common equity)                | 13,574                                |                    |                     |                            | (3,472)                                      |   | 10,102                                |
| RD Holdco Inc. (Rug Doctor, class B)                      | 5,216                                 |                    |                     |                            |  |   | 5,216                                 |
| RD Holdco Inc. (Rug Doctor, warrants)                     | 168                                   |                    |                     |                            | (133)  |   | 35                                    |
| Rug Doctor LLC  | 9,111                                 |                    |                     |                            | (92)   | 1,149                                     | 9,111                                 |
| Senior Secured Unitranche Loan Program LLC ( SSLP )       | 100,653                               | 525                | 12,687              |                            | 245  | 8,393                                     | 88,736                                |
| Senior Secured Unitranche Loan Program II LLC ( SSLP II ) | 47,363                                | 8,872              | 4,758               |                            | 267  | 5,180                                     | 51,744                                |
| SOAGG LLC   | 5,806                                 |                    | 1,476               |                            | 207  | 394                                       | 4,537                                 |
| SOINT, LLC  | 2,386                                 |                    | 2,386               |                            | (6)  | 60  |                                       |
| SOINT, LLC (preferred equity)                             | 9,100                                 |                    | 966                 |                            | 166  | 1,259                                     | 8,300                                 |
|   | \$ 499,218                            | \$ 154,397         | \$ 22,760           | \$ (6)                     | \$ (4,193)                                   | \$ 53,964                                 | \$ 626,760                            |

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

- (4) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2017 in these affiliated investments are as follows:

| Name of Issuer                        | Fair Value at     |                 | Gross Reductions | Realized Gain (Loss) | Change in              |                          | Fair Value at |
|---------------------------------------|-------------------|-----------------|------------------|----------------------|------------------------|--------------------------|---------------|
|                                       | December 31, 2016 | Gross Additions |                  |                      | Unrealized Gain (Loss) | Interest Dividend Income |               |
| Direct Buy Inc. (common equity)       | \$                | \$              | \$               | \$                   | \$                     | \$                       | \$            |
| Direct Buy Inc. (senior secured loan) | 777               | 333             | 11,439           | (8,387)              | 7,734                  |                          |               |
| DSW Group Holdings LLC                |                   |                 |                  | 283                  |                        |                          |               |
|                                       | \$ 777            | \$ 333          | \$ 11,439        | \$ (8,104)           | \$ 7,734               | \$                       | \$            |

- (5) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 ( 1940 Act ), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of December 31, 2017, on a fair value basis, non-qualifying assets in the portfolio represented 30.5% of the total assets of the Company.
- (6) Solar Capital Ltd. s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (7) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
- (8) Aggregate net unrealized appreciation for U.S. federal income tax purposes is \$10,234; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$27,742 and \$17,508, respectively, based on a tax cost of \$1,450,936. All of the Company s investments are pledged as collateral against the borrowings outstanding on the revolving credit facility.
- (9) 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.
- (10) Spread is 12.25% Cash / 2.00% PIK.

- (11) Investment valued using significant unobservable inputs.
  - (12) NEF Holdings, LLC is held through NEFCORP LLC, a wholly-owned consolidated taxable subsidiary and NEFPASS LLC, a wholly-owned consolidated subsidiary.
  - (13) Indicates an investment that is wholly held by Solar Capital Ltd. through NEFPASS LLC.
  - (14) Hawkeye Contracting Company, LLC, Eagle Creek Mining, LLC & Falcon Ridge Leasing, LLC are co-borrowers.
- \* Non-income producing security.  
Represents estimated change in receivable balance.  
Investment contains a payment-in-kind ( PIK ) feature.

See notes to consolidated financial statements.



**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2017****(in thousands, except share/unit amounts)**

| <b>Industry Classification</b>                         | <b>Percentage of Total<br/>Investments (at fair value)<br/>as of December 31,<br/>2017</b> |
|--|--|
| Diversified Financial Services (Crystal Financial LLC) | 20.7%  |
| Multi-Sector Holdings (includes NEF Holdings, LLC)     | 13.2%  |
| Asset Management (includes SSLP and SSLP II)           | 10.6%  |
| Health Care Providers & Services                       | 8.0%   |
| Health Care Equipment & Supplies                       | 6.2%   |
| Pharmaceuticals  | 5.5%   |
| Media  | 5.1%   |
| Wireless Telecommunication Services                    | 3.8%   |
| Professional Services                                  | 3.5%   |
| Communications Equipment                               | 3.2%   |
| Road & Rail  | 1.8%   |
| Consumer Finance                                       | 1.7%   |
| Diversified Consumer Services                          | 1.7%   |
| IT Services  | 1.7%   |
| Trading Companies & Distributors                       | 1.6%   |
| Health Care Technology                                 | 1.5%   |
| Thriffs & Mortgage Finance                             | 1.4%   |
| Life Sciences Tools & Services                         | 1.2%   |
| Chemicals  | 1.1%   |
| Software   | 1.1%   |
| Insurance  | 1.0%   |
| Airlines   | 0.9%   |
| Aerospace & Defense                                    | 0.9%   |
| Commercial Services & Supplies                         | 0.7%   |
| Air Freight & Logistics                                | 0.5%   |
| Oil, Gas & Consumable Fuels                            | 0.4%   |
| Hotels, Restaurants & Leisure                          | 0.4%   |
| Construction & Engineering                             | 0.3%   |
| Energy Equipment & Services                            | 0.1%   |
| Machinery  | 0.1%   |
| Paper & Forest Products                                | 0.1%   |
| Research & Consulting Services                         | 0.0%   |
| Diversified Real Estate Activities                     | 0.0%   |
| Construction Materials                                 | 0.0%   |

|                   |        |
|-------------------|--------|
| Total Investments | 100.0% |
|-------------------|--------|

See notes to consolidated financial statements.

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**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

**Note 1. Organization**

Solar Capital LLC, a Maryland limited liability company, was formed in February 2007 and commenced operations on March 13, 2007 with initial capital of \$1,200,000 of which 47.04% was funded by affiliated parties.

Immediately prior to our initial public offering, through a series of transactions, Solar Capital Ltd. merged with Solar Capital LLC, leaving Solar Capital Ltd. as the surviving entity (the Merger). Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125,000 in senior unsecured notes to the existing Solar Capital LLC unit holders in connection with the Merger. Solar Capital Ltd. had no assets or operations prior to completion of the Merger and as a result, the historical books and records of Solar Capital LLC have become the books and records of the surviving entity. The number of shares used to calculate weighted average shares for use in computations on a per share basis have been decreased retroactively by a factor of approximately 0.4022 for all periods prior to February 9, 2010. This factor represents the effective impact of the reduction in shares resulting from the Merger.

Solar Capital Ltd. ( Solar Capital , the Company , we , us or our ), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). Furthermore, as the Company is an investment company, it continues to apply the guidance in FASB Accounting Standards Codification ( ASC ) Topic 946. In addition, for tax purposes, the Company has elected to be treated, and intend to qualify annually, as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 9, 2010, Solar Capital priced its initial public offering, selling 5.68 million shares, including the underwriters' over-allotment, at a price of \$18.50 per share. Concurrent with this offering, the Company's senior management purchased an additional 600,000 shares through a private placement, also at \$18.50 per share.

The Company's investment objective is to maximize both current income and capital appreciation through debt and equity investments. The Company invests primarily in leveraged middle market companies in the form of senior secured loans, stretch-senior loans, unitranche loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded.

**Note 2. Significant Accounting Policies**

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

Interim consolidated financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Regulation S-X, as appropriate. Accordingly, they may not include all of the information and notes required by GAAP for annual consolidated financial statements. GAAP requires management to make estimates and assumptions that affect the reported

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2018.

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

The significant accounting policies consistently followed by the Company are:

- (a) Investment transactions are accounted for on the trade date;
- (b) Under procedures established by our board of directors (the Board), we value investments, including certain senior secured debt, subordinated debt and other debt securities with maturities greater than 60 days, for which market quotations are readily available, at such market quotations (unless they are deemed not to represent fair value). We attempt to obtain market quotations from at least two brokers or dealers (if available, otherwise from a principal market maker or a primary market dealer or other independent pricing service). We utilize mid-market pricing as a practical expedient for fair value unless a different point within the range is more representative. If and when market quotations are deemed not to represent fair value, we may utilize independent third-party valuation firms to assist us in determining the fair value of material assets. Accordingly, such investments go through our multi-step valuation process as described below. In each such case, independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of Solar Capital Partners, LLC (the Investment Adviser), does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of our Board. Investments that are not publicly traded or whose market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of our Board. Such determination of fair values involves subjective judgments and estimates.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and discussed with senior management of the Investment Adviser;
- (3) independent valuation firms engaged by our Board conduct independent appraisals and review the Investment Adviser's preliminary valuations and make their own independent assessment for all material assets;
- (4) the audit committee of the Board reviews the preliminary valuation of the Investment Adviser and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm, if any, to reflect any comments; and

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

- (5) the Board discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm, if any, and the audit committee.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2018, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

- (c) Gains or losses on investments are calculated by using the specific identification method.
  
- (d) The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the effective interest method or on a straight-line basis, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record call premiums received on loans repaid as interest income when we receive such amounts. Capital structuring fees, amendment fees, consent fees, and any other non-recurring fee income as well as management fee and other fee income for services rendered, if any, are recorded as other income when earned.



**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

- (e) The Company intends to comply with the applicable provisions of the Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all U.S. federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on such estimated excess taxable income as appropriate.
- (f) Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts annually. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.
- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810 *Consolidation*, the Company consolidates its interest in investment company subsidiaries, financing subsidiaries and certain wholly-owned holding companies that serve to facilitate investment in portfolio companies. In addition, the Company may also consolidate any controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments in terms of U.S. dollars and therefore the earnings of the Company.
- (j)

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The Company has made an irrevocable election to apply the fair value option of accounting to its senior secured credit facility (the Credit Facility ) and its unsecured senior notes due 2022 (the 2022 Unsecured Notes ) (see note 6 and 8), in accordance with ASC 825-10.

- (k) In accordance with ASC 835-30, the Company records origination and other expenses related to certain debt issuances as a direct deduction from the carrying amount of the debt liability. These expenses are deferred and amortized using either the effective interest method or the straight-line method over the stated life. The straight-line method may be used on revolving facilities and when it approximates the effective yield method.
- (l) The Company may enter into forward exchange contracts in order to hedge against foreign currency risk. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled.
- (m) The Company records expenses related to shelf registration statements and applicable equity offering costs as prepaid assets. These expenses are typically charged as a reduction of capital upon utilization, in accordance with ASC 946-20-25. Certain subsequent costs are expensed per the AICPA Audit & Accounting Guide for Investment Companies.

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

- (n) Investments that are expected to pay regularly scheduled interest in cash are generally placed on non-accrual status when principal or interest cash payments are past due 30 days or more (90 days or more for equipment financing) and/or when it is no longer probable that principal or interest cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining principal and interest obligations. Cash interest payments received on such investments may be recognized as income or applied to principal depending on management's judgment.
- (o) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less would qualify, with limited exceptions. The Company believes that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Recent Accounting Pronouncements**

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, which amends FASB ASC 230. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under Topic 230. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has adopted ASU 2016-18 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which will amend FASB ASC 310-20. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium, generally requiring the premium to be amortized to the earliest call date. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of ASU 2017-08 on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASC 606, Revenue From Contracts With Customers, originally effective for public business entities with annual reporting periods beginning after December 15, 2016. On August 12, 2015, the FASB issued an ASU, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASC 606 for one year. ASC 606 provides accounting guidance related to revenue from contracts

with customers. For public business entities, ASC 606 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company has adopted ASC 606 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

**Note 3. Agreements**

Solar Capital has an Advisory Agreement with the Investment Adviser, under which the Investment Adviser will manage the day-to-day operations of, and provide investment advisory services to, Solar Capital. For

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**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

providing these services, the Investment Adviser receives a fee from Solar Capital, consisting of two components—a base management fee and a performance-based incentive fee. The base management fee is determined by taking the average value of Solar Capital's gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 1.75%. Prior to January 1, 2018, the annual rate was 2.00%. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The performance-based incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Solar Capital's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus Solar Capital's operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distributions paid on any issued and outstanding preferred stock, but excluding the performance-based incentive fee). Pre-incentive fee net investment income does not include any realized capital gains or losses, or unrealized capital appreciation or depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Solar Capital's net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7% annualized). Solar Capital pays the Investment Adviser a performance-based incentive fee with respect to Solar Capital's pre-incentive fee net investment income in each calendar quarter as follows: (1) no performance-based incentive fee in any calendar quarter in which Solar Capital's pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Solar Capital's 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 rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Solar Capital's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro-rated for any period of less than three months.

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

For the three months ended March 31, 2018 and 2017, the Company recognized \$6,473 and \$6,719, respectively, in base management fees and \$4,714 and \$4,083, respectively, in performance-based incentive fees.

Solar Capital has also entered into an Administration Agreement with Solar Capital Management, LLC (the Administrator ) under which the Administrator provides administrative services to Solar Capital. For providing these services, facilities and personnel, Solar Capital reimburses the Administrator for Solar Capital'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 Capital's behalf, managerial assistance to those portfolio companies to which Solar Capital is required to provide such assistance. The Company typically reimburses the Administrator on a quarterly basis.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

For the three months ended March 31, 2018 and 2017, the Company recognized expenses under the Administration Agreement of \$1,286 and \$1,335, respectively. No managerial assistance fees were accrued or collected for the three months ended March 31, 2018 and 2017.

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

At March 31, 2018, the Company's total net assets and net asset value per share were \$924,326 and \$21.87, respectively. This compares to total net assets and net asset value per share at December 31, 2017 of \$921,605 and \$21.81, respectively.

**Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted net increase in net assets per share resulting from operations, pursuant to ASC 260-10, for the three months ended March 31, 2018 and 2017:

|   | <b>Three months ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <b>2018</b>                         | <b>2017</b> |
| <u>Earnings per share (basic &amp; diluted)</u>                 |                                     |             |
| Numerator net increase in net assets resulting from operations: | \$ 20,048                           | \$ 17,158   |
| Denominator weighted average shares:                            | 42,260,826                          | 42,248,525  |
| Earnings per share:   | \$ 0.47                             | \$ 0.41     |

**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 valuations used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

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

Level 2 inputs include the following:

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

**Level 3.** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

management's and, if applicable, an independent third-party valuation firm's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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

Gains and losses for assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

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

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2018 and December 31, 2017:

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

|  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Measured at<br/>Net Asset Value*</b> | <b>Total</b> |
|--|----------------|----------------|----------------|---|--------------|
| <b>Assets:</b>                           |                |                |                |   |              |
| Senior Secured Loans                     | \$             | \$ 25,768      | \$ 722,944     | \$                                      | \$ 748,712   |
| Equipment Financing                      |                |                | 241,580        |   | 241,580      |
| Preferred Equity                         |                |                | 12,051         |   | 12,051       |
| Common Equity/Equity Interests/Warrants  | 741            |                | 318,972        | 149,861                                 | 469,574      |
| Total Investments                        | \$ 741         | \$ 25,768      | \$ 1,295,547   | \$ 149,861                              | \$ 1,471,917 |
| <b>Liabilities:</b>                      |                |                |                |   |              |
| Credit Facility and 2022 Unsecured Notes | \$             | \$             | \$ 449,500     | \$                                      | \$ 449,500   |

\* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities. The two portfolio investments in this category are SSLP and SSLP II. See Note 12 & 13, respectively, for more information on these investments, including their investment strategies and the Company's unfunded equity commitments to SSLP and SSLP II. Neither of these investments are redeemable by the Company absent an election by the members of the entities to liquidate all investments and distribute the proceeds to the members.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)****Fair Value Measurements****As of December 31, 2017**

|  | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Measured at<br/>Net Asset Value*</b> | <b>Total</b> |
|--|----------------|----------------|----------------|---|--------------|
| <b>Assets:</b>                           |                |                |                |   |              |
| Senior Secured Loans                     | \$             | \$ 25,770      | \$ 743,331     | \$                                      | \$ 769,101   |
| Equipment Financing                      |                |                | 218,583        |   | 218,583      |
| Preferred Equity                         |                |                | 12,837         |   | 12,837       |
| Common Equity/Equity Interests/Warrants  | 688            |                | 319,481        | 140,480                                 | 460,649      |
| Total Investments                        | \$ 688         | \$ 25,770      | \$ 1,294,232   | \$ 140,480                              | \$ 1,461,170 |
| <b>Liabilities:</b>                      |                |                |                |   |              |
| Credit Facility and 2022 Unsecured Notes | \$             | \$             | \$ 445,600     | \$                                      | \$ 445,600   |

\* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities. The two portfolio investments in this category are SSLP and SSLP II. See Note 12 & 13, respectively, for more information on these investments, including their investment strategies and the Company's unfunded equity commitments to SSLP and SSLP II. Neither of these investments are redeemable by the Company absent an election by the members of the entities to liquidate all investments and distribute the proceeds to the members.

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2018 and the year ended December 31, 2017 as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2018 and December 31, 2017:

**Fair Value Measurements Using Level 3 Inputs**

|   | <b>Senior Secured<br/>Loans</b> | <b>Equipment<br/>Financing</b> | <b>Preferred<br/>Equity</b> | <b>Common Equity/<br/>Equity<br/>Interests/<br/>Warrants</b> | <b>Total</b> |
|---|---------------------------------|--------------------------------|-----------------------------|--|--------------|
| <b>Fair value, December 31, 2017</b>  | \$ 743,331                      | \$ 218,583                     | \$ 12,837                   | \$ 319,481   | \$ 1,294,232 |
| Total gains or losses included in earnings:   |                                 |                                |                             |  |              |
| Net realized gain (loss)  | 213                             |                                |                             |  | 213          |
| Net change in unrealized gain (loss)  | 2,061                           | (51)                           | 95                          | (558)  | 1,547        |
| Purchase of investment securities   | 112,781                         | 26,730                         |                             | 49   | 139,560      |
| Proceeds from dispositions of investment securities.  | (135,442)                       | (3,682)                        | (881)                       |  | (140,005)    |
| Transfers in/out of Level 3   |                                 |                                |                             |  |              |
| <b>Fair value, March 31, 2018</b>   | \$ 722,944                      | \$ 241,580                     | \$ 12,051                   | \$ 318,972   | \$ 1,295,547 |
| Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period: |                                 |                                |                             |  |              |
| Net change in unrealized gain (loss)  | \$ 3,515                        | \$ (52)                        | \$ 95                       | \$ (558)   | \$ 3,000     |

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

During the three months ended March 31, 2018, there were no transfers in and out of Levels 1 and 2.

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the three months ended March 31, 2018:

|   | <b>For the<br/>three months<br/>ended<br/>March 31, 2018</b> |
|---|--|
| <b>Credit Facility and 2022 Unsecured Notes</b> |  |
| Beginning fair value                            | \$ 445,600   |
| Net realized (gain) loss                        |  |
| Net change in unrealized (gain) loss            |  |
| Borrowings                                      | 130,700  |
| Repayments                                      | (126,800)  |
| Transfers in/out of Level 3                     |  |
| Ending fair value                               | \$ 449,500   |

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility and the 2022 Unsecured Notes, in accordance with ASC 825-10. On March 31, 2018, there were borrowings of \$299,500 and \$150,000, respectively, on the Credit Facility and the 2022 Unsecured Notes.

**Fair Value Measurements Using Level 3 Inputs**

|  | <b>Senior Secured<br/>Loans</b> | <b>Equipment<br/>Financing</b> | <b>Subordinated Debt/<br/>Corporate<br/>Notes</b> | <b>Preferred<br/>Equity</b> | <b>Common Equity/<br/>Equity<br/>Interests/<br/>Warrants</b> |
|--|---------------------------------|--------------------------------|---|-----------------------------|--|
| <b>Fair value, December 31,<br/>2016</b>       | \$ 759,510                      | \$                             | \$ 28,059   | \$ 14,906                   | \$ 324,842   |
| Total gains or losses included<br>in earnings: |                                 |                                |   |                             |  |
| Net realized gain (loss)                       | (9,547)                         |                                |   |                             |  |
|  | 18,455                          | 649                            | (122)   | 372                         | (5,661)  |

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|   |            |            |          |           |            |
|---|------------|------------|----------|-----------|------------|
| Net change in unrealized gain (loss)  |            |            |          |           |            |
| Purchase of investment securities   | 246,367    | 224,468    | 36       |           | 300        |
| Proceeds from dispositions of investment securities.  | (271,454)  | (6,534)    | (27,973) | (2,441)   |            |
| Transfers in/out of Level 3   |            |            |          |           |            |
| <b>Fair value, December 31, 2017</b>  | \$ 743,331 | \$ 218,583 | \$       | \$ 12,837 | \$ 319,481 |
| Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period: |            |            |          |           |            |
| Net change in unrealized gain (loss)  | \$ 9,046   | \$ 649     | \$       | \$ 372    | \$ (5,661) |

During the year ended December 31, 2017, there were no transfers in and out of Levels 1 and 2.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the year ended December 31, 2017:

| <b>Credit Facility, Senior Secured Notes and 2022 Unsecured Notes</b> | <b>For the year ended<br/>December 31, 2017</b> |
|---|---|
| Beginning fair value  | \$ 290,200                                      |
| Net realized (gain) loss  |   |
| Net change in unrealized (gain) loss                                  |   |
| Borrowings  | 861,400   |
| Repayments  | (706,000)                                       |
| Transfers in/out of Level 3   |   |
| Ending fair value   | \$ 445,600                                      |

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility and the 2022 Unsecured Notes, in accordance with ASC 825-10. On December 31, 2017, there were borrowings of \$295,600 and \$150,000, respectively, on the Credit Facility and the 2022 Unsecured Notes. The Company used an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility and the 2022 Unsecured Notes.

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

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

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





**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of March 31, 2018 is summarized in the table below:

|                      |           | Fair Value at<br>Asset or March 31, Principal Valuation |                       | Range (Weighted<br>Average) |                          |
|----------------------|-----------|---|-----------------------|-----------------------------|--------------------------|
|                      | Liability | 2018  | Technique/Methodology | Unobservable Input          |                          |
| Senior Secured Loans | Asset     | \$ 722,944  | Yield Analysis        | Market Yield                | 6.9% - 21.1% (11.3%)     |
| Equipment Financing  | Asset     | \$ 96,580   | Yield Analysis        | Market Yield                | 7.2% - 39.1% (10.2%)     |
|                      |           | \$ 145,000  | Enterprise Value      | Return on Equity            | 8.7% - 8.7% (8.7%)       |
| Preferred Equity     | Asset     | \$ 12,051   | Yield Analysis        | Market Yield                | 6.0% - 13.1% (10.6%)     |
| Common Equity/Equity |           |   |                       |                             |                          |
| Interests/Warrants   | Asset     | \$ 18,972   | Enterprise Value      | EBITDA Multiple             | 5.5x - 6.5x (6.3x)       |
|                      |           | \$ 300,000  | Enterprise Value      | Return on Equity            | 7.3% - 13.0% (9.8%)      |
| Credit Facility      | Liability | \$ 299,500  | Yield Analysis        | Market Yield                | L+1.4% - L+4.8% (L+2.0%) |
| 2022 Unsecured Notes | Liability | \$ 150,000  | Yield Analysis        | Market Yield                | 4.5% - 4.9% (4.5%)       |

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2017 is summarized in the table below:

|                      |           | Fair Value at<br>Asset or December 31, Principal Valuation |                       | Range (Weighted<br>Average) |                          |
|----------------------|-----------|--|-----------------------|-----------------------------|--------------------------|
|                      | Liability | 2017   | Technique/Methodology | Unobservable Input          |                          |
| Senior Secured Loans | Asset     | \$ 743,331   | Yield Analysis        | Market Yield                | 7.6% - 22.8% (11.2%)     |
| Equipment Financing  | Asset     | \$ 73,083  | Yield Analysis        | Market Yield                | 7.6% - 39.1% (10.0%)     |
|                      |           | \$ 145,500   | Enterprise Value      | Return on Equity            | 11.8% - 11.8% (11.8%)    |
| Preferred Equity     | Asset     | \$ 12,837  | Yield Analysis        | Market Yield                | 6.2% - 13.4% (10.9%)     |
| Common Equity/Equity | Asset     |  |                       |                             |                          |
| Interests/Warrants   |           | \$ 16,281  | Enterprise Value      | EBITDA Multiple             | 5.5x - 6.5x (6.3x)       |
|                      |           | \$ 303,200   | Enterprise Value      | Return on Equity            | 7.3% - 14.0% (14.0%)     |
| Credit Facility      | Liability | \$ 295,600   | Yield Analysis        | Market Yield                | L+1.4% - L+4.8% (L+2.0%) |
|                      | Liability | \$ 150,000   | Yield Analysis        | Market Yield                | 4.5% - 4.9% (4.5%)       |

2022

Unsecured Notes

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

**Note 7. Derivatives**

The Company may be exposed to foreign exchange risk through its investments denominated in foreign currencies, if any. The Company may mitigate this risk through the use of foreign currency forward contracts, borrowing in local currency under its Credit Facility, or similar borrowing. As an investment company, all changes in the fair value of assets, including changes caused by foreign currency fluctuation, flow through current earnings.

As of March 31, 2018 and December 31, 2017, there were no open forward foreign currency contracts outstanding. The Company also had no derivatives designated as hedging instruments at March 31, 2018 and December 31, 2017.

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**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2018**

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

**Note 8. Debt**

*Unsecured Notes*

On December 28, 2017, the Company closed a private offering of \$21,000 of unsecured tranche c notes due 2022 (the 2022 Tranche C Notes ) with a fixed interest rate of 4.50% and a maturity date of December 28, 2022. Interest on the 2022 Tranche C Notes is due semi-annually on June 28 and December 28. The 2022 Tranche C Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On November 22, 2017, we issued \$75,000 in aggregate principal amount of publicly registered unsecured senior notes due 2023 (the 2023 Unsecured Notes ) for net proceeds of \$73,846. Interest on the 2023 Unsecured Notes is paid semi-annually on January 20 and June 20, at a rate of 4.50% per year, commencing on January 20, 2018. The 2023 Unsecured Notes mature on January 20, 2023.

On February 15, 2017, the Company closed a private offering of \$100,000 of additional 2022 Unsecured Notes with a fixed interest rate of 4.60% and a maturity date of May 8, 2022. Interest on the 2022 Unsecured Notes is due semi-annually on May 8 and November 8. The 2022 Unsecured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On November 8, 2016, the Company closed a private offering of \$50,000 of the 2022 Unsecured Notes with a fixed interest rate of 4.40% and a maturity date of May 8, 2022. Interest on the 2022 Unsecured Notes is due semi-annually on May 8 and November 8. The 2022 Unsecured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

*Revolving and Term Loan Facility*

On September 30, 2016, the Company entered into a second Credit Facility amendment. Post amendment, the Credit Facility was composed of \$505,000 of revolving credit and \$50,000 of term loans. Borrowings generally bear interest at a rate per annum equal to the base rate plus a range of 2.00-2.25% or the alternate base rate plus 1.00%-1.25%. The Credit Facility has no LIBOR floor requirement. The Credit Facility matures in September 2021 and includes ratable amortization in the final year. The Credit Facility may be increased up to \$800,000 with additional new lenders or an increase in commitments from current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Credit Facility contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder s equity and a minimum asset coverage ratio. The Company also pays issuers of funded term loans quarterly in arrears a commitment fee at the rate of 0.25% per annum on the average daily outstanding balance. On February 23, 2017, the Company prepaid its two non-extending lenders and terminated their commitments, reducing total outstanding revolving credit commitments by \$110,000 to \$395,000.

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At March 31, 2018, outstanding USD equivalent borrowings under the Credit Facility totaled \$299,500, composed of \$249,500 of revolving credit and \$50,000 of term loans.

Certain covenants on our issued debt may restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code.

The Company has made an irrevocable election to apply the fair value option of accounting to its Credit Facility and 2022 Unsecured Notes, in accordance with ASC 825-10. We believe accounting for the Credit

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

Facility and 2022 Unsecured Notes at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. ASC 825-10 requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility and the 2022 Unsecured Notes are reported in the Consolidated Statement of Operations.

The average annualized interest cost for all borrowings for the three months ended March 31, 2018 and the year ended December 31, 2017 was 4.11% and 4.73%, respectively. These costs are exclusive of other credit facility expenses such as unused fees, agency fees and other prepaid expenses related to establishing and/or amending the Credit Facility, the 2022 Unsecured Notes, the Tranche C Notes and the 2023 Unsecured Notes (collectively the Credit Facilities), if any. During the year ended December 31, 2017, the Company expensed \$591 in conjunction with the February 2017 issue of 2022 Unsecured Notes. The maximum amounts borrowed on the Credit Facilities during the three months ended March 31, 2018 and the year ended December 31, 2017 were \$592,600 and \$606,600, respectively.

**Note 9. Financial Highlights and Senior Securities Table**

The following is a schedule of financial highlights for the three months ended March 31, 2018 and for the year ended December 31, 2017:

|  | <b>Three months ended<br/>March 31, 2018<br/>(unaudited)</b> | <b>Year ended<br/>December 31,<br/>2017</b> |
|--|--|---|
| <b>Per Share Data: (a)</b>                           |  |   |
| Net asset value, beginning of year                   | \$ 21.81   | \$ 21.74                                    |
| Net investment income                                | 0.45   | 1.62  |
| Net realized and unrealized gain                     | 0.02   | 0.05  |
| Net increase in net assets resulting from operations | 0.47   | 1.67  |
| Distributions to stockholders:                       |  |   |
| From net investment income                           | (0.41)   | (1.60)                                      |
| Net asset value, end of period                       | \$ 21.87   | \$ 21.81                                    |
| Per share market value, end of period                | \$ 20.31   | \$ 20.21                                    |

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|   |    |            |    |            |
|---|----|------------|----|------------|
| Total Return (b)                            |    | 2.52%      |    | 4.47%      |
| Net assets, end of period                   | \$ | 924,326    | \$ | 921,605    |
| Shares outstanding, end of period           |    | 42,260,826 |    | 42,260,826 |
| Ratios to average net assets (c):           |    |            |    |            |
| Net investment income                       |    | 2.05%      |    | 7.43%      |
| Operating expenses                          |    | 1.54%      |    | 5.80%      |
| Interest and other credit facility expenses |    | 0.64%      |    | 2.35%*     |
| Total expenses                              |    | 2.18%      |    | 8.15%      |
| Average debt outstanding                    | \$ | 556,286    | \$ | 414,264    |
| Portfolio turnover ratio                    |    | 9.6%       |    | 24.9%      |

(a) Calculated using the average shares outstanding method.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

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

(c) Not annualized for periods less than one year.

\* Ratio shown without the non-recurring costs associated with the establishment of the 2022 Unsecured Notes would be 2.29% for the period shown.

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

| <b>Class and Year</b>                | <b>Total<br/>Amount<br/>Outstanding (1)</b> | <b>Asset<br/>Coverage<br/>Per Unit (2)</b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per<br/>Unit (3)</b> | <b>Average<br/>Market Value<br/>Per Unit (4)</b> |
|--------------------------------------|---|--|--|--|
| <b>Revolving Credit Facility</b>     |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 249,500                                  | \$ 1,232                                   |  | N/A  |
| Fiscal 2017                          | 245,600                                     | 1,225                                      |  | N/A  |
| Fiscal 2016                          | 115,200                                     | 990  |  | N/A  |
| Fiscal 2015                          | 207,900                                     | 1,459                                      |  | N/A  |
| Fiscal 2014                          |   |  |  | N/A  |
| Fiscal 2013                          |   |  |  | N/A  |
| Fiscal 2012                          | 264,452                                     | 1,510                                      |  | N/A  |
| Fiscal 2011                          | 201,355                                     | 3,757                                      |  | N/A  |
| Fiscal 2010                          | 400,000                                     | 2,668                                      |  | N/A  |
| Fiscal 2009                          | 88,114                                      | 8,920                                      |  | N/A  |
| <b>2022 Unsecured Notes</b>          |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 150,000                                  | \$ 741                                     |  | N/A  |
| Fiscal 2017                          | 150,000                                     | 748  |  | N/A  |
| Fiscal 2016                          | 50,000                                      | 430  |  | N/A  |
| <b>2022 Tranche C Notes</b>          |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 21,000                                   | \$ 104                                     |  | N/A  |
| Fiscal 2017                          | 21,000                                      | 105  |  | N/A  |

**2023 Unsecured Notes**

|                                      |           |        |     |
|--------------------------------------|-----------|--------|-----|
| Fiscal 2018 (through March 31, 2018) | \$ 75,000 | \$ 370 | N/A |
| Fiscal 2017                          | 75,000    | 374    | N/A |

**2042 Unsecured Notes**

|             |         |       |       |     |
|-------------|---------|-------|-------|-----|
| Fiscal 2017 | \$      | \$    | \$    | N/A |
| Fiscal 2016 | 100,000 | 859   | 1,002 |     |
| Fiscal 2015 | 100,000 | 702   | 982   |     |
| Fiscal 2014 | 100,000 | 2,294 | 943   |     |
| Fiscal 2013 | 100,000 | 2,411 | 934   |     |
| Fiscal 2012 | 100,000 | 571   | 923   |     |

**Senior Secured Notes**

|             |        |       |     |
|-------------|--------|-------|-----|
| Fiscal 2017 | \$     | \$    | N/A |
| Fiscal 2016 | 75,000 | 645   | N/A |
| Fiscal 2015 | 75,000 | 527   | N/A |
| Fiscal 2014 | 75,000 | 1,721 | N/A |
| Fiscal 2013 | 75,000 | 1,808 | N/A |
| Fiscal 2012 | 75,000 | 428   | N/A |



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

| <b>Class and Year</b>                | <b>Total<br/>Amount<br/>Outstanding (1)</b> | <b>Asset<br/>Coverage<br/>Per Unit (2)</b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per<br/>Unit (3)</b> | <b>Average<br/>Market Value<br/>Per Unit (4)</b> |
|--------------------------------------|---|--|--|--|
| <b>Term Loans</b>                    |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 50,000                                   | \$ 247                                     |  | N/A  |
| Fiscal 2017                          | 50,000                                      | 250  |  | N/A  |
| Fiscal 2016                          | 50,000                                      | 430  |  | N/A  |
| Fiscal 2015                          | 50,000                                      | 351  |  | N/A  |
| Fiscal 2014                          | 50,000                                      | 1,147                                      |  | N/A  |
| Fiscal 2013                          | 50,000                                      | 1,206                                      |  | N/A  |
| Fiscal 2012                          | 50,000                                      | 285  |  | N/A  |
| Fiscal 2011                          | 35,000                                      | 653  |  | N/A  |
| Fiscal 2010                          | 35,000                                      | 233  |  | N/A  |
| <b>Total Senior Securities</b>       |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 545,500                                  | \$ 2,694                                   |  | N/A  |
| Fiscal 2017                          | 541,600                                     | 2,702                                      |  | N/A  |
| Fiscal 2016                          | 390,200                                     | 3,354                                      |  | N/A  |
| Fiscal 2015                          | 432,900                                     | 3,039                                      |  | N/A  |
| Fiscal 2014                          | 225,000                                     | 5,162                                      |  | N/A  |
| Fiscal 2013                          | 225,000                                     | 5,425                                      |  | N/A  |
| Fiscal 2012                          | 489,452                                     | 2,794                                      |  | N/A  |
| Fiscal 2011                          | 236,355                                     | 4,410                                      |  | N/A  |
| Fiscal 2010                          | 435,000                                     | 2,901                                      |  | N/A  |
| Fiscal 2009                          | 88,114                                      | 8,920                                      |  | N/A  |

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period. As of March 31, 2018, asset coverage was 269.4%.

- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable except for the 2042 Unsecured Notes which were publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit. The average market value for the fiscal 2018, 2017, 2016, 2015, 2014, 2013 and 2012 periods was N/A, N/A, \$101,360, \$100,175, \$98,196, \$94,301, \$93,392, and \$92,302, respectively.

**Note 10. Crystal Financial LLC**

On December 28, 2012, we completed the acquisition of Crystal Capital Financial Holdings LLC ( Crystal Financial ), a commercial finance company focused on providing asset-based and other secured financing solutions (the Crystal Acquisition ). We invested \$275,000 in cash to effect the Crystal Acquisition. Crystal Financial owned approximately 98% of the outstanding ownership interest in Crystal Financial LLC. The remaining financial interest was held by various employees of Crystal Financial LLC, through their investment in Crystal Management LP. Crystal Financial LLC had a diversified portfolio of 23 loans having a total par value of

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

approximately \$400,000 at November 30, 2012 and a \$275,000 committed revolving credit facility. On January 27, 2014, the revolving credit facility was expanded to \$300,000. On March 31, 2014, we exchanged \$137,500 of our equity interest in Crystal Financial in exchange for \$137,500 in floating rate senior secured notes in Crystal Financial bearing interest at LIBOR plus 9.50%, maturing on March 31, 2019. On May 18, 2015, the revolving credit facility was expanded to \$350,000. Our financial statements, including our schedule of investments, reflected our investments in Crystal Financial on a consolidated basis. On July 28, 2016, the Company purchased Crystal Management LP's approximately 2% equity interest in Crystal Financial LLC for approximately \$5,737. Upon the closing of this transaction, the Company holds 100% of the equity interest in Crystal Financial LLC. On September 30, 2016, Crystal Capital Financial Holdings LLC was dissolved. On March 20, 2018, the revolving credit facility was amended, reducing commitments to \$275,000.

As of March 31, 2018 Crystal Financial LLC had 27 funded commitments to 24 different issuers with a total par value of approximately \$350,289 on total assets of \$413,337. As of December 31, 2017, Crystal Financial LLC had 27 funded commitments to 23 different issuers with a total par value of approximately \$300,876 on total assets of \$448,465. As of March 31, 2018 and December 31, 2017, the largest loan outstanding totaled \$37,332 and \$35,954, respectively. For the same periods, the average exposure per issuer was \$14,595 and \$13,082, respectively. Crystal Financial LLC's credit facility, which is non-recourse to Solar Capital, had approximately \$138,332 and \$176,454 of borrowings outstanding at March 31, 2018 and December 31, 2017, respectively. For the three months ended March 31, 2018 and 2017, Crystal Financial LLC had net income of \$4,480 and \$7,839, respectively, on gross income of \$9,388 and \$12,260, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

**Note 11. Commitments and Contingencies**

The Company had unfunded debt and equity commitments to various revolving and delayed draw loans as well as to Crystal Financial LLC. The total amount of these unfunded commitments as of March 31, 2018 and December 31, 2017 is \$68,706 and \$62,044, respectively, comprised of the following:

|                                      | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--------------------------------------|---------------------------|------------------------------|
| Crystal Financial LLC*               | \$ 44,263                 | \$ 44,263                    |
| Breathe Technologies, Inc            | 8,000                     |                              |
| Corindus Vascular Robotics, Inc.     | 6,217                     |                              |
| Delphinus Medical Technologies, Inc. | 3,750                     | 3,750                        |
| MRI Software LLC                     | 1,785                     | 2,361                        |
| Datto, Inc                           | 1,683                     | 1,683                        |

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|  |                  |                  |
|--|------------------|------------------|
| Radiology Partners, Inc                | 1,078            | 878              |
| CardioFocus, Inc                       | 1,000            | 1,000            |
| South Texas Oilfield Services, LLC     | 930              |                  |
| Alera Group Intermediate Holdings, Inc |                  | 3,885            |
| Accentcare, Inc                        |                  | 3,397            |
| WJV658, LLC                            |                  | 827              |
| <b>Total Commitments</b>               | <b>\$ 68,706</b> | <b>\$ 62,044</b> |

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

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**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

As of March 31, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments as well as the commitments to Senior Secured Unitranche Loan Program LLC ( SSLP ) disclosed in Note 12, Senior Secured Unitranche Loan Program II LLC ( SSLP II ) disclosed in Note 13 and Solar Life Science Program LLC ( LSJV ) disclosed in Note 14.

**Note 12. Senior Secured Unitranche Loan Program LLC**

On September 2, 2014, the Company entered into a limited liability company agreement with an affiliate (the Investor ) of a fund managed by Pacific Investment Management Company LLC ( PIMCO ) to co-invest in middle market senior secured unitranche loans sourced by the same origination platform used by the Company. Initial funding commitments to the unitranche strategy total \$600,000, consisting of direct equity investments and co-investment commitments as described below. The joint venture vehicle known as the SSLP is structured as an unconsolidated Delaware limited liability company. The Company and the Investor initially made equity commitments to the SSLP of \$300,000 and \$43,250, respectively. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and PIMCO (with approval from a representative of each required).

On October 15, 2015, the Company entered into an amended and restated limited liability company agreement for its SSLP to add Voya Investment Management LLC ( Voya ), part of Voya Financial, Inc. (NYSE: VOYA), as a partner in SSLP in place of the investor that was previously the Company's partner in SSLP, though this investor may still co-invest up to \$300,000 of equity in unitranche loans alongside SSLP. This joint venture is expected to invest primarily in senior secured loans, including unitranche loans, primarily to middle market companies predominantly owned by private equity sponsors or entrepreneurs, consistent with the Company's core origination and underwriting mandate. In addition to the Company's prior equity commitment of \$300,000 to SSLP, Voya has made an initial equity commitment of \$25,000 to SSLP, with the ability to upsize.

On November 2, 2015, the Company assigned \$125,000 of its \$300,000 commitment to SSLP to Senior Secured Unitranche Loan Program II LLC ( SSLP II ), a Delaware limited liability company.

On November 25, 2015, SSLP commenced operations. On June 30, 2016, SSLP as transferor and SSLP 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP, as borrower entered into a \$200,000 senior secured revolving credit facility (the SSLP Facility ) with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP Facility. The SSLP Facility is scheduled to mature on June 30, 2021. The SSLP Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP and SSLP 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$77,248 and \$74,248 of borrowings outstanding as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018

and December 31, 2017, the Company and Voya had contributed combined equity capital in the amount of \$108,693 and \$102,533, respectively. Of the \$108,693 of contributed equity capital at March 31, 2018, the Company contributed \$29,884 in the form of investments and \$65,222 in the form of cash and Voya contributed \$13,587 in the form of cash. As of March 31, 2018, the Company and Voya's remaining commitments to SSLP totaled \$79,894 and \$11,413, respectively. The Company, along with Voya, controls the funding of SSLP and SSLP may not call the unfunded commitments without approval of both the Company and Voya.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

As of March 31, 2018 and December 31, 2017, SSLP had total assets of \$187,992 and \$179,241, respectively. For the same periods, SSLP's portfolio consisted of floating rate senior secured loans to 10 and 10 different borrowers, respectively. For the three months ended March 31, 2018 and March 31, 2017, SSLP invested \$23,553 in 4 portfolio companies and \$24,020 in 4 portfolio companies, respectively. Investments prepaid totaled \$14,261 and \$589 for the same periods, respectively. At March 31, 2018 and December 31, 2017, the weighted average yield of SSLP's portfolio was 8.5% and 8.1%, respectively, measured at fair value and 8.4% and 8.1%, respectively, measured at cost.

**SSLP Portfolio as of March 31, 2018**

| Description  | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost      | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|-----------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |           |                |
| AccentCare, Inc.                                       | Health Care Providers & Services | L+525                 | 1.00% | 7.13%             | 3/3/22        | \$ 14,573  | \$ 14,530 | \$ 14,573      |
| Alera Group Intermediate Holdings, Inc.                | Insurance                        | L+550                 | 1.00% | 7.16%             | 12/30/22      | 19,852     | 19,681    | 19,852         |
| Alteon Health, LLC (fka Island Medical)                | Health Care Providers & Services | L+550                 | 1.00% | 7.80%             | 9/1/22        | 13,674     | 13,557    | 12,854         |
| Associated Pathologists, LLC                           | Health Care Providers & Services | L+500                 | 1.00% | 6.84%             | 8/1/21        | 3,083      | 3,062     | 3,083          |
| Falmouth Group Holdings Corp. (AMPAC) (4)              | Chemicals                        | L+675                 | 1.00% | 8.63%             | 12/14/21      | 31,695     | 31,372    | 31,695         |
| On Location Events, LLC & PrimeSport Holdings Inc. (4) | Media                            | L+550                 | 1.00% | 7.57%             | 9/29/21       | 19,681     | 19,459    | 19,533         |
| Pet Holdings ULC & Pet Supermarket, Inc.               | Specialty Retail                 | L+550                 | 1.00% | 7.19%             | 7/5/22        | 24,114     | 23,834    | 24,114         |
| PPT Management Holdings, LLC                           | Health Care Providers & Services | L+600                 | 1.00% | 7.70%             | 12/16/22      | 11,850     | 11,753    | 10,665         |
|  |                                  | L+425                 | 1.00% | 6.55%             | 11/25/21      | 1,911      | 1,899     | 1,911          |

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|                                   |                                  |       |       |        |          |        |        |        |                       |
|-----------------------------------|----------------------------------|-------|-------|--------|----------|--------|--------|--------|-----------------------|
| PSKW, LLC & PDR, LLC              | Health Care Providers & Services |       |       |        |          |        |        |        |                       |
| PSKW, LLC & PDR, LLC (4)          | Health Care Providers & Services | L+826 | 1.00% | 10.56% | 11/25/21 | 22,250 | 21,945 | 21,805 |                       |
| VetCor Professional Practices LLC | Health Care Facilities           | L+625 | 1.00% | 8.56%  | 4/20/21  | 23,486 | 23,358 | 23,251 |                       |
|                                   |                                  |       |       |        |          |        |        |        | \$ 184,450 \$ 183,336 |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)****SSLP Portfolio as of December 31, 2017 (audited)**

| <b>Description</b>   | <b>Industry</b>                  | <b>Spread<br/>Above LIBOR<br/>Index (1)</b> | <b>Floor<br/>Rate (2)</b> | <b>Interest<br/>Rate (2)</b> | <b>Maturity<br/>Date</b> | <b>Par<br/>Amount</b> | <b>Cost</b> | <b>Fair<br/>Value (3)</b> |
|--|----------------------------------|---|---------------------------|------------------------------|--------------------------|-----------------------|-------------|---------------------------|
| AccentCare, Inc. (4)   | Health Care Providers & Services | L+525                                       | 1.00%                     | 6.94%                        | 3/3/22                   | \$ 14,393             | \$ 14,350   | \$ 14,321                 |
| Alera Group Intermediate Holdings, Inc. Associated Pathologists, LLC | Insurance                        | L+550                                       | 1.00%                     | 6.85%                        | 12/30/22                 | 17,114                | 16,963      | 17,029                    |
| Empower Payments Acquisition, Inc. (RevSpring)                       | Health Care Providers & Services | L+500                                       | 1.00%                     | 6.42%                        | 8/1/21                   | 3,125                 | 3,102       | 3,125                     |
| Falmouth Group Holdings Corp. (AMPAC) (4)                            | Professional Services            | L+550                                       | 1.00%                     | 7.19%                        | 11/30/23                 | 13,736                | 13,496      | 13,736                    |
| Island Medical Management Holdings, LLC                              | Chemicals                        | L+675                                       | 1.00%                     | 8.44%                        | 12/14/21                 | 31,695                | 31,354      | 31,695                    |
| Pet Holdings ULC & Pet Supermarket, Inc.                             | Health Care Providers & Services | L+550                                       | 1.00%                     | 7.00%                        | 9/1/22                   | 13,709                | 13,585      | 13,297                    |
| PPT Management Holdings, LLC   | Specialty Retail                 | L+550                                       | 1.00%                     | 6.84%                        | 7/5/22                   | 23,233                | 22,953      | 23,117                    |
| PSKW, LLC & PDR, LLC   | Health Care Providers & Services | L+600                                       | 1.00%                     | 9.50%                        | 12/16/22                 | 11,880                | 11,782      | 11,405                    |
| PSKW, LLC & PDR, LLC (4)   | Health Care Providers & Services | L+425                                       | 1.00%                     | 5.94%                        | 11/25/21                 | 1,918                 | 1,905       | 1,918                     |
| VetCor Professional Practices LLC                                    | Health Care Providers & Services | L+826                                       | 1.00%                     | 9.95%                        | 11/25/21                 | 22,250                | 21,929      | 21,805                    |
|  | Health Care Facilities           | L+600                                       | 1.00%                     | 7.69%                        | 4/20/21                  | 23,546                | 23,409      | 23,134                    |
|  |                                  |   |                           |                              |                          |                       | \$ 174,828  | \$ 174,582                |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2017.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

Below is certain summarized financial information for SSLP as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017:

|  | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|---------------------------|------------------------------|
| <b>Selected Balance Sheet Information for SSLP:</b>                    |                           |                              |
| Investments at fair value (cost \$184,450 and \$174,828, respectively) | \$ 183,336                | \$ 174,582                   |
| Cash and other assets  | 4,656                     | 4,659                        |
| <b>Total assets</b>  | <b>\$ 187,992</b>         | <b>\$ 179,241</b>            |
| Debt outstanding   | \$ 77,248                 | \$ 74,248                    |
| Distributions payable  | 2,200                     | 2,200                        |
| Interest payable and other credit facility related expenses            | 1,254                     | 1,161                        |
| Accrued expenses and other payables                                    | 174                       | 219                          |
| <b>Total liabilities</b>   | <b>\$ 80,876</b>          | <b>\$ 77,828</b>             |
| Members' equity  | \$ 107,116                | \$ 101,413                   |
| <b>Total liabilities and members' equity</b>                           | <b>\$ 187,992</b>         | <b>\$ 179,241</b>            |

|  | <b>Three months<br/>ended<br/>March 31, 2018</b> | <b>Three months<br/>ended<br/>March 31, 2017</b> |
|--|--|--|
| <b>Selected Income Statement Information for SSLP:</b> |  |  |
| Interest income  | \$ 3,938   | \$ 3,447   |
| Service fees*  | \$ 29  | \$ 31  |
| Interest and other credit facility expenses            | 1,254  | 781  |
| Other general and administrative expenses              | 43   | 37   |
| <b>Total expenses</b>                                  | <b>\$ 1,326</b>                                  | <b>\$ 849</b>                                    |

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|   |    |       |    |       |
|---|----|-------|----|-------|
| Net investment income                               | \$ | 2,612 | \$ | 2,598 |
| Net change in unrealized gain (loss) on investments |    | (868) |    | (26)  |
| Net income  | \$ | 1,744 | \$ | 2,572 |

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

**Note 13. Senior Secured Unitranche Loan Program II LLC**

On November 2, 2015, the Company assigned \$125,000 of its \$300,000 commitment to SSLP to SSLP II, a Delaware limited liability company. On August 5, 2016, the Company entered into an amended and restated limited liability company agreement with WFI Loanco, LLC ( WFI ) and SSLP II commenced operations. SSLP II is expected to invest primarily in senior secured loans, including unitranche loans, primarily to middle market companies predominantly owned by private equity sponsors or entrepreneurs, consistent with the Company's core origination and underwriting mandate. Also on August 5, 2016, the Company assigned \$49,977 of its \$125,000 commitment to SSLP II to Senior Secured Unitranche Loan Program III LLC ( SSLP III ), a newly formed Delaware limited liability company. SSLP III, which had not commenced operations, was wholly owned by Solar Capital Ltd. but could have brought in unaffiliated investors at a later date. The Company and WFI's equity commitments to SSLP II now total \$75,023 and \$18,000, respectively.

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**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

On November 15, 2016, SSLP II as transferor and SSLP II 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP II, as borrower entered into a \$100,000 senior secured revolving credit facility (the SSLP II Facility ) with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP II Facility. The SSLP II Facility is scheduled to mature on November 15, 2021. The SSLP II Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP II and SSLP II 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP II Facility also includes usual and customary events of default for credit facilities of this nature. There were \$52,568 and \$48,788 of borrowings outstanding as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company and WFI contributed combined equity capital in the amount of \$69,131 and \$63,331, respectively. Of the \$69,131 of contributed equity capital at March 31, 2018, the Company contributed \$43,498 in the form of investments and \$12,256 in the form of cash and WFI contributed \$13,377 in the form of cash. As of March 31, 2018, the Company and WFI's remaining commitments to SSLP II totaled \$19,269 and \$4,623, respectively. The Company, along with WFI, controls the funding of SSLP II and SSLP II may not call the unfunded commitments without approval of both the Company and WFI.

As of March 31, 2018 and December 31, 2017, SSLP II had total assets of \$124,742 and \$124,736, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 14 and 15 different borrowers, respectively. For the three months ended March 31, 2018 and March 31, 2017, SSLP II invested \$12,174 in 5 portfolio companies and \$19,987 in 5 portfolio companies, respectively. Investments prepaid totaled \$11,959 and \$953 for the same periods, respectively. At March 31, 2018 and December 31, 2017, the weighted average yield of SSLP II's portfolio was 8.4% and 8.0%, respectively, measured at fair value and 8.6% and 8.3%, respectively, measured at cost.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)****SSLP II Portfolio as of March 31, 2018**

| Description  | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost     | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|----------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |          |                |
| AccentCare, Inc.                                       | Health Care Providers & Services | L+525                 | 1.00% | 7.13%             | 3/3/22        | \$ 7,962   | \$ 7,928 | \$ 7,962       |
| Alera Group Intermediate Holdings, Inc.                | Insurance                        | L+550                 | 1.00% | 7.16%             | 12/30/22      | 7,694      | 7,628    | 7,694          |
| Alteon Health, LLC (fka Island Medical)                | Health Care Providers & Services | L+550                 | 1.00% | 7.80%             | 9/1/22        | 6,837      | 6,779    | 6,427          |
| American Teleconferencing Services, Ltd. (PGI) (4)     | Communications Equipment         | L+650                 | 1.00% | 8.29%             | 12/8/21       | 13,668     | 12,651   | 13,599         |
| Associated Pathologists, LLC                           | Health Care Providers & Services | L+500                 | 1.00% | 6.84%             | 8/1/21        | 1,542      | 1,531    | 1,542          |
| Falmouth Group Holdings Corp. (AMPAC) (4)              | Chemicals                        | L+675                 | 1.00% | 8.63%             | 12/14/21      | 10,011     | 10,011   | 10,011         |
| Global Holdings LLC & Payment Concepts LLC             | Consumer Finance                 | L+650                 | 1.00% | 9.51%             | 5/5/22        | 9,223      | 9,065    | 9,223          |
| Logix Holding Company, LLC                             | Communications Equipment         | L+575                 | 1.00% | 7.60%             | 12/22/24      | 8,977      | 8,889    | 8,887          |
| On Location Events, LLC & PrimeSport Holdings Inc. (4) | Media                            | L+550                 | 1.00% | 7.57%             | 9/29/21       | 9,840      | 9,730    | 9,766          |
| Pet Holdings ULC & Pet Supermarket, Inc.               | Specialty Retail                 | L+550                 | 1.00% | 7.19%             | 7/5/22        | 10,610     | 10,486   | 10,610         |
| Polycom, Inc.  | Communications Equipment         | L+525                 | 1.00% | 7.04%             | 9/27/23       | 8,974      | 8,682    | 9,064          |

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|                                 |                                  |       |       |        |          |       |            |            |  |
|---------------------------------|----------------------------------|-------|-------|--------|----------|-------|------------|------------|--|
| PPT Management Holdings, LLC    | Health Care Providers & Services | L+600 | 1.00% | 7.70%  | 12/16/22 | 9,875 | 9,794      | 8,887      |  |
| PSKW, LLC & PDR, LLC            | Health Care Providers & Services | L+425 | 1.00% | 6.55%  | 11/25/21 | 765   | 765        | 765        |  |
| PSKW, LLC & PDR, LLC (4) VetCor | Health Care Providers & Services | L+826 | 1.00% | 10.56% | 11/25/21 | 8,900 | 8,780      | 8,722      |  |
| Professional Practices LLC      | Health Care Facilities           | L+625 | 1.00% | 8.56%  | 4/20/21  | 8,107 | 7,976      | 8,026      |  |
|                                 |                                  |       |       |        |          |       | \$ 120,695 | \$ 121,185 |  |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)****SSLP II Portfolio as of December 31, 2017 (audited)**

| <b>Description</b>                                 | <b>Industry</b>                  | <b>Spread<br/>Above LIBOR<br/>Index (1)</b> | <b>Floor<br/>Rate (2)</b> | <b>Interest<br/>Rate (2)</b> | <b>Maturity<br/>Date</b> | <b>Par<br/>Amount</b> | <b>Cost</b> | <b>Fair<br/>Value (3)</b> |
|--|----------------------------------|---|---------------------------|------------------------------|--------------------------|-----------------------|-------------|---------------------------|
| AccentCare, Inc.                                   | Health Care Providers & Services | L+525                                       | 1.00%                     | 6.94%                        | 3/3/22                   | \$ 7,863              | \$ 7,829    | \$ 7,824                  |
| Alera Group Intermediate Holdings, Inc.            | Insurance                        | L+550                                       | 1.00%                     | 6.85%                        | 12/30/22                 | 6,418                 | 6,361       | 6,386                     |
| American Teleconferencing Services, Ltd. (PGI) (4) | Communications Equipment         | L+650                                       | 1.00%                     | 7.90%                        | 12/8/21                  | 13,858                | 12,770      | 13,650                    |
| Associated Pathologists, LLC                       | Health Care Providers & Services | L+500                                       | 1.00%                     | 6.42%                        | 8/1/21                   | 1,563                 | 1,551       | 1,563                     |
| Empower Payments Acquisition, Inc. (RevSpring)     | Professional Services            | L+550                                       | 1.00%                     | 7.19%                        | 11/30/23                 | 6,868                 | 6,748       | 6,868                     |
| Falmouth Group Holdings Corp. (AMPAC) (4)          | Chemicals                        | L+675                                       | 1.00%                     | 8.44%                        | 12/14/21                 | 10,011                | 10,011      | 10,011                    |
| Global Holdings LLC & Payment Concepts LLC         | Consumer Finance                 | L+650                                       | 1.00%                     | 7.99%                        | 5/5/22                   | 9,341                 | 9,173       | 9,341                     |
| Island Medical Management Holdings, LLC            | Health Care Providers & Services | L+550                                       | 1.00%                     | 7.00%                        | 9/1/22                   | 6,854                 | 6,793       | 6,649                     |
| Logix Holding Company, LLC                         | Communications Equipment         | L+575                                       | 1.00%                     | 7.28%                        | 12/22/24                 | 9,000                 | 8,910       | 8,910                     |
| Pet Holdings ULC & Pet Supermarket, Inc.           | Specialty Retail                 | L+550                                       | 1.00%                     | 6.84%                        | 7/5/22                   | 10,223                | 10,098      | 10,171                    |
| PetVet Care Centers, LLC                           | Health Care Facilities           | L+600                                       | 1.00%                     | 7.35%                        | 6/8/23                   | 3,444                 | 3,412       | 3,478                     |



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|                                   |                                  |       |       |       |          |       |            |            |  |
|-----------------------------------|----------------------------------|-------|-------|-------|----------|-------|------------|------------|--|
| Polycom, Inc.                     | Communications Equipment         | L+525 | 1.00% | 6.72% | 9/27/23  | 9,449 | 9,130      | 9,546      |  |
| PPT Management Holdings, LLC      | Health Care Providers & Services | L+600 | 1.00% | 9.50% | 12/16/22 | 9,900 | 9,818      | 9,504      |  |
| PSKW, LLC & PDR, LLC              | Health Care Providers & Services | L+425 | 1.00% | 5.94% | 11/25/21 | 767   | 767        | 767        |  |
| PSKW, LLC & PDR, LLC (4)          | Health Care Providers & Services | L+826 | 1.00% | 9.95% | 11/25/21 | 8,900 | 8,774      | 8,722      |  |
| VetCor Professional Practices LLC | Health Care Facilities           | L+600 | 1.00% | 7.69% | 4/20/21  | 8,128 | 7,987      | 7,986      |  |
|                                   |                                  |       |       |       |          |       | \$ 120,132 | \$ 121,376 |  |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2017.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

Below is certain summarized financial information for SSLP II as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017:

|  | <b>March 31,<br/>2018</b>                        | <b>December 31,<br/>2017</b>                     |
|--|--|--|
| <b>Selected Balance Sheet Information for SSLP II:</b>                 |  |  |
| Investments at fair value (cost \$120,695 and \$120,132, respectively) | \$ 121,185                                       | \$ 121,376                                       |
| Cash and other assets  | 3,557  | 3,360  |
| Total assets   | \$ 124,742                                       | \$ 124,736                                       |
| Debt outstanding   | \$ 52,568  | \$ 48,788  |
| Payable for investments purchased                                      |  | 9,281  |
| Distributions payable  | 1,638  | 1,638  |
| Interest payable and other credit facility related expenses            | 757  | 654  |
| Accrued expenses and other payables                                    | 177  | 217  |
| Total liabilities  | \$ 55,140  | \$ 60,578  |
| Members' equity  | \$ 69,602  | \$ 64,158  |
| Total liabilities and members' equity                                  | \$ 124,742                                       | \$ 124,736                                       |
|  | <b>Three months<br/>ended<br/>March 31, 2018</b> | <b>Three months<br/>ended<br/>March 31, 2017</b> |
| <b>Selected Income Statement Information for SSLP II:</b>              |  |  |
| Interest income  | \$ 2,822   | \$ 2,091   |
| Service fees*  | \$ 30  | \$ 24  |
| Interest and other credit facility expenses                            | 723  | 418  |
| Other general and administrative expenses                              | 33   | 25   |
| Total expenses   | \$ 786   | \$ 467   |

|   |    |       |    |       |
|---|----|-------|----|-------|
| Net investment income                               | \$ | 2,036 | \$ | 1,624 |
| Net change in unrealized gain (loss) on investments |    | (754) |    | 303   |
| Net income  | \$ | 1,282 | \$ | 1,927 |

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

**Note 14. Solar Life Science Program LLC**

On February 22, 2017, the Company, through its commitment to SSLP III, and Solar Senior Capital Ltd. formed LSJV with an affiliate of Deerfield Management. SSLP III committed approximately \$49,977 to LSJV. On March 10, 2017, SSLP III was dissolved. As of March 31, 2018, LSJV has not commenced operations.

**Note 15. NEF Holdings, LLC**

On July 31, 2017, we completed the acquisition of NEF Holdings, LLC ( NEF ), which conducts its business through its wholly-owned subsidiary Nations Equipment Finance, LLC. NEF is an independent

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2018****(in thousands, except share amounts)**

equipment finance company that provides senior secured loans and leases primarily to U.S. based companies. We invested \$209,866 in cash to effect the transaction, of which \$145,000 was invested in the equity of NEF through our wholly-owned consolidated taxable subsidiary NEFCORP LLC and our wholly-owned consolidated subsidiary NEFPASS LLC and \$64,866 was used to purchase certain leases and loans held by NEF through NEFPASS LLC. Concurrent with the transaction, NEF refinanced its existing senior secured credit facility into a \$150,000 non-recourse facility with an accordion feature to expand up to \$250,000. The maturity date of the facility is July 31, 2021. At July 31, 2017, NEF also had two securitizations outstanding, with an issued note balance of \$94,587.

As of March 31, 2018, NEF had 209 funded equipment-backed leases and loans to 91 different customers with a total net investment in leases and loans of approximately \$214,366 on total assets of \$266,852. As of December 31, 2017, NEF had 223 funded equipment-backed leases and loans to 90 different customers with a total net investment in leases and loans of approximately \$222,972 on total assets of \$289,483. As of March 31, 2018 and December 31, 2017, the largest position outstanding totaled \$27,072 and \$15,959, respectively. For the same periods, the average exposure per customer was \$2,356 and \$2,477, respectively. NEF's credit facility, which is non-recourse to Solar Capital, had approximately \$83,833 and \$71,010 of borrowings outstanding at March 31, 2018 and December 31, 2017, respectively. The securitization notes balance on March 31, 2018 and December 31, 2017 was \$38,379 and \$71,656, respectively. For the three months ended March 31, 2018, NEF had net income of \$1,853 on gross income of \$7,381. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

**Note 16. Capital Share Transactions**

As of March 31, 2018 and December 31, 2017, 200,000,000 shares of \$0.01 par value capital stock were authorized.

Transactions in capital stock were as follows:

|  | Shares                                  |                                 | Amount                                  |                                 |
|--|---|---------------------------------|---|---------------------------------|
|  | Three months ended<br>March 31,<br>2018 | Year ended<br>December 31, 2017 | Three months ended<br>March 31,<br>2018 | Year ended<br>December 31, 2017 |
| Shares issued in reinvestment of distributions |   | 12,301                          | \$                                      | \$ 280                          |

**Note 17. Subsequent Events**

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

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On April 30, 2018, the revolving credit commitments under the Company's Credit Facility were expanded by \$50,000 from \$395,000 to \$445,000.

On May 7, 2018, our Board declared a quarterly distribution of \$0.41 per share payable on July 3, 2018 to holders of record as of June 21, 2018.

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Stockholders and Board of Directors

Solar Capital Ltd.:

*Results of Review of Interim Financial Information*

We have reviewed the consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. (the Company) as of March 31, 2018, the related consolidated statements of operations for the three-month periods ended March 31, 2018 and 2017, the related consolidated statement of changes in net assets for the three-month period ended March 31, 2018, and the related consolidated statements of cash flows for the three-month periods ended March 31, 2018 and 2017, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it 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) (PCAOB), the consolidated statement of assets and liabilities, including the consolidated schedule of investments, of the Company as of December 31, 2017, the related consolidated statements of operations, changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated statement of assets and liabilities, including the consolidated schedule of investments, from which it has been derived.

*Basis for Review Results*

This consolidated interim financial information is the responsibility of the Company's management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, 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.

/s/ KPMG LLP

New York, New York

May 7, 2018

**Table of Contents**

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

*The information contained in this section should be read in conjunction with our consolidated financial statements and notes thereto appearing elsewhere in this report.*

Some of the statements in this report constitute forward-looking statements, which relate to future events or our future performance or financial condition. The forward-looking statements contained herein involve risks and uncertainties, including statements as to:

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

We generally use words such as anticipates, believes, expects, intends and similar expressions to identify forward-looking statements. Our actual results could differ materially from those projected in the forward-looking statements for any reason, including any factors set forth in Risk Factors and elsewhere in this report.

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

## Overview

Solar Capital LLC, a Maryland limited liability company, was formed in February 2007 and commenced operations on March 13, 2007 with initial capital of \$1.2 billion of which 47.04% was funded by affiliated parties.

Solar Capital Ltd. ( Solar Capital , the Company , we or our ), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). Furthermore, as the Company is an investment company, it continues to apply the guidance in the Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 946. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 9, 2010, we priced our initial public offering, selling 5.68 million shares of our common stock. Concurrent with our initial public offering, Michael S. Gross, our Chairman and Chief Executive Officer, and



## **Table of Contents**

Bruce Spohler, our Chief Operating Officer, collectively purchased an additional 0.6 million shares of our common stock through a private placement transaction exempt from registration under the Securities Act (the Concurrent Private Placement ).

We invest primarily in privately held U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in leveraged middle-market companies in the form of senior secured loans, stretch-senior loans, unitranche loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded. Our business is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$5 million and \$100 million each, although we expect that this investment size will vary proportionately with the size of our capital base and/or with strategic initiatives. Our investment activities are managed by Solar Capital Partners, LLC (the Investment Adviser ) and supervised by our board of directors, a majority of whom are non-interested, as such term is defined in the 1940 Act. Solar Capital Management, LLC (the Administrator ) provides the administrative services necessary for us to operate.

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 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.

As of March 31, 2018, the Investment Adviser has directly invested over \$7 billion in more than 325 different portfolio companies since 2006. Over the same period, the Investment Adviser completed transactions with more than 185 different financial sponsors.

## **Recent Developments**

On April 30, 2018, the revolving credit commitments under the Company's Credit Facility were expanded by \$50 million from \$395 million to \$445 million.

On May 7, 2018, our Board declared a quarterly distribution of \$0.41 per share payable on July 3, 2018 to holders of record as of June 21, 2018.

## **Investments**

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

## **Revenue**

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

**Table of Contents**

investment or upon the investment being called by the issuer. We may also generate revenue in the form of commitment, origination, structuring fees, fees for providing managerial assistance and, if applicable, consulting fees, etc.

**Expenses**

All investment professionals of the investment adviser and their respective staffs, when and to the extent engaged in providing investment advisory and management services, and the compensation and routine overhead expenses of such personnel allocable to such services, are provided and paid for by Solar Capital Partners. We bear all other costs and expenses of our operations and transactions, including (without limitation):

the cost of our organization and public offerings;

the cost of calculating our net asset value, including the cost of any third-party valuation services;

the cost of effecting sales and repurchases of our shares and other securities;

interest payable on debt, if any, to finance our investments;

fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees;

transfer agent and custodial fees;

fees and expenses associated with marketing efforts;

federal and state registration fees, any stock exchange listing fees;

federal, state and local taxes;

independent directors' fees and expenses;

brokerage commissions;

fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;

direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;

fees and expenses associated with independent audits and outside legal costs;

costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and

all other expenses incurred by either Solar Capital Management or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and our chief financial officer and their respective staffs.

We expect our general and administrative operating expenses related to our ongoing operations to increase moderately in dollar terms. During periods of asset growth, we generally expect our general and administrative operating expenses to decline as a percentage of our total assets and increase during periods of asset declines. Incentive fees, interest expense and costs relating to future offerings of securities, among others, may also increase or reduce overall operating expenses based on portfolio performance, interest rate benchmarks, and offerings of our securities relative to comparative periods, among other factors.

**Table of Contents****Portfolio and Investment Activity**

During the three months ended March 31, 2018, we invested approximately \$151.1 million across 25 portfolio companies. This compares to investing approximately \$99.6 million in 11 portfolio companies for the three months ended March 31, 2017. Investments sold, prepaid or repaid during the three months ended March 31, 2018 totaled approximately \$141.5 million versus approximately \$84.7 million for the three months ended March 31, 2017.

At March 31, 2018, our portfolio consisted of 100 portfolio companies and was invested 40.1% in cash flow senior secured loans, 27.2% in asset-based senior secured loans / Crystal Financial, 16.4% in equipment senior secured financings / NEF, and 16.3% in life science senior secured loans, in each case, measured at fair value, versus 61 portfolio companies invested 52.0% in cash flow senior secured loans, 31.8% in asset-based senior secured loans / Crystal Financial, and 16.2% in life science senior secured loans, in each case, measured at fair value, at March 31, 2017.

At March 31, 2018, 80.7% or \$1.17 billion of our income producing investment portfolio\* is floating rate and 19.3% or \$280.7 million is fixed rate, measured at fair value. At March 31, 2017, 96.4% or \$1.26 billion of our income producing investment portfolio\* was floating rate and 3.6% or \$47.0 million was fixed rate, measured at fair value. As of March 31, 2018 and 2017, we had zero and one issuer, respectively, on non-accrual status.

Since inception through March 31, 2018, Solar Capital and its predecessor companies have invested approximately \$5.4 billion in more than 220 portfolio companies. Over the same period, Solar Capital has completed transactions with more than 145 different financial sponsors.

\* We have included Crystal Financial LLC, NEF Holdings LLC, Senior Secured Unitranche Loan Program LLC and Senior Secured Unitranche Loan Program II LLC within our income producing investment portfolio.

**Crystal Financial LLC**

On December 28, 2012, we completed the acquisition of Crystal Capital Financial Holdings LLC ( Crystal Financial ), a commercial finance company focused on providing asset-based and other secured financing solutions (the Crystal Acquisition ). We invested \$275 million in cash to effect the Crystal Acquisition. Crystal Financial owned approximately 98% of the outstanding ownership interest in Crystal Financial LLC. The remaining financial interest was held by various employees of Crystal Financial LLC, through their investment in Crystal Management LP. Crystal Financial LLC had a diversified portfolio of 23 loans having a total par value of approximately \$400 million at November 30, 2012 and a \$275 million committed revolving credit facility. On January 27, 2014, the revolving credit facility was expanded to \$300 million. On March 31, 2014, we exchanged \$137.5 million of our equity interest in Crystal Financial in exchange for \$137.5 million in floating rate senior secured notes in Crystal Financial bearing interest at LIBOR plus 9.50%, maturing on March 31, 2019. On May 18, 2015, the revolving credit facility was expanded to \$350 million. Our financial statements, including our schedule of investments, reflected our investments in Crystal Financial on a consolidated basis. On July 28, 2016, the Company purchased Crystal Management LP s approximately 2% equity interest in Crystal Financial LLC for approximately \$5.7 million. Upon the closing of this transaction, the Company holds 100% of the equity interest in Crystal Financial LLC. On September 30, 2016, Crystal Capital Financial Holdings LLC was dissolved. On March 20, 2018, the revolving credit facility was amended, reducing commitments to \$275 million.

As of March 31, 2018, Crystal Financial LLC had 27 funded commitments to 24 different issuers with a total par value of approximately \$350.3 million on total assets of \$413.3 million. As of December 31, 2017, Crystal Financial

LLC had 27 funded commitments to 23 different issuers with a total par value of approximately \$300.9 million on total assets of \$448.5 million. As of March 31, 2018 and December 31, 2017, the largest loan outstanding totaling \$37.3 million and \$36.0 million, respectively. For the same periods, the average exposure per issuer was \$14.6 million and \$13.1 million, respectively. Crystal Financial LLC's credit facility, which is

**Table of Contents**

non-recourse to Solar Capital, had approximately \$138.3 million and \$176.5 million of borrowings outstanding at March 31, 2018 and December 31, 2017, respectively. For the three months ended March 31, 2018 and March 31, 2017, Crystal Financial LLC had net income of \$4.5 million and \$7.8 million, respectively, on gross income of \$9.4 million and \$12.3 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in Crystal Financial LLC's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that Crystal Financial LLC will be able to maintain consistent dividend payments to us.

**NEF Holdings, LLC**

On July 31, 2017, we completed the acquisition of NEF Holdings, LLC ( NEF ), which conducts its business through its wholly-owned subsidiary Nations Equipment Finance, LLC. NEF is an independent equipment finance company that provides senior secured loans and leases primarily to U.S. based companies. We invested \$209.9 million in cash to effect the transaction, of which \$145.0 million was invested in the equity of NEF through our wholly-owned consolidated taxable subsidiary NEFCORP LLC and our wholly-owned consolidated subsidiary NEFPASS LLC and \$64.9 million was used to purchase certain leases and loans held by NEF through NEFPASS LLC. Concurrent with the transaction, NEF refinanced its existing senior secured credit facility into a \$150.0 million non-recourse facility with an accordion feature to expand up to \$250.0 million. The maturity date of the facility is July 31, 2021. At July 31, 2017, NEF also had two securitizations outstanding, with an issued note balance of \$94.6 million.

As of March 31, 2018, NEF had 209 funded equipment-backed leases and loans to 91 different customers with a total net investment in leases and loans of approximately \$214.4 million on total assets of \$266.9 million. As of December 31, 2017, NEF had 223 funded equipment-backed leases and loans to 90 different customers with a total net investment in leases and loans of approximately \$223.0 million on total assets of \$289.5 million. As of March 31, 2018 and December 31, 2017, the largest position outstanding totaled \$27.1 million and \$16.0 million, respectively. For the same period, the average exposure per customer was \$2.4 million and \$2.5 million, respectively. NEF's credit facility, which is non-recourse to Solar Capital, had approximately \$83.8 million and \$71.0 million of borrowings outstanding at March 31, 2018 and December 31, 2017, respectively. The securitization notes balance on March 31, 2018 and December 31, 2017 was \$38.4 million and \$71.7 million, respectively. For the three months ended March 31, 2018, NEF had net income of \$1.9 million on gross income of \$7.4 million. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in NEF's funded commitments, the timing of originations, and the repayments of financings, the Company cannot guarantee that NEF will be able to maintain consistent dividend payments to us.

**Solar Life Science Program LLC**

On February 22, 2017, the Company, through its commitment to Senior Secured Unitranche Loan Program III ( SSLP III ), and Solar Senior Capital Ltd. formed Solar Life Science Program ( LSJV ) with an affiliate of Deerfield Management. SSLP III committed approximately \$50.0 million to LSJV. On March 10, 2017, SSLP III was dissolved. As of March 31, 2018, LSJV has not commenced operations.

**Senior Secured Unitranche Loan Program LLC**

On September 2, 2014, the Company entered into a limited liability company agreement with an affiliate (the Investor ) of a fund managed by Pacific Investment Management Company LLC ( PIMCO ) to co-invest in middle market senior secured unitranche loans sourced by the same origination platform used by the Company. Initial funding commitments to the unitranche strategy total \$600 million, consisting of direct equity investments and co-investment commitments as described below. The joint venture vehicle known as the Senior Secured Unitranche Loan Program

LLC ( SSLP ) is structured as an unconsolidated Delaware limited liability



**Table of Contents**

company. The Company and the Investor initially made equity commitments to the SSLP of \$300.0 million and \$43.25 million, respectively. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and PIMCO (with approval from a representative of each required).

On October 15, 2015, the Company entered into an amended and restated limited liability company agreement for its SSLP to add Voya Investment Management LLC ( Voya ), part of Voya Financial, Inc. (NYSE: VOYA), as a partner in SSLP in place of the investor that was previously the Company's partner in SSLP, though this investor may still co-invest up to \$300 million of equity in unitranche loans alongside SSLP. This joint venture is expected to invest primarily in senior secured loans, including unitranche loans, primarily to middle market companies predominantly owned by private equity sponsors or entrepreneurs, consistent with the Company's core origination and underwriting mandate. In addition to the Company's prior equity commitment of \$300.0 million to SSLP, Voya has made an initial equity commitment of \$25.0 million to SSLP, with the ability to upsize.

On November 2, 2015, the Company assigned \$125.0 million of its \$300.0 million commitment to SSLP to Senior Secured Unitranche Loan Program II LLC ( SSLP II ), a Delaware limited liability company.

On November 25, 2015, SSLP commenced operations. On June 30, 2016, SSLP as transferor and SSLP 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP, as borrower entered into a \$200 million senior secured revolving credit facility (the SSLP Facility ) with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP Facility. The SSLP Facility is scheduled to mature on June 30, 2021. The SSLP Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP and SSLP 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$77.2 and \$74.2 million of borrowings outstanding as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company and Voya had contributed combined equity capital in the amount of \$108.7 million and \$102.5 million, respectively. Of the \$108.7 million of contributed equity capital at March 31, 2018, the Company contributed \$29.9 million in the form of investments and \$65.2 million in the form of cash and Voya contributed \$13.6 million in the form of cash. As of March 31, 2018, the Company and Voya's remaining commitments to SSLP totaled \$79.9 million and \$11.4 million, respectively. The Company, along with Voya, controls the funding of SSLP and SSLP may not call the unfunded commitments without approval of both the Company and Voya.

As of March 31, 2018 and December 31, 2017, SSLP had total assets of \$188.0 million and \$179.2 million, respectively. For the same periods, SSLP's portfolio consisted of floating rate senior secured loans to 10 and 10 different borrowers, respectively. For the three months ended March 31, 2018 and 2017, SSLP invested \$23.6 million in 4 portfolio companies and \$24.0 million in 4 portfolio companies, respectively. Investments prepaid totaled \$14.3 million and \$0.6 million, respectively, for the three months ended March 31, 2018 and 2017. At March 31, 2018 and December 31, 2017, the weighted average yield of SSLP's portfolio was 8.5% and 8.1%, respectively, measured at fair value and 8.4% and 8.1%, respectively, measured at cost.

**Table of Contents****SSLP Portfolio as of March 31, 2018 (dollar amounts in thousands)**

| Description  | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost       | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|------------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |            |                |
| AccentCare, Inc.                                       | Health Care Providers & Services | L+525                 | 1.00% | 7.13%             | 3/3/22        | \$ 14,573  | \$ 14,530  | \$ 14,573      |
| Alera Group Intermediate Holdings, Inc.                | Insurance                        | L+550                 | 1.00% | 7.16%             | 12/30/22      | 19,852     | 19,681     | 19,852         |
| Alteon Health, LLC (fka Island Medical)                | Health Care Providers & Services | L+550                 | 1.00% | 7.80%             | 9/1/22        | 13,674     | 13,557     | 12,854         |
| Associated Pathologists, LLC                           | Health Care Providers & Services | L+500                 | 1.00% | 6.84%             | 8/1/21        | 3,083      | 3,062      | 3,083          |
| Falmouth Group Holdings Corp. (AMPAC) (4)              | Chemicals                        | L+675                 | 1.00% | 8.63%             | 12/14/21      | 31,695     | 31,372     | 31,695         |
| On Location Events, LLC & PrimeSport Holdings Inc. (4) | Media                            | L+550                 | 1.00% | 7.57%             | 9/29/21       | 19,681     | 19,459     | 19,533         |
| Pet Holdings ULC & Pet Supermarket, Inc.               | Specialty Retail                 | L+550                 | 1.00% | 7.19%             | 7/5/22        | 24,114     | 23,834     | 24,114         |
| PPT Management Holdings, LLC                           | Health Care Providers & Services | L+600                 | 1.00% | 7.70%             | 12/16/22      | 11,850     | 11,753     | 10,665         |
| PSKW, LLC & PDR, LLC                                   | Health Care Providers & Services | L+425                 | 1.00% | 6.55%             | 11/25/21      | 1,911      | 1,899      | 1,911          |
| PSKW, LLC & PDR, LLC (4)                               | Health Care Providers & Services | L+826                 | 1.00% | 10.56%            | 11/25/21      | 22,250     | 21,945     | 21,805         |
| VetCor Professional Practices LLC                      | Health Care Facilities           | L+625                 | 1.00% | 8.56%             | 4/20/21       | 23,486     | 23,358     | 23,251         |
|  |                                  |                       |       |                   |               |            | \$ 184,450 | \$ 183,336     |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

**Table of Contents****SSLP Portfolio as of December 31, 2017 (audited) (dollar amounts in thousands)**

| Description                                    | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost       | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|------------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |            |                |
| AccentCare, Inc. (4)                           | Health Care Providers & Services | L+525                 | 1.00% | 6.94%             | 3/3/22        | \$ 14,393  | \$ 14,350  | \$ 14,321      |
| Alera Group Intermediate Holdings, Inc.        | Insurance                        | L+550                 | 1.00% | 6.85%             | 12/30/22      | 17,114     | 16,963     | 17,029         |
| Associated Pathologists, LLC                   | Health Care Providers & Services | L+500                 | 1.00% | 6.42%             | 8/1/21        | 3,125      | 3,102      | 3,125          |
| Empower Payments Acquisition, Inc. (RevSpring) | Professional Services            | L+550                 | 1.00% | 7.19%             | 11/30/23      | 13,736     | 13,496     | 13,736         |
| Falmouth Group Holdings Corp. (AMPAC) (4)      | Chemicals                        | L+675                 | 1.00% | 8.44%             | 12/14/21      | 31,695     | 31,354     | 31,695         |
| Island Medical Management Holdings, LLC        | Health Care Providers & Services | L+550                 | 1.00% | 7.00%             | 9/1/22        | 13,709     | 13,585     | 13,297         |
| Pet Holdings ULC & Pet Supermarket, Inc.       | Specialty Retail                 | L+550                 | 1.00% | 6.84%             | 7/5/22        | 23,233     | 22,953     | 23,117         |
| PPT Management Holdings, LLC                   | Health Care Providers & Services | L+600                 | 1.00% | 9.50%             | 12/16/22      | 11,880     | 11,782     | 11,405         |
| PSKW, LLC & PDR, LLC                           | Health Care Providers & Services | L+425                 | 1.00% | 5.94%             | 11/25/21      | 1,918      | 1,905      | 1,918          |
| PSKW, LLC & PDR, LLC (4)                       | Health Care Providers & Services | L+826                 | 1.00% | 9.95%             | 11/25/21      | 22,250     | 21,929     | 21,805         |
| VetCor Professional Practices LLC              | Health Care Facilities           | L+600                 | 1.00% | 7.69%             | 4/20/21       | 23,546     | 23,409     | 23,134         |
|  |                                  |                       |       |                   |               |            | \$ 174,828 | \$ 174,582     |

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2017.
- (3)

Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.

(4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

**Table of Contents**

Below is certain summarized financial information for SSLP as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017:

|  | <b>March 31,<br/>2018</b>                        | <b>December 31,<br/>2017</b>                     |
|--|--|--|
| <b>Selected Balance Sheet Information for SSLP (in thousands):</b>     |  |  |
| Investments at fair value (cost \$184,450 and \$174,828, respectively) | \$ 183,336                                       | \$ 174,582                                       |
| Cash and other assets  | 4,656  | 4,659  |
| <b>Total assets</b>  | <b>\$ 187,992</b>                                | <b>\$ 179,241</b>                                |
| Debt outstanding   | \$ 77,248  | \$ 74,248  |
| Distributions payable  | 2,200  | 2,200  |
| Interest payable and other credit facility related expenses            | 1,254  | 1,161  |
| Accrued expenses and other payables                                    | 174  | 219  |
| <b>Total liabilities</b>   | <b>\$ 80,876</b>                                 | <b>\$ 77,828</b>                                 |
| Members' equity  | \$ 107,116                                       | \$ 101,413                                       |
| <b>Total liabilities and members' equity</b>                           | <b>\$ 187,992</b>                                | <b>\$ 179,241</b>                                |
|  | <b>Three months<br/>ended<br/>March 31, 2018</b> | <b>Three months<br/>ended<br/>March 31, 2017</b> |
| <b>Selected Income Statement Information for SSLP (in thousands):</b>  |  |  |
| Interest income  | \$ 3,938   | \$ 3,447   |
| Service fees*  | \$ 29  | \$ 31  |
| Interest and other credit facility expenses                            | 1,254  | 781  |
| Other general and administrative expenses                              | 43   | 37   |
| <b>Total expenses</b>  | <b>\$ 1,326</b>                                  | <b>\$ 849</b>                                    |
| <b>Net investment income</b>   | <b>\$ 2,612</b>                                  | <b>\$ 2,598</b>                                  |
| Net change in unrealized gain (loss) on investments                    | (868)  | (26)   |
| <b>Net income</b>  | <b>\$ 1,744</b>                                  | <b>\$ 2,572</b>                                  |

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

### **Senior Secured Unitranche Loan Program II LLC**

On November 2, 2015, the Company assigned \$125.0 million of its \$300.0 million commitment to SSLP to SSLP II, a Delaware limited liability company. On August 5, 2016, the Company entered into an amended and restated limited liability company agreement with WFI Loanco, LLC ( WFI ) and SSLP II commenced operations. SSLP II is expected to invest primarily in senior secured loans, including unitranche loans, primarily to middle market companies predominantly owned by private equity sponsors or entrepreneurs, consistent with the Company's core origination and underwriting mandate. Also, on August 5, 2016, the Company assigned approximately \$50.0 million of its \$125.0 million commitment to SSLP II to SSLP III, a newly formed Delaware limited liability company. SSLP III, which had not commenced operations, was wholly owned by Solar Capital Ltd. but could have brought in unaffiliated investors at a later date. The Company and WFI's equity commitments to SSLP II now total \$75.0 million and \$18.0 million, respectively.

On November 15, 2016, SSLP II as transferor and SSLP II 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP II, as borrower entered into a \$100 million senior secured revolving credit facility (the SSLP

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**Table of Contents**

II Facility ) with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP II Facility. The SSLP II Facility is scheduled to mature on November 15, 2021. The SSLP II Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP II and SSLP II 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP II Facility also includes usual and customary events of default for credit facilities of this nature. There were \$52.6 million and \$48.8 million of borrowings outstanding as of March 31, 2018 and December 31, 2017, respectively. As of March 31, 2018 and December 31, 2017, the Company and WFI contributed combined equity capital in the amount of \$69.1 million and \$63.3 million, respectively. Of the \$69.1 million of contributed equity capital at March 31, 2018, the Company contributed \$43.5 million in the form of investments and \$12.3 million in the form of cash and WFI contributed \$13.4 million in the form of cash. As of March 31, 2018, the Company and WFI's remaining commitments to SSLP II totaled \$19.3 million and \$4.6 million, respectively. The Company, along with WFI, controls the funding of SSLP II and SSLP II may not call the unfunded commitments without approval of both the Company and WFI.

As of March 31, 2018 and December 31, 2017, SSLP II had total assets of \$124.7 million and \$124.7 million, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 14 and 15 different borrowers, respectively. For the three months ended March 31, 2018 and March 31, 2017, SSLP II invested \$12.2 million in 5 portfolio companies and \$20.0 million in 5 portfolio companies, respectively. Investments prepaid totaled \$12.0 million and \$1.0 million for the same periods, respectively. At March 31, 2018 and December 31, 2017, the weighted average yield of SSLP II's portfolio was 8.4% and 8.0%, respectively, measured at fair value and 8.6% and 8.3%, respectively, measured at cost.

**Table of Contents****SSLP II Portfolio as of March 31, 2018 (dollar amounts in thousands)**

| Description  | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost     | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|----------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |          |                |
| AccentCare, Inc.                                       | Health Care Providers & Services | L+525                 | 1.00% | 7.13%             | 3/3/22        | \$ 7,962   | \$ 7,928 | \$ 7,962       |
| Alera Group Intermediate Holdings, Inc.                | Insurance                        | L+550                 | 1.00% | 7.16%             | 12/30/22      | 7,694      | 7,628    | 7,694          |
| Alteon Health, LLC (fka Island Medical)                | Health Care Providers & Services | L+550                 | 1.00% | 7.80%             | 9/1/22        | 6,837      | 6,779    | 6,427          |
| American Teleconferencing Services, Ltd. (PGI) (4)     | Communications Equipment         | L+650                 | 1.00% | 8.29%             | 12/8/21       | 13,668     | 12,651   | 13,599         |
| Associated Pathologists, LLC                           | Health Care Providers & Services | L+500                 | 1.00% | 6.84%             | 8/1/21        | 1,542      | 1,531    | 1,542          |
| Falmouth Group Holdings Corp. (AMPAC) (4)              | Chemicals                        | L+675                 | 1.00% | 8.63%             | 12/14/21      | 10,011     | 10,011   | 10,011         |
| Global Holdings LLC & Payment Concepts LLC             | Consumer Finance                 | L+650                 | 1.00% | 9.51%             | 5/5/22        | 9,223      | 9,065    | 9,223          |
| Logix Holding Company, LLC                             | Communications Equipment         | L+575                 | 1.00% | 7.60%             | 12/22/24      | 8,977      | 8,889    | 8,887          |
| On Location Events, LLC & PrimeSport Holdings Inc. (4) | Media                            | L+550                 | 1.00% | 7.57%             | 9/29/21       | 9,840      | 9,730    | 9,766          |
| Pet Holdings ULC & Pet Supermarket, Inc.               | Specialty Retail                 | L+550                 | 1.00% | 7.19%             | 7/5/22        | 10,610     | 10,486   | 10,610         |
| Polycom, Inc.  | Communications Equipment         | L+525                 | 1.00% | 7.04%             | 9/27/23       | 8,974      | 8,682    | 9,064          |
| PPT Management Holdings, LLC                           | Health Care Providers & Services | L+600                 | 1.00% | 7.70%             | 12/16/22      | 9,875      | 9,794    | 8,887          |
| PSKW, LLC & PDR, LLC                                   | Health Care Providers & Services | L+425                 | 1.00% | 6.55%             | 11/25/21      | 765        | 765      | 765            |
| PSKW, LLC & PDR, LLC (4)                               | Health Care Providers & Services | L+826                 | 1.00% | 10.56%            | 11/25/21      | 8,900      | 8,780    | 8,722          |
| VetCor Professional Practices LLC                      | Health Care Facilities           | L+625                 | 1.00% | 8.56%             | 4/20/21       | 8,107      | 7,976    | 8,026          |



- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2018.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

**Table of Contents****SSLP II Portfolio as of December 31, 2017 (audited) (dollar amounts in thousands)**

| Description  | Industry                         | Spread                |       | Interest Rate (2) | Maturity Date | Par Amount | Cost     | Fair Value (3) |
|--|----------------------------------|-----------------------|-------|-------------------|---------------|------------|----------|----------------|
|  |                                  | Above LIBOR Index (1) | Floor |                   |               |            |          |                |
| AccentCare, Inc.                                   | Health Care Providers & Services | L+525                 | 1.00% | 6.94%             | 3/3/22        | \$ 7,863   | \$ 7,829 | \$ 7,824       |
| Alera Group Intermediate Holdings, Inc.            | Insurance                        | L+550                 | 1.00% | 6.85%             | 12/30/22      | 6,418      | 6,361    | 6,386          |
| American Teleconferencing Services, Ltd. (PGI) (4) | Communications Equipment         | L+650                 | 1.00% | 7.90%             | 12/8/21       | 13,858     | 12,770   | 13,650         |
| Associated Pathologists, LLC                       | Health Care Providers & Services | L+500                 | 1.00% | 6.42%             | 8/1/21        | 1,563      | 1,551    | 1,563          |
| Empower Payments Acquisition, Inc. (RevSpring)     | Professional Services            | L+550                 | 1.00% | 7.19%             | 11/30/23      | 6,868      | 6,748    | 6,868          |
| Falmouth Group Holdings Corp. (AMPAC) (4)          | Chemicals                        | L+675                 | 1.00% | 8.44%             | 12/14/21      | 10,011     | 10,011   | 10,011         |
| Global Holdings LLC & Payment Concepts LLC         | Consumer Finance                 | L+650                 | 1.00% | 7.99%             | 5/5/22        | 9,341      | 9,173    | 9,341          |
| Island Medical Management Holdings, LLC            | Health Care Providers & Services | L+550                 | 1.00% | 7.00%             | 9/1/22        | 6,854      | 6,793    | 6,649          |
| Logix Holding Company, LLC                         | Communications Equipment         | L+575                 | 1.00% | 7.28%             | 12/22/24      | 9,000      | 8,910    | 8,910          |
| Pet Holdings ULC & Pet Supermarket, Inc.           | Specialty Retail                 | L+550                 | 1.00% | 6.84%             | 7/5/22        | 10,223     | 10,098   | 10,171         |
| PetVet Care Centers, LLC                           | Health Care Facilities           | L+600                 | 1.00% | 7.35%             | 6/8/23        | 3,444      | 3,412    | 3,478          |
| Polycom, Inc.                                      | Communications Equipment         | L+525                 | 1.00% | 6.72%             | 9/27/23       | 9,449      | 9,130    | 9,546          |
| PPT Management Holdings, LLC                       | Health Care Providers & Services | L+600                 | 1.00% | 9.50%             | 12/16/22      | 9,900      | 9,818    | 9,504          |
| PSKW, LLC & PDR, LLC                               | Health Care Providers & Services | L+425                 | 1.00% | 5.94%             | 11/25/21      | 767        | 767      | 767            |
| PSKW, LLC & PDR, LLC (4)                           | Health Care Providers & Services | L+826                 | 1.00% | 9.95%             | 11/25/21      | 8,900      | 8,774    | 8,722          |
| VetCor Professional                                | Health Care Facilities           | L+600                 | 1.00% | 7.69%             | 4/20/21       | 8,128      | 7,987    | 7,986          |

Practices LLC

\$ 120,132 \$ 121,376

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ( LIBOR or L ) index rate or the prime index rate (PRIME or P ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2017.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

**Table of Contents**

Below is certain summarized financial information for SSLP II as of March 31, 2018 and December 31, 2017 and for the three months ended March 31, 2018 and 2017:

|  | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|--|---------------------------|------------------------------|
| <b>Selected Balance Sheet Information for SSLP II (in thousands):</b>  |                           |                              |
| Investments at fair value (cost \$120,695 and \$120,132, respectively) | \$ 121,185                | \$ 121,376                   |
| Cash and other assets  | 3,557                     | 3,360                        |
| <b>Total assets</b>  | <b>\$ 124,742</b>         | <b>\$ 124,736</b>            |
| Debt outstanding   | \$ 52,568                 | \$ 48,788                    |
| Payable for investments purchased                                      |                           | 9,281                        |
| Distributions payable  | 1,638                     | 1,638                        |
| Interest payable and other credit facility related expenses            | 757                       | 654                          |
| Accrued expenses and other payables                                    | 177                       | 217                          |
| <b>Total liabilities</b>   | <b>\$ 55,140</b>          | <b>\$ 60,578</b>             |
| Members' equity  | \$ 69,602                 | \$ 64,158                    |
| <b>Total liabilities and members' equity</b>                           | <b>\$ 124,742</b>         | <b>\$ 124,736</b>            |

|  | <b>Three months<br/>ended<br/>March 31, 2018</b> | <b>Three months<br/>ended<br/>March 31, 2017</b> |
|--|--|--|
| <b>Selected Income Statement Information for SSLP II (in thousands):</b> |  |  |
| Interest income  | \$ 2,822   | \$ 2,091   |
| Service fees*  | \$ 30  | \$ 24  |
| Interest and other credit facility expenses//                            | 723  | 418  |
| Other general and administrative expenses                                | 33   | 25   |
| <b>Total expenses</b>  | <b>\$ 786</b>                                    | <b>\$ 467</b>                                    |
| Net investment income  | \$ 2,036   | \$ 1,624   |
| Net change in unrealized gain (loss) on investments                      | (754)  | 303  |
| <b>Net income</b>  | <b>\$ 1,282</b>                                  | <b>\$ 1,927</b>                                  |

\* Service fees are included within the Company's Consolidated Statements of Operations as other income.

**Critical Accounting Policies**

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

## **Table of Contents**

### ***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:

Under procedures established by our board of directors (the Board), we value investments, including certain senior secured debt, subordinated debt and other debt securities with maturities greater than 60 days, for which market quotations are readily available, at such market quotations (unless they are deemed not to represent fair value). We attempt to obtain market quotations from at least two brokers or dealers (if available, otherwise from a principal market maker or a primary market dealer or other independent pricing service). We utilize mid-market pricing as a practical expedient for fair value unless a different point within the range is more representative. If and when market quotations are deemed not to represent fair value, we may utilize independent third-party valuation firms to assist us in determining the fair value of material assets. Accordingly, such investments go through our multi-step valuation process as described below. In each case, independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of the Investment Adviser, does not represent fair value, in which case such investments shall be valued at fair value as determined in good faith by or under the direction of our Board. Investments that are not publicly traded or whose market quotations are not readily available are valued at fair value as determined in good faith by or under the direction of our Board. Such determination of fair values involves subjective judgments and estimates.

With respect to investments for which market quotations are not readily available or when such market quotations are deemed not to represent fair value, our Board has approved a multi-step valuation process each quarter, as described below:

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
- (2) preliminary valuation conclusions are then documented and discussed with senior management of the Investment Adviser;
- (3) independent valuation firms engaged by our Board conduct independent appraisals and review the Investment Adviser's preliminary valuations and make their own independent assessment for all material assets;
- (4) the audit committee of the Board reviews the preliminary valuation of the Investment Adviser and that of the independent valuation firm, if any, and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and
- (5) the Board discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm, if any, and the audit

committee.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market

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**Table of Contents**

trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2018, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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

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

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

**Level 3:** Unobservable inputs for the asset or liability.

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

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

***Valuation of Credit Facility and 2022 Unsecured Notes***

The Company has made an irrevocable election to apply the fair value option of accounting to its Credit Facility and 2022 Unsecured Notes, in accordance with ASC 825-10. We believe accounting for the Credit Facility and the 2022 Unsecured Notes at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility.

***Revenue Recognition***

The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more (90 days or more for equipment financing) and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on investments may be recognized as income or applied to principal depending upon management's judgment. Some of our investments may have contractual PIK interest or dividends. PIK interest and dividends computed at the contractual rate are accrued



into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK

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**Table of Contents**

generally becomes due at the maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends is reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring fees are recorded as other income when earned.

The typically higher yields and interest rates on PIK securities, to the extent we invested, reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Investment Adviser based on non-cash accruals that ultimately may not be realized, but the Investment Adviser will be under no obligation to reimburse the Company for these fees. For the three months ended March 31, 2018 and 2017, capitalized PIK income totaled \$0.05 million and \$0.04 million, respectively.

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

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

***Income Taxes***

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

**Recent Accounting Pronouncements**

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows, which amends FASB ASC 230. The amendments in this Update require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore,

amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this Update apply to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows under

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**Table of Contents**

Topic 230. For public business entities, the amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company has adopted ASU 2016-18 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

In March 2017, the FASB issued ASU 2017-08, Premium Amortization on Purchased Callable Debt Securities, which will amend FASB ASC 310-20. The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium, generally requiring the premium to be amortized to the earliest call date. For public business entities, the amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of ASU 2017-08 on its consolidated financial statements and disclosures.

In May 2014, the FASB issued ASC 606, Revenue From Contracts With Customers, originally effective for public business entities with annual reporting periods beginning after December 15, 2016. On August 12, 2015, the FASB issued an ASU, Revenue From Contracts With Customers (Topic 606): Deferral of the Effective Date, which deferred the effective date of ASC 606 for one year. ASC 606 provides accounting guidance related to revenue from contracts with customers. For public business entities, ASC 606 was effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company has adopted ASC 606 and determined that the adoption has not had a material impact on its consolidated financial statements and disclosures.

**RESULTS OF OPERATIONS**

Results comparisons are for the three months ended March 31, 2018 and 2017:

**Investment Income**

For the three months ended March 31, 2018 and 2017, gross investment income totaled \$39.0 million and \$34.4 million, respectively. The increase in gross investment income for the year over year three month periods was primarily due to growth of the income producing investment portfolio and increased portfolio yield.

**Expenses**

Expenses totaled \$20.1 million and \$18.1 million, respectively, for the three months ended March 31, 2018 and 2017, of which \$11.2 million and \$10.8 million, respectively, were base management fees and performance-based incentive fees and \$5.9 million and \$5.7 million, respectively, were interest and other credit facility expenses (inclusive of \$0.5 million of costs related to the issuance of the 2022 Unsecured Notes during the three months ended March 31, 2017). Administrative services and other general and administrative expenses totaled \$3.0 million and \$1.6 million, respectively, for the three months ended March 31, 2018 and 2017. Expenses generally consist of management and performance-based incentive fees, interest and other credit facility expenses, administrative services fees, insurance expenses, legal fees, directors' fees, transfer agency fees, printing and proxy expenses, audit and tax services expenses, and other general and administrative expenses. Interest and other credit facility expenses generally consist of interest, unused fees, agency fees and loan origination fees, if any, among others. The increase in expenses for the three months ended March 31, 2018 versus the three months ended March 31, 2017 was primarily due to higher performance-based incentive fees resulting from higher income, higher interest expense resulting from an increase in borrowings to support a larger income producing investment portfolio, as well as an increase in general and administrative expenses.

**Net Investment Income**

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The Company's net investment income totaled \$18.9 million and \$16.3 million, or \$0.45 and \$0.39, per average share, respectively, for the three months ended March 31, 2018 and 2017.

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**Table of Contents****Net Realized Gain**

The Company had investment sales and prepayments totaling approximately \$142 million and \$85 million, respectively, for the three months ended March 31, 2018 and 2017. Net realized gains over the same periods were \$0.4 million and \$0.6 million, respectively. Net realized gains for the three months ended March 31, 2018 and March 31, 2017 were related to the sale of select assets.

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

For the three months ended March 31, 2018 and 2017, net change in unrealized gain on the Company's assets and liabilities totaled \$0.8 million and \$0.3 million, respectively. Net unrealized gain for the three months ended March 31, 2018 is primarily due to appreciation in the value of our investments in Rug Doctor, Rapid Micro Biosystems, Inc., Aegis Toxicology Sciences Corporation and Vapotherm, Inc., among others. Partially offsetting the net change in unrealized gain was depreciation on our investments in Crystal Financial LLC, Achaogen, Inc. and Kore Wireless Group, Inc., among others. Net unrealized gain for the three months ended March 31, 2017 is primarily due to appreciation in the value of our investments in Crystal Financial LLC, Breathe Technologies, Inc. and Tierpoint, LLC, among others. Partially offsetting the net change in unrealized gain was depreciation on our investments in Aegis Toxicology Sciences Corporation, Rug Doctor and Direct Buy Inc. among others.

**Net Increase in Net Assets From Operations**

For the three months ended March 31, 2018 and 2017, the Company had a net increase in net assets resulting from operations of \$20.0 million and \$17.2 million, respectively. For the same periods, earnings per average share were \$0.47 and \$0.41, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through its Credit Facility maturing in September 2021, through cash flows from operations, investment sales, prepayments of senior and subordinated loans, income earned on investments and cash equivalents, and periodic follow-on equity and/or debt offerings. As of March 31, 2018, we had a total of \$145.5 million of unused borrowing capacity under the Credit Facility, subject to borrowing base limits.

We may from time to time issue equity and/or debt securities in either public or private offerings. The issuance of such 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 uses of existing funds and any funds raised in the future is expected to be for investments in portfolio companies, repayment of indebtedness, cash distributions to our shareholders, or for other general corporate purposes.

On December 28, 2017, the Company closed a private offering of \$21 million of the 2022 Tranche C Notes with a fixed interest rate of 4.50% and a maturity date of December 28, 2022. Interest on the 2022 Tranche C Notes is due semi-annually on June 28 and December 28. The 2022 Tranche C Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On November 22, 2017, we issued \$75 million in aggregate principal amount of publicly registered 2023 Unsecured Notes for net proceeds of \$73.8 million. Interest on the 2023 Unsecured Notes is paid semi-annually on January 20 and June 20, at a rate of 4.50% per year, commencing on January 20, 2018. The 2023 Unsecured Notes mature on January 20, 2023.

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On February 15, 2017, the Company closed a private offering of \$100 million of the 2022 Unsecured Notes with a fixed interest rate of 4.60% and a maturity date of May 8, 2022. Interest on the 2022 Unsecured Notes is due semi-annually on May 8 and November 8. The 2022 Unsecured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

## **Table of Contents**

On November 8, 2016, the Company closed a private offering of \$50 million of the 2022 Unsecured Notes with a fixed interest rate of 4.40% and a maturity date of May 8, 2022. Interest on the 2022 Unsecured Notes is due semi-annually on May 8 and November 8. The 2022 Unsecured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

On January 11, 2013, the Company closed its most recent follow-on public equity offering of 6.3 million shares of common stock raising approximately \$146.9 million in net proceeds. The primary uses of the funds raised were for investments in portfolio companies, reductions in revolving debt outstanding and for other general corporate purposes.

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

## **Cash Equivalents**

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. The Company makes purchases that are consistent with its purpose of making investments in securities described in paragraphs 1 through 3 of Section 55(a) of the 1940 Act. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents as temporary assets with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held approximately \$140 million in cash equivalents as of March 31, 2018.

## **Debt**

### *Unsecured Notes*

On December 28, 2017, the Company closed a private offering of \$21,000 of the 2022 Tranche C Notes with a fixed interest rate of 4.50% and a maturity date of December 28, 2022. Interest on the 2022 Tranche C Notes is due semi-annually on June 28 and December 28. The 2022 Tranche C Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

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semi-annually on May 8 and November 8. The 2022 Unsecured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

**Table of Contents***Revolving & Term Loan Facility*

On September 30, 2016, the Company entered into a second Credit Facility amendment. Post amendment, the Credit Facility was composed of \$505 million of revolving credit and \$50 million of term loans. Borrowings generally bear interest at a rate per annum equal to the base rate plus a range of 2.00-2.25% or the alternate base rate plus 1.00%-1.25%. The Credit Facility has no LIBOR floor requirement. The Credit Facility matures in September 2021 and includes ratable amortization in the final year. The Credit Facility may be increased up to \$800 million with additional new lenders or an increase in commitments from current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Credit Facility contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder's equity and a minimum asset coverage ratio. The Company also pays issuers of funded term loans quarterly in arrears a commitment fee at the rate of 0.25% per annum on the average daily outstanding balance. On February 23, 2017, the Company prepaid its two non-extending lenders and terminated their commitments, reducing total outstanding revolving credit commitments by \$110 million to \$395 million. At March 31, 2018, outstanding USD equivalent borrowings under the Credit Facility totaled \$299.5 million, composed of \$249.5 million of revolving credit and \$50 million of term loans.

Certain covenants on our issued debt may restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. At March 31, 2018, the Company was in compliance with all financial and operational covenants required by our debt facilities.

*Contractual Obligations*

A summary of our significant contractual payment obligations is as follows as of March 31, 2018:

**Payments Due by Period (in millions)**

|                               | <b>Total</b> | <b>Less than<br/>1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More Than<br/>5 Years</b> |
|-------------------------------|--------------|-----------------------------|------------------|------------------|------------------------------|
| Revolving credit facility (1) | \$ 249.5     | \$                          | \$               | \$ 249.5         | \$                           |
| Unsecured senior notes        | 246.0        |                             |                  | 246.0            |                              |
| Term Loans                    | 50.0         |                             |                  | 50.0             |                              |

(1) As of March 31, 2018, we had a total of \$145.5 million of unused borrowing capacity under our revolving credit facility, subject to borrowing base limits.

**Table of Contents**

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

| <b>Class and Year</b>                | <b>Total<br/>Amount<br/>Outstanding (1)</b> | <b>Asset<br/>Coverage<br/>Per Unit (2)</b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per<br/>Unit (3)</b> | <b>Average<br/>Market Value<br/>Per<br/>Unit (4)</b> |
|--------------------------------------|---|--|--|--|
| <b>Revolving Credit Facility</b>     |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 249,500                                  | \$ 1,232                                   |  | N/A  |
| Fiscal 2017                          | 245,600                                     | 1,225                                      |  | N/A  |
| Fiscal 2016                          | 115,200                                     | 990  |  | N/A  |
| Fiscal 2015                          | 207,900                                     | 1,459                                      |  | N/A  |
| Fiscal 2014                          |   |  |  | N/A  |
| Fiscal 2013                          |   |  |  | N/A  |
| Fiscal 2012                          | 264,452                                     | 1,510                                      |  | N/A  |
| Fiscal 2011                          | 201,355                                     | 3,757                                      |  | N/A  |
| Fiscal 2010                          | 400,000                                     | 2,668                                      |  | N/A  |
| Fiscal 2009                          | 88,114                                      | 8,920                                      |  | N/A  |
| <b>2022 Unsecured Notes</b>          |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 150,000                                  | \$ 741                                     |  | N/A  |
| Fiscal 2017                          | 150,000                                     | 748  |  | N/A  |
| Fiscal 2016                          | 50,000                                      | 430  |  | N/A  |
| <b>2022 Tranche C Notes</b>          |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 21,000                                   | \$ 104                                     |  | N/A  |
| Fiscal 2017                          | 21,000                                      | 105  |  | N/A  |
| <b>2023 Unsecured Notes</b>          |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 75,000                                   | \$ 370                                     |  | N/A  |
| Fiscal 2017                          | 75,000                                      | 374  |  | N/A  |
| <b>2042 Unsecured Notes</b>          |   |  |  |  |
| Fiscal 2017                          | \$  | \$   |  | N/A  |
| Fiscal 2016                          | 100,000                                     | 859  |  | 1,002  |
| Fiscal 2015                          | 100,000                                     | 702  |  | 982  |
| Fiscal 2014                          | 100,000                                     | 2,294                                      |  | 943  |
| Fiscal 2013                          | 100,000                                     | 2,411                                      |  | 934  |
| Fiscal 2012                          | 100,000                                     | 571  |  | 923  |
| <b>Senior Secured Notes</b>          |   |  |  |  |
| Fiscal 2017                          | \$  | \$   |  | N/A  |
| Fiscal 2016                          | 75,000                                      | 645  |  | N/A  |
| Fiscal 2015                          | 75,000                                      | 527  |  | N/A  |
| Fiscal 2014                          | 75,000                                      | 1,721                                      |  | N/A  |

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|                                      |           |        |     |
|--------------------------------------|-----------|--------|-----|
| Fiscal 2013                          | 75,000    | 1,808  | N/A |
| Fiscal 2012                          | 75,000    | 428    | N/A |
| <b>Term Loans</b>                    |           |        |     |
| Fiscal 2018 (through March 31, 2018) | \$ 50,000 | \$ 247 | N/A |
| Fiscal 2017                          | 50,000    | 250    | N/A |
| Fiscal 2016                          | 50,000    | 430    | N/A |
| Fiscal 2015                          | 50,000    | 351    | N/A |
| Fiscal 2014                          | 50,000    | 1,147  | N/A |
| Fiscal 2013                          | 50,000    | 1,206  | N/A |
| Fiscal 2012                          | 50,000    | 285    | N/A |
| Fiscal 2011                          | 35,000    | 653    | N/A |
| Fiscal 2010                          | 35,000    | 233    | N/A |

**Table of Contents**

| <b>Class and Year</b>                | <b>Total<br/>Amount<br/>Outstanding (1)</b> | <b>Asset<br/>Coverage<br/>Per Unit (2)</b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per<br/>Unit (3)</b> | <b>Average<br/>Market Value<br/>Per<br/>Unit (4)</b> |
|--------------------------------------|---|--|--|--|
| <b>Total Senior Securities</b>       |   |  |  |  |
| Fiscal 2018 (through March 31, 2018) | \$ 545,500                                  | \$ 2,694                                   |  | N/A  |
| Fiscal 2017                          | 541,600                                     | 2,702                                      |  | N/A  |
| Fiscal 2016                          | 390,200                                     | 3,354                                      |  | N/A  |
| Fiscal 2015                          | 432,900                                     | 3,039                                      |  | N/A  |
| Fiscal 2014                          | 225,000                                     | 5,162                                      |  | N/A  |
| Fiscal 2013                          | 225,000                                     | 5,425                                      |  | N/A  |
| Fiscal 2012                          | 489,452                                     | 2,794                                      |  | N/A  |
| Fiscal 2011                          | 236,355                                     | 4,410                                      |  | N/A  |
| Fiscal 2010                          | 435,000                                     | 2,901                                      |  | N/A  |
| Fiscal 2009                          | 88,114                                      | 8,920                                      |  | N/A  |

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period. As of March 31, 2018, asset coverage was 269.4%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable except for the 2042 Unsecured Notes which were publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit. The average market value for the fiscal 2018, 2017, 2016, 2015, 2014, 2013 and 2012 periods was N/A, N/A, \$101,360, \$100,175, \$98,196, \$94,301, \$93,392, and \$92,302, respectively.

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

On October 15, 2015, SSLP entered into an amended and restated servicing agreement with the Company. SSLP engaged and retained the Company to provide certain administrative services relating to the facilities, supplies and necessary ongoing overhead support services for the operation of SSLP's ongoing business affairs in exchange for a

fee. Either party may terminate this agreement upon 30 days written notice to the other.

On August 5, 2016, SSLP II entered into a servicing agreement with the Company. SSLP II engaged and retained the Company to provide certain administrative services relating to the facilities, supplies and necessary ongoing overhead support services for the operation of SSLP II s ongoing business affairs in exchange for a fee. Either party may terminate this agreement upon 30 days written notice to the other.

**Table of Contents**

On July 31, 2017, the Company, NEFPASS LLC and NEFCORP LLC entered into a servicing agreement. NEFCORP LLC was engaged to provide NEFPASS LLC with administrative services related to the loans and capital leases held by NEFPASS LLC. NEFPASS LLC may terminate this agreement upon 30 days written notice to NEFCORP LLC.

***Off-Balance Sheet Arrangements***

From time-to-time and in the normal course of business, the Company may make unfunded capital commitments to current or prospective portfolio companies. Typically, the Company may agree to provide delayed-draw term loans or, to a lesser extent, revolving loan or equity commitments. These unfunded capital commitments always take into account the Company's liquidity and cash available for investment, portfolio and issuer diversification, and other considerations. Accordingly, the Company had the following unfunded capital commitments at March 31, 2018 and December 31, 2016, respectively:

|   | <b>March 31,<br/>2018</b> | <b>December 31,<br/>2017</b> |
|---|---------------------------|------------------------------|
| Crystal Financial LLC*                  | \$ 44.3                   | \$ 44.3                      |
| Breathe Technologies, Inc.              | 8.0                       |                              |
| Corindus Vascular Robotics, Inc         | 6.2                       |                              |
| Delphinus Medical Technologies, Inc.    | 3.7                       | 3.7                          |
| MRI Software LLC                        | 1.8                       | 2.3                          |
| Datto, Inc                              | 1.7                       | 1.7                          |
| Radiology Partners, Inc                 | 1.1                       | 0.9                          |
| CardioFocus, Inc                        | 1.0                       | 1.0                          |
| South Texas Oilfield Services, LLC      | 0.9                       |                              |
| Alera Group Intermediate Holdings, Inc. |                           | 3.9                          |
| Accentcare, Inc.                        |                           | 3.4                          |
| WJV658, LLC                             |                           | 0.8                          |
| <b>Total Commitments</b>                | <b>\$ 68.7</b>            | <b>\$ 62.0</b>               |

\* The Company controls the funding of the Crystal Financial LLC commitment and may cancel it at its discretion. As of March 31, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments as well as the commitments to SSLP, SSLP II and LSJV, all disclosed in the notes to the Consolidated Financial Statements.

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





**Table of Contents****Distributions**

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

| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|----------------------|--------------------|---------------------|---------------|
| <b>Fiscal 2018</b>   |                    |                     |               |
| May 7, 2018          | June 21, 2018      | July 3, 2018        | \$ 0.41       |
| November 2, 2017     | March 22, 2018     | April 3, 2018       | 0.41          |
| <i>Total 2018</i>    |                    |                     | \$ 0.82       |
| <b>Fiscal 2017</b>   |                    |                     |               |
| November 2, 2017     | December 21, 2017  | January 4, 2018     | \$ 0.40       |
| August 1, 2017       | September 21, 2017 | October 3, 2017     | 0.40          |
| May 2, 2017          | June 22, 2017      | July 5, 2017        | 0.40          |
| February 22, 2017    | March 23, 2017     | April 4, 2017       | 0.40          |
| <i>Total 2017</i>    |                    |                     | \$ 1.60       |
| <b>Fiscal 2016</b>   |                    |                     |               |
| November 2, 2016     | December 15, 2016  | January 4, 2017     | \$ 0.40       |
| August 2, 2016       | September 22, 2016 | October 4, 2016     | 0.40          |
| May 3, 2016          | June 23, 2016      | July 1, 2016        | 0.40          |
| February 24, 2016    | March 24, 2016     | April 1, 2016       | 0.40          |
| <i>Total 2016</i>    |                    |                     | \$ 1.60       |

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

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

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

We may not be able to achieve operating results that will allow us to make distributions at a specific level or to increase the amount of these distributions from time to time. In addition, due to the asset coverage test applicable to us

as a business development company, we may in the future be limited in our ability to make distributions. Also, our revolving credit facility may limit our ability to declare distributions if we default under certain provisions. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of the tax benefits available to us as a regulated investment company. In addition, in accordance with GAAP and tax regulations, we include in income certain amounts that we have not yet received in cash, such as contractual payment-in-kind interest, which represents contractual interest added to the loan balance that becomes due at the end of the loan term, or the accrual of original issue or market discount. Since we may recognize income before or without receiving cash representing such income, we may have

## **Table of Contents**

difficulty meeting the requirement to distribute at least 90% of our investment company taxable income to obtain tax benefits as a regulated investment company.

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

## **Related Parties**

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

We have entered into the Advisory Agreement with Solar Capital Partners. Mr. Gross, our Chairman and Chief Executive Officer and Mr. Spohler, our Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial and controlling interests in, the Investment Adviser. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Corporate Secretary serves as the Chief Financial Officer for Solar Capital Partners.

The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and their respective staffs.

We have entered into a license agreement with the Investment Adviser, pursuant to which the Investment Adviser has granted us a non-exclusive, royalty-free license to use the name Solar Capital.

The Investment Adviser may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. For example, the Investment Adviser presently serves as investment adviser to Solar Senior Capital Ltd., a publicly traded BDC, which focuses on investing in senior secured loans, including first lien and second lien debt instruments. In addition, Michael S. Gross, our Chairman and Chief Executive Officer, Bruce Spohler, our Chief Operating Officer, and Richard L. Peteka, our Chief Financial Officer, serve in similar capacities for Solar Senior Capital Ltd. The Investment Adviser and certain investment advisory affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, the Investment Adviser or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with the Investment Adviser's allocation procedures.

Related party transactions may occur among Solar Capital Ltd., Crystal Financial LLC, Senior Secured Unitranche Loan Program LLC, SSLP 2016-1, LLC, Senior Secured Unitranche Loan Program II LLC, SSLP II 2016-1, LLC and NEF Holdings LLC. These transactions may occur in the normal course of business. No administrative fees are paid to Solar Capital Partners by Crystal Financial LLC, Senior Secured Unitranche Loan Program LLC, Senior Secured Unitranche Loan Program II LLC or NEF Holdings LLC.

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the three months ended March 31, 2018, certain of the investments in our portfolio had floating interest rates. These floating rate

**Table of Contents**

investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has a revolving credit facility that is generally based on floating LIBOR. Assuming no changes to our balance sheet as of March 31, 2018 and no new defaults by portfolio companies, a hypothetical one-quarter of one percent decrease in LIBOR on our floating rate assets and liabilities would reduce our net investment income by two cents per average share over the next twelve months. Assuming no changes to our balance sheet as of March 31, 2018 and no new defaults by portfolio companies, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would increase our net investment income by approximately eight cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in any benefits of certain changes in interest rates with respect to our portfolio of investments. At March 31, 2018, we have no interest rate hedging instruments outstanding.

|   |           |         |
|---|-----------|---------|
| Increase (Decrease) in LIBOR                                    | (0.25%)   | 1.00%   |
| Increase (Decrease) in Net Investment Income Per Share Per Year | (\$ 0.02) | \$ 0.08 |

We may also have exposure to foreign currencies (e.g., Canadian Dollars) through various investments. These investments are converted into U.S. dollars at the balance sheet date, exposing us to movements in foreign exchange rates. In order to reduce our exposure to fluctuations in foreign exchange rates, we may borrow from time-to-time in such currencies (e.g., Canadian Dollars) under our multi-currency revolving credit facility or enter into forward currency or similar contracts.

**Item 4. Controls and Procedures*****(a) Evaluation of Disclosure Controls and Procedures***

As of March 31, 2018 (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 first quarter of 2018 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 beyond what has been disclosed within these financial statements.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in **Risk Factors** in the March 14, 2018 filing of our Registration Statement on Form N-2, which could materially affect our business, financial condition and/or operating results. The risks described in our Registration Statement on Form N-2 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 March 31, 2018.

**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**

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

**Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 3.1           | <u>Articles of Amendment and Restatement(1)</u>   |
| 3.2           | <u>Amended and Restated Bylaws(1)</u>   |
| 4.1           | <u>Form of Common Stock Certificate(2)</u>  |
| 4.2           | <u>Indenture, dated as of November 16, 2012, between the Registrant and U.S. Bank National Association as trustee(3)</u>  |
| 4.3           | <u>Second Supplemental Indenture, dated November 22, 2017, relating to the 4.50% Notes due 2023, between the Registrant and U.S. Bank National Association as trustee, including the Form of 4.50% Notes due 2023(14)</u>                       |
| 4.4           | In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the SEC upon request  |
| 10.1          | <u>Dividend Reinvestment Plan(1)</u>  |
| 10.2          | <u>Form of Senior Secured Credit Agreement by and between the Registrant, Citibank, N.A., as administrative agent, the lenders party thereto, JPMorgan Chase Bank, N.A., as syndication agent, and SunTrust Bank, as documentation agent(9)</u> |
| 10.3          | <u>Form of Amendment No. 1 to the Senior Secured Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent(5)</u>   |
| 10.4          | <u>Form of Amendment No. 2 to the Senior Secured Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent(10)</u>  |
| 10.5          | <u>Second Amended and Restated Investment Advisory and Management Agreement by and between the Registrant and Solar Capital Partners, LLC(13)</u>   |
| 10.6          | <u>Form of Custodian Agreement(7)</u>   |
| 10.7          | <u>Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC(6)</u>   |
| 10.8          | <u>Form of Indemnification Agreement by and between Registrant and each of its directors(1)</u>   |
| 10.9          | <u>Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC(1)</u>   |
| 10.10         | <u>Form of Share Purchase Agreement by and between Registrant and Solar Capital Investors II, LLC(2)</u>  |
| 10.11         | <u>Form of Registration Rights Agreement(4)</u>   |
| 10.12         | <u>Form of Subscription Agreement(4)</u>  |
| 10.13         | <u>Form of Amended and Restated Limited Liability Company Agreement, dated as of October 15, 2015, between Solar Capital Ltd., Voya Retirement Insurance and Annuity Company, ReliaStar Life</u>  |



Insurance Company, and Voya Insurance and Annuity Company, by and through Voya Investment Management LLC, as agent and investment manager(8)

10.14

Form of Senior Secured Unitranche Loan Program II LLC Amended and Restated Limited Liability Company Agreement, dated as of August 5, 2016, by and between Solar Capital Ltd. and WFI Loanco, LLC(11)

**Table of Contents****Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 10.15         | <u>Form of Solar Life Science Program LLC Limited Liability Company Agreement, dated as of February 22, 2017, by and between Solar Capital Ltd., Solar Senior Capital Ltd. and Deerfield Solar Holdings LLC(12)</u> |
| 11.1          | <u>Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)</u>   |
| 31.1          | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u>  |
| 31.2          | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*</u>  |
| 32.1          | <u>Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u>   |
| 32.2          | <u>Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*</u>   |

- (1) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Pre-Effective Amendment No. 7 (File No. 333-148734) filed on January 7, 2010.
- (2) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 (File No 333-148734) filed on February 9, 2010.
- (3) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 6 (File No. 333-172968) filed on November 16, 2012.
- (4) Previously filed in connection with Solar Capital Ltd. s report on Form 8-K filed on November 29, 2010.
- (5) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on July 31, 2013.
- (6) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 10 (File No. 333-172968) filed on November 12, 2013.
- (7) Previously filed in connection with Solar Capital Ltd. s report on Form 10-K filed on February 25, 2014.
- (8) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on November 3, 2015.
- (9) Previously filed in connection with Solar Capital Ltd. s report on Form 8-K filed on July 6, 2012.
- (10) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on November 2, 2016.
- (11) Previously filed in connection with Solar Capital Ltd. s report on Form 8-K filed on August 11, 2016.
- (12) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on May 2, 2017.
- (13) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on November 2, 2017.
- (14) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 5 (File No. 333-194870) filed on November 22, 2017.

\* Filed herewith.

**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 May 7, 2018.

SOLAR 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)**