

Solar Capital Ltd.  
Form 10-Q  
November 05, 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 September 30, 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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company 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.

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 November 1, 2018 was 42,260,826.

**Table of Contents****SOLAR CAPITAL LTD.****FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018****TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. Financial Statements	
<u>Consolidated Statements of Assets and Liabilities as of September 30, 2018 (unaudited) and December 31, 2017</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2018 (unaudited) and the three and nine months ended September 30, 2017 (unaudited)</u>	4
<u>Consolidated Statements of Changes in Net Assets for the nine months ended September 30, 2018 (unaudited) and the year ended December 31, 2017</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2018 (unaudited) and the nine months ended September 30, 2017 (unaudited)</u>	6
<u>Consolidated Schedule of Investments as of September 30, 2018 (unaudited)</u>	7
<u>Consolidated Schedule of Investments as of December 31, 2017</u>	15
<u>Notes to Consolidated Financial Statements (unaudited)</u>	23
<u>Report of Independent Registered Public Accounting Firm</u>	51
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	52
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	77
Item 4. <u>Controls and Procedures</u>	77
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	78
Item 1A. <u>Risk Factors</u>	78
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	81
Item 3. <u>Defaults Upon Senior Securities</u>	81
Item 4. <u>Mine Safety Disclosures</u>	81
Item 5. <u>Other Information</u>	81
Item 6. <u>Exhibits</u>	82
<u>Signatures</u>	84

**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)

	September 30, 2018 (unaudited)	December 31, 2017
<b>Assets</b>		
Investments at fair value:		
Companies less than 5% owned (cost: \$894,050 and \$835,041, respectively)	\$ 893,481	\$ 834,410
Companies more than 25% owned (cost: \$499,089 and \$609,226, respectively)	517,299	626,760
Cash	10,182	5,963
Cash equivalents (cost: \$199,806 and \$144,826, respectively)	199,806	144,826
Receivable for investments sold	25,864	6,160
Dividends receivable	9,745	15,013
Interest receivable	8,134	7,336
Other receivable		58
Prepaid expenses and other assets	781	1,039
<b>Total assets</b>	<b>\$ 1,665,292</b>	<b>\$ 1,641,565</b>
<b>Liabilities</b>		
Revolving credit facility (see notes 6 and 7)	\$ 114,000	\$ 245,600
Unsecured senior notes due 2022 (see notes 6 and 7)	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 \$274 and \$316, respectively. See note 7)	20,726	20,684
Unsecured senior notes due 2023 (\$75,000 and \$75,000 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,537 and \$1,813, respectively. See note 7)	73,463	73,187
Term loans (see notes 6 and 7)	50,000	50,000
SSLP 2016-1, LLC revolving credit facility (the SSLP Facility) (see notes 6 and 7)	22,998	
SSLP II 2016-1, LLC revolving credit facility (the SSLP II Facility) (see notes 6 and 7)	26,168	

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

NEFPASS SPV LLC credit facility (\$30,000 and \$0 face amounts, respectively, reported net of unamortized debt issuance costs of \$1,129 and \$0, respectively. See note 7)	28,871	
Payable for investments and cash equivalents purchased	210,221	145,118
Distributions payable	18,007	16,904
Management fee payable (see note 3)	6,399	7,373
Performance-based incentive fee payable (see note 3)	4,604	4,660
Interest payable (see note 7)	6,768	2,485
Administrative services expense payable (see note 3)	2,067	2,756
Other liabilities and accrued expenses	3,408	1,193
<b>Total liabilities</b>	<b>\$ 737,700</b>	<b>\$ 719,960</b>

Commitments and contingencies (see notes 10, 11, 12 and 13)

**Net Assets**

Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 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	(8,862)	(13,319)
Accumulated net realized loss	(72,505)	(73,742)
Net unrealized appreciation (see notes 12 and 13)	17,196	16,903
<b>Total net assets</b>	<b>\$ 927,592</b>	<b>\$ 921,605</b>
<b>Net Asset Value Per Share</b>	<b>\$ 21.95</b>	<b>\$ 21.81</b>

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>INVESTMENT INCOME:</b>				
Interest:				
Companies less than 5% owned	\$ 21,859	\$ 21,465	\$ 70,704	\$ 64,882
Companies more than 25% owned	884	293	1,842	935
Dividends:				
Companies less than 5% owned	12	5	22	21
Companies more than 25% owned	14,255	13,726	41,446	37,080
Other income:				
Companies less than 5% owned	83	264	1,101	993
Companies more than 25% owned	49	394	175	516
Total investment income	37,142	36,147	115,290	104,427
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 6,399	\$ 6,751	\$ 19,285	\$ 20,037
Performance-based incentive fees (see note 3)	4,604	4,329	14,109	12,395
Interest and other credit facility expenses (see note 7)	5,521	5,348	17,522	15,974
Administrative services expense (see note 3)	1,459	1,346	4,151	3,994
Other general and administrative expenses	743	1,058	3,785	2,303
Total expenses	18,726	18,832	58,852	54,703
Net investment income	\$ 18,416	\$ 17,315	\$ 56,438	\$ 49,724
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>				
Net realized gain (loss) on investments and cash				

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

equivalents:				
Companies less than 5% owned	\$ 687	\$ (28)	\$ 1,074	\$ 470
Companies 5% to 25% owned	(7)	(8,515)	168	(8,534)
Companies more than 25% owned			(5)	
Net realized gain (loss) on investments and cash equivalents	680	(8,543)	1,237	(8,064)
Net realized gain (loss) on foreign currencies		2		1
Net realized gain (loss)	680	(8,541)	1,237	(8,063)
Net change in unrealized gain (loss) on investments and cash equivalents:				
Companies less than 5% owned	530	1,061	62	6,324
Companies 5% to 25% owned		8,511		7,734
Companies more than 25% owned	(1,496)	(1,182)	231	(2,614)
Net change in unrealized gain (loss) on investments and cash equivalents	(966)	8,390	293	11,444
Net change in unrealized loss on foreign currencies		(1)		(1)
Net change in unrealized gain (loss)	(966)	8,389	293	11,443
Net realized and unrealized gain (loss) on investments, cash equivalents and foreign currencies	(286)	(152)	1,530	3,380
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ 18,130	\$ 17,163	\$ 57,968	\$ 53,104
<b>EARNINGS PER SHARE (see note 5)</b>	\$ 0.43	\$ 0.41	\$ 1.37	\$ 1.26

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>Nine months ended September 30, 2018 (unaudited)</b>	<b>Year ended December 31, 2017</b>
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 56,438	\$ 68,363
Net realized gain (loss)	1,237	(12,015)
Net change in unrealized gain	293	14,082
<b>Net increase in net assets resulting from operations</b>	<b>57,968</b>	<b>70,430</b>
<b>Distributions to stockholders:</b>		
From net investment income	(51,981)	(67,612)
<b>Capital transactions (see note 16):</b>		
Reinvestment of distributions		280
Net increase (decrease) in net assets resulting from capital transactions		280
<b>Total increase in net assets</b>	<b>5,987</b>	<b>3,098</b>
Net assets at beginning of period	921,605	918,507
<b>Net assets at end of period (1)</b>	<b>\$ 927,592</b>	<b>\$ 921,605</b>
<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 (\$8,862) 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>Nine months ended</b>	
	<b>September 30, 2018</b>	<b>September 30, 2017</b>
<b>Cash Flows from Operating Activities:</b>		
<b>Net increase in net assets resulting from operations</b>	\$ 57,968	\$ 53,104
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	(1,237)	8,064
Net realized gain on foreign currencies		(1)
Net change in unrealized (gain) loss on investments and cash equivalents	(293)	(11,444)
Net change in unrealized loss on foreign currencies		1
Effect of consolidation of Senior Secured Unitranche Loan Program LLC ( SSLP ) and Senior Secured Unitranche Loan Program II LLC ( SSLP II ) (see notes 12 and 13)	(445)	
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(473,649)	(351,516)
Proceeds from disposition of investments	525,366	267,739
Capitalization of payment-in-kind interest	(136)	(201)
Collections of payment-in-kind interest	784	173
Receivable for investments sold	(19,704)	5,677
Interest receivable	(798)	582
Dividends receivable	5,268	(2,698)
Other receivable	58	(336)
Prepaid expenses and other assets	258	(157)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments and cash equivalents purchased	65,103	(110,214)
Management fee payable	(974)	(119)
Performance-based incentive fee payable	(56)	(83)
Administrative services expense payable	(689)	(1,197)
Interest payable	4,283	2,165
Other liabilities and accrued expenses	2,215	(600)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>163,322</b>	<b>(141,061)</b>
<b>Cash Flows from Financing Activities:</b>		
Cash distributions paid	(50,878)	(50,423)
Proceeds from issuance of unsecured debt		100,000
Deferred financing costs	320	82
Consolidation of SSLP Facility and SSLP II Facility	61,066	
Proceeds from secured borrowings	395,969	452,200

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

Repayment of secured borrowings	(510,600)	(467,400)
<b>Net Cash Provided by (Used in) Financing Activities</b>	(104,123)	34,459
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	59,199	(106,602)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	150,789	312,046
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 209,988	\$ 205,444
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 13,239	\$ 13,809

Non-cash financing activities consist of the reinvestment of distributions of \$0 and \$280 for the nine months ended September 30, 2018 and 2017, respectively.

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****September 30, 2018****(in thousands, except share/unit amounts)**

Description	Industry	Spread Above Index (9)	LIBOR Floor	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
<b>Senior Secured Loans 84.3%</b>									
<b>Bank Debt/Senior Secured Loans</b>									
Aegis Toxicology Sciences Corporation (10)	Health Care Providers & Services	L+550	1.00%	7.84%	5/7/2018	5/9/2025	\$ 26,000	\$ 25,563	\$ 26,000
Alteon Health, LLC (10)(16)(17)	Health Care Providers & Services	L+650	1.00%	8.74%	9/14/2018	9/1/2022	15,315	15,196	14,626
American Teleconferencing Services, Ltd. (PGI) (10)(17)	Communications Equipment	L+650	1.00%	8.84%	5/5/2016	12/8/2021	31,415	30,339	31,415
Amerilife Group, LLC (10)	Insurance	L+875	1.00%	10.99%	7/9/2015	1/10/2023	15,000	14,802	15,000
Associated Pathologists, LLC (10)(16)(17)	Health Care Providers & Services	L+500	1.00%	7.23%	9/14/2018	8/1/2021	3,835	3,813	3,835
Atria Wealth Solutions, Inc. (10)(17)	Diversified Financial Services	L+600	1.00%	8.61%	9/14/2018	11/30/2022	8,416	8,331	8,331
Bishop Lifting Products, Inc. (7)(10)	Trading Companies & Distributors	L+800	1.00%	10.24%	3/24/2014	3/27/2022	25,000	24,880	24,500
Datto, Inc. (10)	IT Services	L+800	1.00%	10.15%	12/6/2017	12/7/2022	25,000	24,566	25,000
Falmouth Group Holdings Corp. (AMPAC) (10)(16)(17)	Chemicals	L+675	1.00%	8.99%	12/7/2015	12/14/2021	42,963	42,702	42,963
Global Holdings LLC & Payment Concepts LLC (10)(17)	Consumer Finance	L+750	1.00%	9.83%	9/14/2018	5/5/2022	7,159	7,049	7,159
		L+400	1.25%	6.39%	11/6/2015	5/23/2020	7,089	6,389	7,143

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

Global Tel*Link Corporation	Communications Equipment								
Global Tel*Link Corporation	Communications Equipment	L+825	1.25%	10.64%	5/21/2013	11/23/2020	18,500	18,360	18,604
Greystone Select Holdings LLC & Greystone & Co., Inc. (10)	Thriffs & Mortgage Finance	L+800	1.00%	10.20%	3/29/2017	4/17/2024	19,950	19,782	19,950
CIMS, Inc. (10)	Software	L+650	1.00%	8.64%	9/7/2018	9/12/2024	12,670	12,418	12,416
HS Intermediate, Inc. (10)	Health Care Providers & Services	L+825	1.00%	10.61%	6/19/2015	7/20/2022	25,000	24,688	24,750
K2 Pure Solutions NoCal, L.P. (10)	Chemicals	L+900	1.00%	11.24%	8/19/2013	2/19/2021	7,331	7,272	7,331
Kore Wireless Group, Inc. (10)	Wireless Telecommunication Services	L+825	1.00%	10.64%	9/12/2014	3/12/2021	55,500	54,998	54,390
Logix Holding Company, LLC (10)(17)	Communications Equipment	L+575	1.00%	7.99%	9/14/2018	12/22/2024	7,197	7,131	7,197
On Location Events, LLC & PrimeSport Holdings Inc. (10)(16)(17)	Media	L+550	1.00%	7.83%	12/7/2017	9/29/2021	24,750	24,508	24,565
Pet Holdings LLC & Pet Supermarket, Inc. (5)(10)(16)(17)	Specialty Retail	L+550	1.00%	7.84%	9/14/2018	7/5/2022	29,388	29,081	29,388
PhyMed Management LLC (10)	Health Care Providers & Services	L+875	1.00%	11.07%	12/18/2015	5/18/2021	32,321	31,602	31,998
Phynet Dermatology LLC (10)	Health Care Providers & Services	L+550	1.00%	7.66%	9/5/2018	8/16/2024	9,668	9,572	9,571
PPT Management Holdings, LLC (10)	Health Care Providers & Services	L+750 PIK	1.00%	9.69%	9/14/2018	12/16/2022	19,310	19,167	16,414
PSKW, LLC & PDR, LLC (10)(16)(17)	Health Care Providers & Services	L+425	1.00%	6.64%	9/14/2018	11/25/2021	2,107	2,098	2,107
PSKW, LLC & PDR, LLC (10)(16)(17)	Health Care Providers & Services	L+826	1.00%	10.65%	10/24/2017	11/25/2021	26,647	26,325	26,647

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share/unit amounts)**

Description	Industry	Spread		Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
		Above LIBOR Index (9)	Floor						
Rug Doctor LLC (3)(10)	Diversified Consumer Services	L+975	1.50%	12.33%	12/23/2013	10/31/2019	\$ 9,111	\$ 9,032	\$ 9,111
Solara Medical Supplies, Inc. (10)(17)	Health Care Providers & Services	L+600	1.00%	8.39%	5/31/2018	5/31/2023	5,022	4,951	4,972
Southern Auto Finance Company (5)(10)	Consumer Finance			11.15%	10/19/2011	12/4/2019	25,000	24,900	25,000
The Octave Music Group, Inc. (fka TouchTunes) (10)	Media	L+825	1.00%	10.36%	5/28/2015	5/27/2022	14,000	13,873	14,000
Varilease Finance, Inc. (10)	Multi-Sector Holdings	L+825	1.00%	10.59%	8/22/2014	8/24/2020	33,000	32,764	33,000
Total Bank Debt/Senior Secured Loans								\$ 576,152	\$ 577,383

Life Science Senior Secured Loans

Alimera Sciences, Inc. (10)	Pharmaceuticals	L+765		9.77%	1/5/2018	7/1/2022	25,000	\$ 24,968	\$ 25,000
Ardelyx, Inc. (5)(10)	Pharmaceuticals	L+745		9.57%	5/10/2018	11/1/2022	24,500	24,315	24,316
aTyr Pharma, Inc. (10)	Pharmaceuticals	P+410		9.10%	11/18/2016	11/18/2020	8,667	8,898	8,797
Axcella Health Inc. (10)	Pharmaceuticals	L+850		10.58%	1/9/2018	1/9/2022	21,000	21,165	21,157
BioElectron Technology Corporation (10)	Pharmaceuticals	L+750		9.62%	8/9/2018	8/10/2022	10,500	10,418	10,395
		L+850		10.58%	1/5/2018	1/5/2022	22,000	22,222	22,000

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

Breathe Technologies, Inc. (10)	Health Care Equipment & Supplies								
CardioDx, Inc. (10)	Health Care Providers & Services	P+670		11.70%	6/18/2015	4/1/2019	1,750	2,443	2,327
Cardiva Medical, Inc. (10)	Health Care Equipment & Supplies	L+795	0.63%	10.18%	9/24/2018	9/1/2022	12,000	12,004	12,000
Cianna Medical, Inc. (10)	Health Care Equipment & Supplies	L+900		11.08%	9/28/2016	9/28/2020	9,000	9,607	9,720
Corindus Vascular Robotics, Inc. (5)(10)	Health Care Equipment & Supplies	L+725		9.35%	3/9/2018	3/1/2022	6,783	6,757	6,783
Delphinus Medical Technologies, Inc. (10)	Health Care Equipment & Supplies	L+850		10.62%	8/18/2017	9/1/2021	3,750	3,717	3,769
OmniGuide Holdings, Inc. (10)(15)	Health Care Equipment & Supplies	L+805		10.17%	7/30/2018	7/9/2023	10,500	10,470	10,447
PQ Bypass, Inc. (10)	Health Care Equipment & Supplies	L+885	1.00%	10.93%	4/21/2016	4/21/2020	5,000	5,072	4,975
Restoration Robotics, Inc. (10)	Health Care Equipment & Supplies	L+795		10.07%	5/10/2018	5/1/2022	9,000	8,852	8,955
scPharmaceuticals, Inc. (10)	Pharmaceuticals	L+845		10.57%	5/23/2017	5/1/2021	5,000	4,990	5,025
Scynexis, Inc. (10)	Pharmaceuticals	L+849		10.61%	9/30/2016	9/30/2020	15,000	15,250	15,225
SentreHeart, Inc. (10)	Health Care Equipment & Supplies	L+885		10.93%	11/15/2016	11/15/2020	10,000	10,140	10,100
Sunesis Pharmaceuticals, Inc. (10)	Pharmaceuticals	L+854		10.66%	3/31/2016	4/1/2020	3,750	3,816	3,769
Total Life Science Senior Secured Loans								\$ 205,104	\$ 204,760
<b>Total Senior Secured Loans</b>								<b>\$ 781,256</b>	<b>\$ 782,143</b>

See notes to consolidated financial statements.



**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2018****(in thousands, except share/unit amounts)**

Description	Industry	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Equipment financing							
Off Crane Service, (10)(18)	Commercial Services & Supplies	10.55%	7/31/2017	6/8/2022	\$ 1,405	\$ 1,405	\$ 1,405
Resources, Inc. (12)	Oil, Gas & Consumable Fuels	11.40%	8/17/2018	3/27/2020	348	339	348
78, LLC (12)	Media	10.00%	7/31/2017	11/1/2021	703	703	703
erly Hills Corporate Leasing, Inc. (18)	Road & Rail	10.57%	3/19/2018	9/9/2019	486	509	486
ckhawk Leasing, LLC (18)	Oil, Gas & Consumable Fuels	11.34%	2/16/2018	3/1/2022	3,328	3,100	3,328
ghtwater Acquisition, LLC (10)(18)	Machinery	12.24%	8/17/2018	4/20/2019	149	150	149
ital City Jet Leasing, Inc. (12)	Airlines	10.00%	4/4/2018	4/4/2023	2,261	2,261	2,261
tral Freight Services, (10)(12)	Road & Rail	7.16%	7/31/2017	1/14/2024	1,779	1,779	1,779
ctor Leasing Co. & CZM Leasing, Inc. (18)	Machinery	12.00-14.11%	7/31/2017	5/31/2019-8/3/2022	3,632	3,612	3,632
mpion Air, Inc. (10)(12)	Airlines	10.00%	3/19/2018	1/1/2019	3,350	3,339	3,350
	Commercial Services & Supplies	13.30%	5/3/2018	5/15/2022	2,140	2,125	2,140



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

icate ductions, (10)(12)							
on Sales Rentals, C (10)(12)	Commercial Services & Supplies	10.00%	9/18/2018	10/1/2021	2,193	2,131	2,
ipment rating ses, LLC (10)(14)	Multi-Sector Holdings	7.53-8.37%	4/27/2018	8/1/22-4/27/2025	33,630	33,630	33,6
ily First ght, C(10)(12)	Road & Rail	9.29-11.52%	7/31/2017	7/2/2019-1/22/2022	970	968	9
da CL nnical vices, Inc. (18)	Commercial Services & Supplies	8.77%	3/22/2018	7/13/2023	2,058	2,058	2,0
rgia Jet, (10)(12)	Airlines	8.00%	12/4/2017	12/4/2021	2,513	2,513	2,4
ocomm ems (10)(18)	Wireless Telecommunication Services	12.00%	5/10/2018	5/10/2021	1,739	1,739	1,7
at Plains							
mpression dings, LLC (12)	Oil, Gas & Consumable Fuels	9.37-9.93%	3/19/2018	8/1/2019-9/7/19	9,241	9,210	9,
oe Coaches A, C(10)(18)	Road & Rail	8.12-9.90%	7/31/2017	7/1/2022-11/17/2022	5,315	5,316	5,2
key tracting pany, LLC (12)(13)	Oil, Gas & Consumable Fuels	10.00%	11/15/2017	11/15/2020	4,074	4,074	4,0
rstate NDT, (10)(18)	Road & Rail	11.32-12.09%	6/11/2018	7/1/2023-10/1/2023	2,536	2,536	2,5
Motorsports, (10)(18)	Road & Rail	13.96%	8/17/2018	1/25/2022	423	420	4
ght Transfer vices, Inc. & mpstr ess, Inc. (18)	Commercial Services & Supplies	12.05-12.76%	7/31/2017	4/11/2020-4/30/2020	605	605	6
l Pak, LLC (18)	Road & Rail	8.58%	2/5/2018	3/1/2024	757	757	7
icorp erprises, C(10)(12)	Road & Rail	12.18%	7/31/2017	2/3/2021	3,100	3,100	3,2
cal ufacturing, C dba	Paper & Forest Products	12.91-12.98%	7/31/2017	7/30/2022-10/25/2022	1,437	1,437	1,4

ndview er npany, LLC (18)							
idian sulting I o, Inc. (12)	Hotels, Restaurants & Leisure	10.72%	7/31/2017	12/4/2021	2,206	2,206	2,206
untain Air icopters, (10)(12)	Commercial Services & Supplies	10.00%	7/31/2017	4/30/2022	1,712	1,712	1,712
holland rgy Services ipment sing, LLC (18)	Commercial Services & Supplies	8.89%	8/17/2018	10/30/2019	1,068	1,064	1,064

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 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>
OKK Equipment, LLC (10)(12)	Commercial Services & Supplies	10.15%	7/31/2017	8/27/2023	\$ 637	\$ 637	\$ 626
Reston Limousine & Travel Service, Inc. (10)(18)	Road & Rail	11.82%	9/13/2017	10/1/2021	1,563	1,582	1,571
Rosasco Crane & Rigging, Inc. (10)(18)	Commercial Services & Supplies	11.13-11.53%	8/25/2017	4/1/2021-9/1/2022	848	848	851
RVR Air Charter, LLC & RVR Aviation, LLC (10)(12)	Airlines	12.00%	7/31/2017	8/1/2020-1/1/2022	2,915	2,915	2,941
Santek Environmental, LLC (10)(18)	Commercial Services & Supplies	10.00%	7/31/2017	3/1/2021	116	116	116
Santek Environmental of Alabama, LLC (10)(18)	Commercial Services & Supplies	8.95-10.00%	7/31/2017	12/18/2020-11/29/2021	198	198	197
Sidelines Tree Service LLC (10)(18)	Diversified Consumer Services	10.31-10.52%	7/31/2017	8/1/2022-10/1/2022	455	456	459
South Texas Oilfield Solutions, LLC (10)(18)	Energy Equipment & Services	12.52-13.76%	3/29/2018	9/1/2022-7/1/2023	3,546	3,546	3,546
Southern Nevada Oral & Maxillofacial Surgery, LLC (10)(12)	Health Care Providers & Services	12.00%	7/31/2017	3/1/2024	1,435	1,435	1,464
Southwest Traders, Inc. (10)(18)	Road & Rail	9.13%	11/21/2017	11/1/2020	155	155	153

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

ST Coaches, LLC (10)(18)	Road & Rail	8.21-8.59%	7/31/2017	10/1/2022-10/1/2023	4,503	4,503	4,503
Star Coaches Inc. (10)(18)	Road & Rail	8.42%	3/9/2018	4/1/2025	3,899	3,899	3,899
Sturgeon Services International Inc. (10)(12)	Energy Equipment & Services	18.41%	7/31/2017	2/28/2022	1,864	1,864	1,836
Sun-Tech Leasing of Texas, L.P. (10)(18)	Road & Rail	8.68-8.83%	7/31/2017	6/25/2020-7/25/2021	478	478	471
Superior Transportation, Inc. (10)(18)	Road & Rail	9.77-10.30%	7/31/2017	4/23/2022-1/1/2024	4,643	4,641	4,640
The Smedley Company & Smedley Services, Inc. (10)(12)	Commercial Services & Supplies	9.92-14.68%	7/31/2017	10/29/2023-2/10/2024	6,446	6,490	6,615
Tornado Bus Company (10)(18)	Road & Rail	10.78%	7/31/2017	9/1/2021	2,301	2,301	2,326
Trinity Equipment Rentals, Inc. (10)(12)	Commercial Services & Supplies	11.02%	9/13/2018	10/1/2022	1,000	1,000	1,000
Trolleys, Inc. (10)(18)	Road & Rail	9.81%	7/18/2018	8/1/2022	3,214	3,214	3,214
Up Trucking Services, LLC (10)(18)	Road & Rail	11.91%	3/23/2018	4/1/2022	2,308	2,348	2,308
Waste Services of Alabama, LLC (10)(18)	Commercial Services & Supplies	10.24%	8/17/2018	11/27/2020	1,966	1,972	1,976
Waste Services of Tennessee, LLC (10)(18)	Commercial Services & Supplies	8.95-10.15%	7/31/2017	2/7/2021-11/29/2021	804	804	798
Waste Services of Texas, LLC (10)(18)	Commercial Services & Supplies	8.95%	7/31/2017	12/6/2021	158	158	156
WJV658, LLC (10)(12)	Airlines	8.50%	7/31/2017	7/1/2022	8,031	8,031	8,031
W.P.M., Inc., WPM-Southern, LLC, WPM Construction Services, Inc. (10)(12)	Construction & Engineering	7.50%	7/31/2017	10/1/2022	3,231	3,231	3,189

Shares/Units

NEF Holdings, LLC Equity Interests (3)(10)(11)	Multi-Sector Holdings		7/31/2017		200	145,000	145,200
---	--------------------------	--	-----------	--	-----	---------	---------

**Total  
Equipment  
Financing** **\$ 296,620 \$ 297,312**

<b>Preferred Equity 1.0%</b>							
SOAGG LLC (3)(5)(6)(10)	Aerospace & Defense	8.00%	12/14/2010	6/30/2020	2,864	\$ 2,864	\$ 3,152
SOINT, LLC (3)(5)(6)(10)	Aerospace & Defense	15.00%	6/8/2012	6/30/2020	60,073	6,007	6,557

**Total  
Preferred  
Equity** **\$ 8,871 \$ 9,709**

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2018****(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>
<b>Common Equity/Equity Interests/Warrants</b>	<b>34.7%</b>				
Ark Real Estate Partners LP					
(2)(3)(10)*	Diversified Real Estate Activities	3/12/2007		\$ 527	\$ 82
Ark Real Estate Partners II LP					
(2)(3)(10)*	Diversified Real Estate Activities	10/23/2012		12	2
aTyr Pharma, Inc. Warrants (10)*	Pharmaceuticals	11/18/2016	88,792	106	
B Riley Financial Inc. (5)	Research & Consulting Services	3/16/2007	38,015	2,684	861
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	45
CAS Medical Systems, Inc. Warrants (10)*	Health Care Equipment & Supplies	6/30/2016	48,491	38	41
Cianna Medical, Inc. Warrants (10)*	Health Care Equipment & Supplies	9/28/2016	134,590	56	397
Conventus Orthopaedics, Inc. Warrants (10)*	Health Care Equipment & Supplies	6/15/2016	157,500	65	45
Corindus Vascular Robotics, Inc. Warrants (5)(10)*	Health Care Equipment & Supplies	3/9/2018	79,855	40	41
Crystal Financial LLC (3)(5)(10)	Diversified Financial Services	12/28/2012	280,303	280,737	301,500
Delphinus Medical Technologies, Inc. Warrants (10)*	Health Care Equipment & Supplies	8/18/2017	380,904	74	66
Essence Group Holdings Corporation (Lumeris) Warrants (10)*	Health Care Technology	3/22/2017	208,000	63	308

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

PQ Bypass, Inc. Warrants (10)*	Health Care Equipment & Supplies	4/21/2016	176,471	70	39
RD Holdco Inc. (Rug Doctor) (3)(10)*	Diversified Consumer Services	12/23/2013	231,177	15,683	12,849
RD Holdco Inc. (Rug Doctor) Class B (3)(10)*	Diversified Consumer Services	12/23/2013	522	5,216	5,216
RD Holdco Inc. (Rug Doctor) Warrants (3)(10)*	Diversified Consumer Services	12/23/2013	30,370	381	
Restoration Robotics, Inc. Warrants (10)*	Health Care Equipment & Supplies	5/10/2018	72,776	111	40
Scynexis, Inc. Warrants (10)*	Pharmaceuticals	9/30/2016	122,435	105	
SentreHeart, Inc. Warrants (10)*	Health Care Equipment & Supplies	11/15/2016	261,825	126	83
Sunesis Pharmaceuticals, Inc. Warrants (10)*	Pharmaceuticals	3/31/2016	104,001	118	1
<b>Total Common Equity/Equity Interests/Warrants</b>				\$ 306,392	\$ 321,616
<b>Total Investments (8) 152.1%</b>				\$ 1,393,139	\$ 1,410,780

Description	Industry	Acquisition Date	Maturity		Par Amount
			Date		
<b>Cash Equivalents 21.5%</b>					
U.S. Treasury Bill	Government	9/28/2018	10/18/2018	\$ 200,000	\$ 199,806 \$ 199,806
<b>Total Investments &amp; Cash Equivalents 173.6%</b>				\$ 1,592,945	\$ 1,610,586
Liabilities in Excess of Other Assets (73.6%)					(682,994)
<b>Net Assets 100.0%</b>					\$ 927,592

(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, or in the case of leases the current implied yield, in effect as of September 30, 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)****September 30, 2018****(in thousands)**

(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 nine months ended September 30, 2018 in these controlled investments are as follows:

<b>Name of Issuer</b>	<b>Fair Value at December 31, 2017</b>	<b>Gross Additions</b>	<b>Gross Reductions</b>	<b>Realized Gain (Loss)</b>	<b>Change in Unrealized Gain (Loss)</b>	<b>Interest/Dividend/Other Income</b>	<b>Fair Value at September 30, 2018</b>
Ark Real Estate Partners LP	\$ 263	\$	\$	\$ (5)	\$ (181)	\$	\$ 82
Ark Real Estate Partners II LP	6				(4)		2
AviatorCap SII, LLC I	10		10				
Crystal Financial LLC	303,200				(1,700)	22,720	301,500
Equipment Operating Leases, LLC		34,511	881			1,001	33,630
NEF Holdings, LLC	145,500				(300)	7,000	145,200
RD Holdco Inc. (Rug Doctor, common equity)	10,102				2,747		12,849
RD Holdco Inc. (Rug Doctor, class B)	5,216						5,216
RD Holdco Inc. (Rug Doctor, warrants)	35				(35)		
Rug Doctor LLC	9,111				(13)	854	9,111
SSLP(19)	88,736	25,322	115,038		626	6,289	
SSLP II(19)	51,744	21,781	72,858		(758)	4,628	
SOAGG LLC	4,537		1,283		(102)	210	3,152
SOINT, LLC (preferred equity)	8,300		1,694		(49)	761	6,557
	\$ 626,760	\$ 81,614	\$ 191,764	\$ (5)	\$ 231	\$ 43,463	\$ 517,299

(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

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

5% but less than 25% of the outstanding voting securities of the investment. Transactions during the nine months ended September 30, 2018 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/ Dividend Income	Fair Value at September 30, 2018
DSW Group Holdings LLC	\$	\$	\$	\$ 168	\$	\$	\$

- (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 September 30, 2018, on a fair value basis, non-qualifying assets in the portfolio represented 23.7% 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 \$10,480; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$23,961 and \$13,481, respectively, based on a tax cost of \$1,400,300. All of the Company s investments are pledged as collateral against the borrowings outstanding on the revolving credit facility. The Company generally acquires its investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act ). These investments are generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.
- (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.
- (13) Hawkeye Contracting Company, LLC, Eagle Creek Mining, LLC & Falcon Ridge Leasing, LLC are co-borrowers.
- (14) Equipment Operating Leases, LLC is a subsidiary of NEF Holdings, LLC.
- (15) OmniGuide Holdings, Inc., Domain Surgical, Inc. and OmniGuide, Inc. are co-borrowers.
- (16) Indicates an investment that is wholly or partially held by Solar Capital Ltd. through its wholly-owned consolidated financing subsidiary SSLP 2016-1, LLC (the SSLP SPV ). Such investments are pledged as collateral under the SSLP 2016-1, LLC Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of Solar Capital Ltd.

See notes to consolidated financial statements.

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

**(in thousands)**

- (17) Indicates an investment that is wholly or partially held by Solar Capital Ltd. through its wholly-owned consolidated financing subsidiary SSLP II 2016-1, LLC (the SSLP II SPV ). Such investments are pledged as collateral under the SSLP II 2016-1, LLC Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of Solar Capital Ltd.
- (18) Indicates an investment that is held by Solar Capital Ltd. through its wholly-owned consolidated financing subsidiary NEFPASS SPV, LLC (the NEFPASS SPV ). Such investments are pledged as collateral under the NEFPASS SPV, LLC Revolving Credit Facility (see Note 7 to the consolidated financial statements) and are not generally available to creditors, if any, of Solar Capital Ltd.
- (19) On September 14, 2018 and September 18, 2018, the Company acquired 100% of the equity of SSLP II and SSLP, respectively, and as such is consolidating these investments as of this date.
- \* Non-income producing security.  
Represents estimated change in receivable balance.

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****September 30, 2018****(in thousands)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of September 30, 2018</b>
Diversified Financial Services (Crystal Financial LLC)	21.9%
Multi-Sector Holdings (includes NEF Holdings, LLC and Equipment Operating Leases, LLC)	15.0%
Health Care Providers & Services	11.7%
Pharmaceuticals	8.0%
Health Care Equipment & Supplies	6.3%
Communications Equipment	4.5%
Wireless Telecommunication Services	4.0%
Chemicals	3.6%
Media	2.8%
Road & Rail	2.7%
Consumer Finance	2.3%
Specialty Retail	2.1%
Diversified Consumer Services	2.0%
IT Services	1.8%
Trading Companies & Distributors	1.7%
Commercial Services & Supplies	1.6%
Thrifts & Mortgage Finance	1.4%
Airlines	1.3%
Oil, Gas & Consumable Fuels	1.2%
Insurance	1.1%
Software	0.9%
Aerospace & Defense	0.7%
Energy Equipment & Services	0.5%
Machinery	0.3%
Construction & Engineering	0.2%
Hotels, Restaurants & Leisure	0.2%
Paper & Forest Products	0.1%
Research & Consulting Services	0.1%
Health Care Technology	0.0%
Diversified Real Estate Activities	0.0%
<b>Total Investments</b>	<b>100.0%</b>

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

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 Above Index (9)	LIBOR Floor	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
<b>Senior Secured Loans 83.5%</b>									
<u>Bank Debt/Senior Secured Loans</u>									
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. (11)	Health Care Providers & Services	L+950	1.00%	11.01%	9/3/2015	9/3/2022	10,000	9,869	9,900
Aegis 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	21,303
Amerilife Group, LLC (11)	Insurance	L+875	1.00%	10.25%	7/9/2015	1/10/2023	15,000	14,775	14,887
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
Bishop 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
Datto, Inc. (11)	IT Services	L+800	1.00%	9.41%	12/6/2017	12/7/2022	25,000	24,505	24,500
DISA 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
	Chemicals	L+675	1.00%	8.44%	12/7/2015	12/14/2021	9,298	9,265	9,298

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

Falmouth Group Holdings Corp. (AMPAC) (11)									
Global Tel*Link Corporation	Communications Equipment	L+400	1.25%	5.69%	11/6/2015	5/23/2020	7,194	6,205	7,230
Global Tel*Link Corporation	Communications Equipment	L+825	1.25%	9.94%	5/21/2013	11/23/2020	18,500	18,317	18,540
Greystone Select Holdings LLC & Greystone & Co., Inc. (11)	Thrifts & Mortgage Finance	L+800	1.00%	9.40%	3/29/2017	4/17/2024	20,000	19,815	20,000
HS Intermediate, Inc. (11)	Health Care Providers & Services	L+825	1.00%	9.62%	6/19/2015	7/20/2022	25,000	24,639	24,562
K2 Pure Solutions NoCal, L.P. (11)	Chemicals	L+900	1.00%	10.57%	8/19/2013	2/19/2021	7,475	7,398	7,400
Kore Wireless Group, Inc. (11)	Wireless Telecommunication Services	L+825	1.00%	9.94%	9/12/2014	3/12/2021	55,500	54,866	54,945
MRI Software LLC (11)	Software	L+625	1.00%	7.83%	6/7/2017	6/30/2023	16,352	16,197	16,271
On Location Events, LLC & PrimeSport Holdings Inc. (11)	Media	L+550	1.00%	7.04%	12/7/2017	9/29/2021	60,000	59,260	59,250
PhyMed Management LLC (11)	Health Care Providers & Services	L+875	1.00%	10.21%	12/18/2015	5/18/2021	32,321	31,430	31,271
PSKW, LLC & PDR, LLC (11)	Health Care Providers & Services	L+826	1.00%	9.95%	10/24/2017	11/25/2021	3,461	3,394	3,392
Radiology Partners, Inc. (11)	Health Care Providers & Services	L+575	1.00%	7.44%	11/28/2017	12/4/2023	9,122	9,032	9,031
Rug Doctor LLC (3)(11)	Diversified Consumer Services	L+975	1.50%	11.42%	12/23/2013	12/31/2018	9,111	9,019	9,111
Salient Partners, L.P. (11)	Asset Management	L+850	1.00%	9.85%	6/10/2015	6/9/2021	13,980	13,803	13,980
Southern Auto Finance Company (5)(11)	Consumer Finance			11.15%	10/19/2011	12/4/2018	25,000	24,905	25,000
The Octave Music Group, Inc. (fka TouchTunes) (11)	Media	L+825	1.00%	9.62%	5/28/2015	5/27/2022	14,000	13,852	14,000
Varilease Finance, Inc. (11)	Multi-Sector Holdings	L+825	1.00%	9.58%	8/22/2014	8/24/2020	48,000	47,548	48,000
Total Bank Debt/Senior								\$ 554,504	\$ 556,154

Secured Loans

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

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

Technologies, Inc. (11)	Supplies								
Lumeris Solutions Company, LLC (11)	Health Care Technology	L+860	0.25%	9.98%	3/22/2017	2/1/2020	16,000	16,147	16,160
Mitralign, Inc. (11)	Health Care Equipment & Supplies			9.48%	4/22/2016	12/1/2018	833	843	829
Nabsys 2.0 LLC (11)	Life Sciences Tools & Services			8.90%	4/22/2016	10/13/2018	2,302	2,695	2,532
PQ Bypass, Inc. (11)	Health Care Equipment & Supplies	L+885	1.00%	10.20%	4/21/2016	4/21/2020	5,000	5,012	4,975
Rapid Micro Biosystems, Inc. (11)	Life Sciences Tools & Services	L+880		10.16%	6/30/2015	6/30/2019	15,360	16,126	15,322
scPharmaceuticals, 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. (11)	Health Care Equipment & Supplies	L+885		10.20%	11/15/2016	11/15/2020	10,000	9,958	10,000
Sunesis Pharmaceuticals, Inc. (11)	Pharmaceuticals	L+854		9.92%	3/31/2016	4/1/2020	3,750	3,765	3,769
Trevi Therapeutics, Inc. (11)	Pharmaceuticals	L+775		9.11%	12/29/2014	6/29/2018	2,406	2,786	2,623
Vapotherm, Inc. (11)	Health Care Equipment & 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>								\$ 212,915	\$ 212,947
<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>							
<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,	Oil, Gas & Consumable Fuels	10.00%	11/15/2017	11/15/2020	5,292	5,292	5,292

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

LLC (11)(13)(14) 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
Rossco 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

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>
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
Southwest Traders, Inc. (11)(13)	Road & Rail	9.13%	11/21/2017	11/1/2020	202	202	202
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
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/ 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>
<b>Preferred Equity 1.4%</b>							
SOAGG LLC (3)(5)(6)	Aerospace & Defense	8.00%	12/14/2010	6/30/2020	4,147	\$ 4,147	\$ 4,537
SOINT, LLC (3)(5)(6)	Aerospace & Defense	15.00%	6/8/2012	6/30/2020	77,014	7,701	8,300
<b>Total Preferred Equity</b>						<b>\$ 11,848</b>	<b>\$ 12,837</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>Acquisition Date</b>	<b>Shares/ Units</b>	<b>Cost</b>	<b>Fair Value</b>
<b>Common Equity/Equity Interests/Warrants</b>					
<b>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
		3/22/2017	208,000	63	155



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

Essence Group Holdings Corporation (Lumeris) Warrants (11)*	Health Care Technology				
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
RD Holdco Inc. (Rug Doctor) Warrants (3)(11)*	Diversified Consumer Services	12/23/2013	30,370	381	35
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

**Total Common Equity/Equity Interests/Warrants** **\$ 447,066 \$ 460,649**

**Total Investments(8) 158.6%** **\$ 1,444,267 \$ 1,461,170**

				<b>Maturity Date</b>	<b>Par Amount</b>		
<b>Cash Equivalents 15.7%</b>							
U.S. Treasury Bill	Government	12/28/2017	2/8/2018	\$ 145,000	\$ 144,826	\$ 144,826	
<b>Total Investments &amp; Cash Equivalents 174.3%</b>					<b>\$ 1,589,093</b>	<b>\$ 1,605,996</b>	
Liabilities in Excess of Other Assets (74.3%)							(684,391)
<b>Net Assets 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 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.

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)**

(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:

<b>Name of Issuer</b>	<b>Fair Value at December 31, 2016</b>	<b>Gross Additions</b>	<b>Gross Reduction</b>	<b>Realized Gain (Loss)</b>	<b>Change in Unrealized Gain (Loss)</b>	<b>Interest/ Dividend/ Other Income</b>	<b>Fair Value at December 31, 2017</b>
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
SSLP	100,653	525	12,687		245	8,393	88,736
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	Gross	Realized	Change in Interest	Fair Value at
	December 31, 2016	December 31, 2017					
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)

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

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)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 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%
Thrifts & 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.



---

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 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, and to a lesser extent, 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, including SSLP and SSLP II effective September 2018. 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 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

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

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

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:

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

- (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
- (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.

---

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

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

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 nine months ended September 30, 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.
  
- (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

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

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

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 controlled investment company subsidiaries, including SSLP and SSLP II, 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 (see notes 12 and 13).
- (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) The Company and its wholly-owned investment subsidiaries SSLP and SSLP II have made irrevocable elections to apply the fair value option of accounting to the senior secured credit facility (the *Credit Facility*), the unsecured senior notes due 2022 (the *2022 Unsecured Notes*), the consolidated SSLP Facility and the consolidated SSLP II Facility (see note 6 and 7), 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)**

**September 30, 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 August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-13 on its consolidated financial statements and disclosures.

In August 2018, the US Securities and Exchange Commission adopted final rules to eliminate redundant, duplicative, overlapping, outdated or superseded disclosure requirements in light of other disclosure requirements, GAAP or changes in the information environment. These rules amend certain provisions of Regulation S-X and Regulation S-K, certain rules promulgated under the Securities Act of 1933 and the Securities Exchange Act of 1934 and certain related forms. These changes become effective thirty days after the date of publication in the Federal Register. The Company is evaluating the impact of these changes on its consolidated financial statements and disclosures.

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,

---

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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 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%. Effective August 2, 2018, the annual rate is 1.00% on gross assets that exceed 200% of the Company's total net assets as of the immediately preceding quarter end. 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.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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 and nine months ended September 30, 2018 and 2017.

For the three and nine months ended September 30, 2018, the Company recognized \$6,399 and \$19,285, respectively, in base management fees and \$4,604 and \$14,109, respectively, in performance-based incentive fees. For the three and nine months ended September 30, 2017, the Company recognized \$6,751 and \$20,037, respectively, in base management fees and \$4,329 and \$12,395, 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.

For the three and nine months ended September 30, 2018, the Company recognized expenses under the Administration Agreement of \$1,459 and \$4,151, respectively. For the three and nine months ended September 30, 2017, the Company recognized expenses under the Administration Agreement of \$1,346 and \$3,994, respectively. No managerial assistance fees were accrued or collected for the three and nine months ended September 30, 2018 and 2017.

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

At September 30, 2018, the Company's total net assets and net asset value per share were \$927,592 and \$21.95, 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 and nine months ended September 30, 2018 and 2017:

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b><u>Earnings per share (basic &amp; diluted)</u></b>				
Numerator - net increase in net assets resulting from operations:	\$ 18,130	\$ 17,163	\$ 57,968	\$ 53,104
Denominator - weighted average shares:	42,260,826	42,260,826	42,260,826	42,256,636
Earnings per share:	\$ 0.43	\$ 0.41	\$ 1.37	\$ 1.26

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

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

**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 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.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2018 and December 31, 2017:

**Fair Value Measurements****As of September 30, 2018**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Senior Secured Loans	\$	\$ 25,747	\$ 756,396	\$ 782,143
Equipment Financing			297,312	297,312
Preferred Equity			9,709	9,709
Common Equity/Equity Interests/Warrants	861		320,755	321,616
Total Investments	\$ 861	\$ 25,747	\$ 1,384,172	\$ 1,410,780
<b>Liabilities:</b>				
Credit Facility, 2022 Unsecured Notes, SSLP Facility and SSLP II Facility	\$	\$	\$ 363,166	\$ 363,166

**Fair Value Measurements****As of December 31, 2017**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Measured at 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

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

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 11 & 12, 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 nine months ended September 30, 2018 and the year ended December 31, 2017 as well as the portion of gains or

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2018 and December 31, 2017:

**Fair Value Measurements Using Level 3 Inputs**

	<b>Senior Secured Loans</b>	<b>Equipment Financing</b>	<b>Preferred Equity</b>	<b>Common Equity/ Equity Interests/ 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)	405	17		282	704
Net change in unrealized gain (loss)	658	43	(151)	1,158	1,708
Purchase of investment securities	249,676	104,627		209	354,512
Proceeds from dispositions of investment securities.	(464,142)	(25,958)	(2,977)	(375)	(493,452)
Transfers in/out of Level 3	226,468				226,468
<b>Fair value, September 30, 2018</b>	\$ 756,396	\$ 297,312	\$ 9,709	\$ 320,755	\$ 1,384,172
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)	\$ 1,369	\$ (15)	\$ (151)	\$ 1,158	\$ 2,361

During the three months ended September 30, 2018, the Company's investments in SSLP and SSLP II were consolidated, and as such the Level 3 assets held by SSLP and SSLP II are reflected as transfers into Level 3.

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 nine months ended September 30, 2018:

	<b>For the nine months ended</b>
<b>Credit Facility, 2022 Unsecured Notes, SSLP Facility and SSLP II Facility</b>	<b>September 30, 2018</b>
Beginning fair value	\$ 445,600
Net realized (gain) loss	
Net change in unrealized (gain) loss	
Borrowings	367,100
Repayments	(510,600)
Transfers in/out of Level 3	61,066
Ending fair value	\$ 363,166

The Company and its wholly-owned investment subsidiaries SSLP and SSLP II have made irrevocable elections to apply the fair value option of accounting to the Credit Facility, the 2022 Unsecured Notes, the

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

consolidated SSLP Facility and the consolidated SSLP II Facility, in accordance with ASC 825-10. On September 30, 2018, there were borrowings of \$164,000, \$150,000, \$22,998 and \$26,168, respectively, on the Credit Facility, the 2022 Unsecured Notes, the SSLP Facility and the SSLP II Facility. As a result of the consolidation of SSLP and SSLP II, the SSLP Facility and the SSLP II Facility are shown as transfers into Level 3.

**Fair Value Measurements Using Level 3 Inputs**

	<b>Senior Secured Loans</b>	<b>Equipment Financing</b>	<b>Subordinated Debt/ Corporate Notes</b>	<b>Preferred Equity</b>	<b>Common Equity/ Equity Interests/ Warrants</b>
<b>Fair value, December 31, 2016</b>	\$ 759,510	\$	\$ 28,059	\$ 14,906	\$ 324,842
Total gains or losses included in earnings:					
Net realized gain (loss)	(9,547)				
Net change in unrealized gain (loss)	18,455	649	(122)	372	(5,661)
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:	\$ 9,046	\$ 649	\$	\$ 372	\$ (5,661)

Net change in unrealized  
gain (loss)

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)****September 30, 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 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.

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

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of September 30, 2018 is summarized in the table below:

		Principal Valuation			Range (Weighted Average)	
	Asset or Fair Value at	September 30, 2018	Technique/	Unobservable Input		
	Liability		Methodology			
Senior Secured Loans	Asset	\$ 756,396	Income Approach	Market Yield	6.6%	15.1% (10.7%)
Equipment Financing	Asset	\$ 152,112	Income Approach	Market Yield	7.2%	18.9% (10.0%)
		\$ 145,200	Market Approach	Return on Equity	9.1%	9.1% (9.1%)
Preferred Equity	Asset	\$ 9,709	Income Approach	Market Yield	6.1%	13.1% (10.9%)
Common Equity/Equity	Asset	\$ 19,255	Market Approach	EBITDA Multiple	6.5x	7.1x (7.1x)
Interests/Warrants		\$ 301,500	Market Approach	Return on Equity	7.6%	16.6% (13.7%)
Credit Facility, SSLP	Liability	\$ 213,166	Income Approach	Market Yield	L+1.4%	L+4.8%
Facility and SSLP II						(L+2.1%)
Facility						
2022 Unsecured Notes	Liability	\$ 150,000	Income Approach	Market Yield	4.5%	4.9% (4.5%)



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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:

		Principal Valuation			Range (Weighted Average)	
	Asset or Liability	Fair Value at December 31, 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		\$ 16,281	Enterprise Value	EBITDA Multiple	5.5x	6.5x (6.3x)
Interests/Warrants	Asset	\$ 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%)
2022 Unsecured Notes	Liability	\$ 150,000	Yield Analysis	Market Yield	4.5%	4.9% (4.5%)

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

**Note 7. 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.

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 July 20, at a rate of 4.50% per year, commencing on January 20, 2018. The 2023 Unsecured Notes mature on January 20, 2023.

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

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, 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, as amended.

### *Revolving and Term Loan Facilities*

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

---

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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. 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 and on July 13, 2018, revolving credit commitments were further expanded by \$35,000 to \$480,000. At September 30, 2018, outstanding USD equivalent borrowings under the Credit Facility totaled \$164,000, composed of \$114,000 of revolving credit and \$50,000 of term loans.

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 \$22,998 of borrowings outstanding as of September 30, 2018.

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 \$26,168 of borrowings outstanding as of September 30, 2018.

On September 26, 2018, NEFPASS SPV LLC, a newly formed wholly owned subsidiary of NEFPASS LLC, as borrower entered into a \$50,000 senior secured revolving credit facility (the NEFPASS Facility) with Keybank acting as administrative agent. The Company acts as servicer under the NEFPASS Facility. The NEFPASS Facility is scheduled to mature on September 26, 2023. The NEFPASS Facility generally bears interest at a rate of LIBOR plus 2.15%. NEFPASS and NEFPASS SPV 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 NEFPASS Facility also includes usual and customary events of default for credit facilities of this nature. There were \$30,000 of borrowings outstanding as of September 30, 2018.

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.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

The Company and its wholly-owned investment subsidiaries SSLP and SSLP II have made irrevocable elections to apply the fair value option of accounting to the Credit Facility, the 2022 Unsecured Notes, the consolidated SSLP Facility and the consolidated SSLP II Facility, in accordance with ASC 825-10. We believe accounting for these facilities 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 above facilities are reported in the Consolidated Statement of Operations.

The average annualized interest cost for all borrowings for the nine months ended September 30, 2018 and the year ended December 31, 2017 was 4.27% 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, the NEFPASS Facility, the SSLP Facility, the SSLP II Facility 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 nine months ended September 30, 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 nine months ended September 30, 2018 and for the year ended December 31, 2017:

	<b>Nine months ended September 30, 2018</b>	<b>Year ended December 31, 2017 (audited)</b>
<b>Per Share Data: (a)</b>		
Net asset value, beginning of year	\$ 21.81	\$ 21.74
Net investment income	1.34	1.62
Net realized and unrealized gain	0.03	0.05
Net increase in net assets resulting from operations	1.37	1.67
Distributions to stockholders:		
From net investment income	(1.23)	(1.60)
Net asset value, end of period	\$ 21.95	\$ 21.81

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

Per share market value, end of period	\$	21.38	\$	20.21
Total Return (b)		12.13%		4.47%
Net assets, end of period	\$	927,592	\$	921,605
Shares outstanding, end of period		42,260,826		42,260,826
Ratios to average net assets (c):				
Net investment income		6.11%		7.43%
Operating expenses		4.47%		5.80%
Interest and other credit facility expenses		1.90%		2.35%*
Total expenses		6.37%		8.15%
Average debt outstanding	\$	510,524	\$	414,264
Portfolio turnover ratio		26.1%		24.9%

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

- (a) Calculated using the average shares outstanding method.
- (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 Amount Outstanding (1)</b>	<b>Asset Coverage Per Unit (2)</b>	<b>Involuntary Liquidating Preference Per Unit (3)</b>	<b>Average Market Value Per Unit (4)</b>
<b>Revolving Credit Facility</b>				
Fiscal 2018 (through September 30, 2018)	\$ 114,000	\$ 675		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 September 30, 2018)	150,000	888		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 September 30, 2018)	21,000	124		N/A
Fiscal 2017	21,000	105		N/A
<b>2023 Unsecured Notes</b>				

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

Fiscal 2018 (through September 30, 2018)	75,000	444		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



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

<b>Class and Year</b>	<b>Total Amount Outstanding (1)</b>	<b>Asset Coverage Per Unit (2)</b>	<b>Involuntary Liquidating Preference Per Unit (3)</b>	<b>Average Market Value Per Unit (4)</b>
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
<b>Term Loans</b>				
Fiscal 2018 (through September 30, 2018)	50,000	296		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>NEFPASS Facility</b>				
Fiscal 2018 (through September 30, 2018)	30,000	178		N/A
<b>SSLP Facility</b>				
Fiscal 2018 (through September 30, 2018)	22,998	136		N/A
<b>SSLP II Facility</b>				
Fiscal 2018 (through September 30, 2018)	26,168	155		N/A
<b>Total Senior Securities</b>				
Fiscal 2018 (through September 30, 2018)	\$ 489,166	\$ 2,896		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 September 30, 2018, asset coverage was 289.6%.
- (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

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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, \$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 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 May 18, 2015, the revolving credit facility was expanded to \$350,000. 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 September 30, 2018 Crystal Financial LLC had 30 funded commitments to 26 different issuers with a total par value of approximately \$435,294 on total assets of \$478,129. 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 September 30, 2018 and December 31, 2017, the largest loan outstanding totaled \$40,000 and \$35,954, respectively. For the same periods, the average exposure per issuer was \$16,742 and \$13,082, respectively. Crystal Financial LLC s credit facility, which is non-recourse to Solar Capital, had approximately \$206,395 and \$176,454 of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and 2017, Crystal Financial LLC had net income of \$6,485 and \$7,749, respectively, on gross income of \$11,653 and \$11,716, respectively. For the nine months ended September 30, 2018 and 2017, Crystal Financial LLC had net income of \$18,609 and \$23,619, respectively, on gross income of \$33,585 and \$39,755, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****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 September 30, 2018 and December 31, 2017 is \$108,990 and \$62,044, respectively, comprised of the following:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Crystal Financial LLC*	\$ 44,263	\$ 44,263
BioElectron Technology Corporation**	17,500	
Phynet Dermatology LLC	12,385	
Cardiva Medical, Inc.**	9,000	
Breathe Technologies, Inc.**	8,000	
Corindus Vascular Robotics, Inc.**	6,217	
Delphinus Medical Technologies, Inc.**	3,750	3,750
Atria Wealth Solutions, Inc	3,682	
Solara Medical Supplies, Inc	1,718	
Datto, Inc	1,683	1,683
iCIMS, Inc	792	
MRI Software LLC		2,361
Radiology Partners, Inc		878
Alera Group Intermediate Holdings, Inc		3,885
Accentcare, Inc		3,397
CardioFocus, Inc		1,000
WJV658, LLC		827
Total Commitments	\$ 108,990	\$ 62,044

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

\*\* Commitments are subject to the portfolio company achieving certain milestones. As of September 30, 2018, these milestones have not yet been achieved, and as such the portfolio company would not have been able to draw on any of the stated commitment at that time.

As of September 30, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

**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).

---

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

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 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 \$22,998 and \$74,248 of borrowings outstanding as of September 30, 2018 and December 31, 2017, respectively. On September 18, 2018, the Company acquired Voya's share of the equity in SSLP and now holds 100% of the equity in SSLP. As such, the Company is consolidating SSLP as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$354 in unrealized depreciation on the Company's equity investment in SSLP is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, SSLP had total assets of \$125,481 and \$179,241, respectively. For the same periods, SSLP's portfolio consisted of floating rate senior secured loans to 7 and 10 different borrowers, respectively. For the three months ended September 30, 2018 and September 30, 2017, SSLP invested \$0 in 0 portfolio companies and \$1,694 in 2 portfolio companies, respectively. Investments prepaid or sold totaled \$60,617 and \$2,574 for the same periods, respectively. At September 30, 2018 and December 31, 2017, the weighted average yield of SSLP's portfolio was 9.3% and 8.1%, respectively, measured at fair value and 9.2% and 8.1%, respectively, measured at cost.



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****SSLP Portfolio as of September 30, 2018**

<b>Description</b>	<b>Industry</b>	<b>Spread Above Index (1)</b>	<b>LIBOR Floor</b>	<b>Interest Rate (2)</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value (3)</b>
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	\$ 10,484	\$ 10,403	\$ 10,013
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	7.23%	8/1/21	2,625	2,610	2,625
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	26,350	26,112	26,350
On Location Events, LLC & PrimeSport Holdings Inc.	Media	L+550	1.00%	7.83%	9/29/21	16,942	16,776	16,815
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	20,908	20,691	20,908
PPT Management Holdings, LLC	Health Care Providers & Services	L+750PIK	1.00%	9.69%	12/16/22	10,921	10,840	9,283
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	6.64%	11/25/21	1,541	1,532	1,541
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+826	1.00%	10.65%	11/25/21	19,469	19,233	19,469



\$ 108,197 \$ 107,004

- (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 September 30, 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.

**SSLP Portfolio as of December 31, 2017 (audited)**

Description	Industry	Spread			Maturity Date	Par Amount	Cost	Fair Value (3)
		Above Index (1)	LIBOR Floor	Interest Rate (2)				
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



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)**

- (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.

Below is certain summarized financial information for SSLP as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Selected Balance Sheet Information for SSLP:</b>		
Investments at fair value (cost \$108,197 and \$174,828, respectively)	\$ 107,004	\$ 174,582
Cash and other assets	18,477	4,659
<b>Total assets</b>	<b>\$ 125,481</b>	<b>\$ 179,241</b>
Debt outstanding	\$ 22,998	\$ 74,248
Distributions payable	2,752	2,200
Interest payable and other credit facility related expenses	1,063	1,161
Accrued expenses and other payables	141	219
<b>Total liabilities</b>	<b>\$ 26,954</b>	<b>\$ 77,828</b>
Members' equity	\$ 98,527	\$ 101,413
<b>Total liabilities and members' equity</b>	<b>\$ 125,481</b>	<b>\$ 179,241</b>

**Three  
months  
ended**

**Three  
months  
ended**

**Nine  
months  
ended**

**Nine  
months  
ended**

	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
<b>Selected Income Statement Information for SSLP:</b>				
Interest income	\$ 3,843	\$ 3,495	\$ 11,215	\$ 10,730
Service fees*	\$ 21	\$ 28	\$ 78	\$ 89
Interest and other credit facility expenses	1,062	1,109	3,538	2,795
Other general and administrative expenses	7	21	93	96
Total expenses	1,090	1,158	3,709	2,980
Net investment income	\$ 2,753	\$ 2,337	\$ 7,506	\$ 7,750
Realized gain (loss) on investments	(125)		(122)	127
Net change in unrealized gain (loss) on investments	(602)	88	(948)	310
Net realized and unrealized gain (loss) on investments	(727)	88	(1,070)	437
Net income	\$ 2,026	\$ 2,425	\$ 6,436	\$ 8,187

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

---

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****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.

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 \$26,168 and \$48,788 of borrowings outstanding as of September 30, 2018 and December 31, 2017, respectively. On September 14, 2018, the Company acquired WFI's share of the equity in SSLP II and now holds 100% of the equity in SSLP II. As such, the Company is consolidating SSLP II as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$91 in unrealized depreciation on the Company's equity investment in SSLP II is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, SSLP II had total assets of \$95,199 and \$124,736, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 12 and 15 different borrowers, respectively. For the three months ended September 30, 2018 and September 30, 2017, SSLP II invested \$64 in 1 portfolio company and \$11,668 in 5 portfolio companies, respectively. Investments prepaid or sold totaled \$47,077 and \$1,380 for the same periods, respectively. At September 30, 2018 and December 31, 2017, the weighted average yield of SSLP II's portfolio was 9.3% and 8.0%, respectively, measured at fair value and 9.4% and 8.3%, respectively, measured at cost.



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****SSLP II Portfolio as of September 30, 2018**

<b>Description</b>	<b>Industry</b>	<b>Spread Above Index (1)</b>	<b>LIBOR Floor</b>	<b>Interest Rate (2)</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value (3)</b>
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	\$ 4,830	\$ 4,793	\$ 4,613
American Teleconferencing Services, Ltd. (PGI)	Communications Equipment	L+650	1.00%	8.84%	12/8/21	10,679	9,964	10,679
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	7.23%	8/1/21	1,210	1,203	1,210
Atria Wealth Solutions, Inc.	Diversified Financial Services	L+600	1.00%	8.61%	11/30/22	8,416	8,331	8,331
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	7,722	7,722	7,722
Global Holdings LLC & Payment Concepts LLC	Consumer Finance	L+650	1.00%	9.83%	5/5/22	7,159	7,049	7,159
Logix Holding Company, LLC	Communications Equipment	L+575	1.00%	7.99%	12/22/24	7,197	7,131	7,197
On Location Events, LLC & PrimeSport Holdings Inc.	Media	L+550	1.00%	7.83%	9/29/21	7,808	7,732	7,750
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	8,480	8,390	8,480
PPT Management Holdings, LLC	Health Care Providers & Services	L+750PIK	1.00%	9.69%	12/16/22	8,389	8,327	7,130
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	6.64%	11/25/21	566	566	566
		L+826	1.00%	10.65%	11/25/21	7,178	7,093	7,178

PSKW, LLC & PDR, LLC	Health Care Providers & Services								
Solara Medical Supplies, Inc.	Health Care Providers & Services	L+600	1.00%	8.39%	5/31/23	3,462	3,412	3,427	
									\$ 81,713 \$ 81,442

- (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 September 30, 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.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****SSLP II Portfolio as of December 31, 2017 (audited)**

<b>Description</b>	<b>Industry</b>	<b>Spread Above LIBOR Index (1)</b>	<b>Floor Rate (2)</b>	<b>Interest Rate (2)</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair 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

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

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)****September 30, 2018****(in thousands, except share amounts)**

Below is certain summarized financial information for SSLP II as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<b>Selected Balance Sheet Information for SSLP II:</b>		
Investments at fair value (cost \$81,713 and \$120,132, respectively)	\$ 81,442	\$ 121,376
Cash and other assets	13,757	3,360
Total assets	\$ 95,199	\$ 124,736
Debt outstanding	\$ 26,168	\$ 48,788
Payable for investments purchased	10,330	9,281
Distributions payable	2,389	1,638
Interest payable and other credit facility related expenses	741	654
Accrued expenses and other payables	174	217
Total liabilities	\$ 39,802	\$ 60,578
Members' equity	\$ 55,397	\$ 64,158
Total liabilities and members' equity	\$ 95,199	\$ 124,736

	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
<b>Selected Income Statement Information for SSLP II:</b>				
Interest income	\$ 3,125	\$ 2,363	\$ 8,273	\$ 6,616
Service fees*	\$ 23	\$ 28	\$ 83	\$ 80

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

Interest and other credit facility expenses	707	558	2,205	1,496
Other general and administrative expenses	6	20	83	85
Total expenses	736	606	2,371	1,661
Net investment income	\$ 2,389	\$ 1,757	\$ 5,902	\$ 4,955
Realized gain on investments	(14)		(13)	46
Net change in unrealized gain (loss) on investments	(674)	(297)	(1,516)	128
Net realized and unrealized gain (loss) on investments	(688)	(297)	(1,529)	174
Net income	\$ 1,701	\$ 1,460	\$ 4,373	\$ 5,129

\* 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. On August 16, 2018, the LSJV was dissolved, without commencing operations.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)(continued)****September 30, 2018****(in thousands, except share amounts)****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 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 September 30, 2018, NEF had 221 funded equipment-backed leases and loans to 86 different customers with a total net investment in leases and loans of approximately \$249,868 on total assets of \$299,962. 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 September 30, 2018 and December 31, 2017, the largest position outstanding totaled \$28,863 and \$15,959, respectively. For the same periods, the average exposure per customer was \$2,905 and \$2,477, respectively. NEF's credit facility, which is non-recourse to Solar Capital, had approximately \$124,599 and \$71,010 of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. During the quarter, NEF exercised its option to redeem the remaining securitization notes. The securitization notes balance on December 31, 2017 was \$71,656. For the three and nine months ended September 30, 2018, NEF had net income of \$149 and \$2,937, respectively, on gross income of \$7,237 and \$21,497, respectively. 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 September 30, 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	
	Nine months ended	Year ended December 31, 2017	Nine months ended	Year ended December 31, 2017

	<b>September 30, 2018</b>	<b>September 30, 2018</b>		
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.

The Small Business Credit Availability Act permits BDCs to reduce the required minimum asset coverage ratio applicable to a BDC from 200% to 150%, subject to certain requirements described therein. At the

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**September 30, 2018**

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

Company's Annual Stockholder Meeting held on October 11, 2018, the Company's stockholders approved the proposal to authorize the Company to become subject to a minimum asset coverage ratio of at least 150% effective as of October 12, 2018.

On November 5, 2018, our Board declared a quarterly distribution of \$0.41 per share payable on January 4, 2019 to holders of record as of December 20, 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 September 30, 2018, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2018 and 2017, the related consolidated statement of changes in net assets for the nine-month period ended September 30, 2018, the related consolidated statements of cash flows for the nine-month periods ended September 30, 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, and 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

November 5, 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**

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

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, and to a lesser extent, 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 September 30, 2018, the Investment Adviser has directly invested over \$7.5 billion in more than 350 different portfolio companies since 2006. Over the same period, the Investment Adviser completed transactions with more than 190 different financial sponsors.

## **Recent Developments**

The Small Business Credit Availability Act permits BDCs to reduce the required minimum asset coverage ratio applicable to a BDC from 200% to 150%, subject to certain requirements described therein. At the Company's Annual Stockholder Meeting held on October 11, 2018, the Company's stockholders approved the proposal to authorize the Company to become subject to a minimum asset coverage ratio of at least 150% effective as of October 12, 2018.

On November 5, 2018, our Board declared a quarterly distribution of \$0.41 per share payable on January 4, 2019 to holders of record as of December 20, 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

## **Table of Contents**

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

## **Expenses**

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

---

**Table of Contents**

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

**Portfolio and Investment Activity**

During the three months ended September 30, 2018, we invested approximately \$116.1 million across 28 portfolio companies. This compares to investing approximately \$226.1 million in 37 portfolio companies for the three months ended September 30, 2017. Investments sold, prepaid or repaid during the three months ended September 30, 2018 totaled approximately \$161.2 million versus approximately \$55.7 million for the three months ended September 30, 2017.

At September 30, 2018, our portfolio consisted of 110 portfolio companies and was invested 36.7% in cash flow senior secured loans, 27.6% in asset-based senior secured loans / Crystal Financial, 21.1% in equipment senior secured financings / NEF, and 14.6% in life science senior secured loans, in each case, measured at fair value, versus 88 portfolio companies invested 39.5% in cash flow senior secured loans, 30.2% in asset-based senior secured loans / Crystal Financial, 15.3% in equipment senior secured financings / NEF and 15.0% in life science senior secured loans, in each case, measured at fair value, at September 30, 2017.

At September 30, 2018, 76.2% or \$1.06 billion of our income producing investment portfolio\* is floating rate and 23.8% or \$331.5 million is fixed rate, measured at fair value. At September 30, 2017, 81.4% or \$1.12 billion of our income producing investment portfolio\* was floating rate and 18.6% or \$255.8 million was fixed rate, measured at fair value. As of September 30, 2018 and 2017, we had zero issuers on non-accrual status.

Since inception through September 30, 2018, Solar Capital and its predecessor companies have invested approximately \$5.6 billion in more than 240 portfolio companies. Over the same period, Solar Capital has completed transactions with more than 150 different financial sponsors.

**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 May 18, 2015, the revolving credit facility was expanded to \$350 million. 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 September 30, 2018, Crystal Financial LLC had 30 funded commitments to 26 different issuers with a total par value of approximately \$435.3 million on total assets of \$478.1 million. As of December 31, 2017,

\* 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.



**Table of Contents**

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 September 30, 2018 and December 31, 2017, the largest loan outstanding totaling \$40.0 million and \$36.0 million, respectively. For the same periods, the average exposure per issuer was \$16.7 million and \$13.1 million, respectively. Crystal Financial LLC's credit facility, which is non-recourse to Solar Capital, had approximately \$206.4 million and \$176.5 million of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. For the three months ended September 30, 2018 and September 30, 2017, Crystal Financial LLC had net income of \$6.5 million and \$7.7 million, respectively, on gross income of \$11.7 million and \$11.7 million, respectively. For the nine months ended September 30, 2018 and September 30, 2017, Crystal Financial LLC had net income of \$18.6 million and \$23.6 million, respectively, on gross income of \$33.6 million and \$39.8 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in 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 September 30, 2018, NEF had 221 funded equipment-backed leases and loans to 86 different customers with a total net investment in leases and loans of approximately \$249.9 million on total assets of \$300.0 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 September 30, 2018 and December 31, 2017, the largest position outstanding totaled \$28.9 million and \$16.0 million, respectively. For the same periods, the average exposure per customer was \$2.9 million and \$2.5 million, respectively. NEF's credit facility, which is non-recourse to Solar Capital, had approximately \$124.6 million and \$71.0 million of borrowings outstanding at September 30, 2018 and December 31, 2017, respectively. During the quarter, NEF exercised its option to redeem the remaining securitization notes. The securitization notes balance on December 31, 2017 was \$71.7 million. For the three and nine months ended September 30, 2018, NEF had net income of \$0.1 million and \$2.9 million, respectively, on gross income of \$7.2 million and \$21.5 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As such, and subject to fluctuations in 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. On August 16, 2018, the LSJV was dissolved, without commencing operations.



**Table of Contents****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 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 \$300.0 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 \$200.0 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 \$23.0 and \$74.2 million of borrowings outstanding as of September 30, 2018 and December 31, 2017, respectively. On September 18, 2018, the Company acquired Voya's share of the equity in SSLP and now holds 100% of the equity in SSLP. As such, the Company is consolidating SSLP as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$0.35 million in unrealized depreciation on the Company's equity investment in SSLP is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, SSLP had total assets of \$125.5 million and \$179.2 million, respectively. For the same periods, SSLP's portfolio consisted of floating rate senior secured loans to 7 and 10 different borrowers, respectively. For the three months ended September 30, 2018 and 2017, SSLP invested \$0 in 0 portfolio companies and \$1.7 million in 2 portfolio companies, respectively. Investments prepaid or sold totaled \$60.6 million and \$2.6 million, respectively, for the three months ended September 30,



**Table of Contents**

2018 and 2017. At September 30, 2018 and December 31, 2017, the weighted average yield of SSLP's portfolio was 9.3% and 8.1%, respectively, measured at fair value and 9.2% and 8.1%, respectively, measured at cost.

**SSLP Portfolio as of September 30, 2018 (dollar amounts in thousands)**

<b>Description</b>	<b>Industry</b>	<b>Spread Above Index (1)</b>	<b>LIBOR Floor</b>	<b>Interest Rate (2)</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value (3)</b>
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	\$ 10,484	\$ 10,403	\$ 10,013
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	7.23%	8/1/21	2,625	2,610	2,625
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	26,350	26,112	26,350
On Location Events, LLC & PrimeSport Holdings Inc.	Media	L+550	1.00%	7.83%	9/29/21	16,942	16,776	16,815
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	20,908	20,691	20,908
PPT Management Holdings, LLC	Health Care Providers & Services	L+750PIK	1.00%	9.69%	12/16/22	10,921	10,840	9,283
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	6.64%	11/25/21	1,541	1,532	1,541
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+826	1.00%	10.65%	11/25/21	19,469	19,233	19,469
							\$ 108,197	\$ 107,004

(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 September 30, 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.

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

Description	Industry	Spread			Maturity Date	Par Amount	Cost	Fair Value (3)
		Above Index (1)	LIBOR Floor	Interest Rate (2)				
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.



**Table of Contents**

- (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.
- Below is certain summarized financial information for SSLP as of September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	September 30, 2018	December 31, 2017
<b>Selected Balance Sheet Information for SSLP (in thousands):</b>		
Investments at fair value (cost \$108,197 and \$174,828, respectively)	\$ 107,004	\$ 174,582
Cash and other assets	18,477	4,659
Total assets	\$ 125,481	\$ 179,241
Debt outstanding	\$ 22,998	\$ 74,248
Distributions payable	2,752	2,200
Interest payable and other credit facility related expenses	1,063	1,161
Accrued expenses and other payables	141	219
Total liabilities	\$ 26,954	\$ 77,828
Members equity	\$ 98,527	\$ 101,413
Total liabilities and members equity	\$ 125,481	\$ 179,241

	Three months ended September 30, 2018	Three months ended September 30, 2017	Nine months ended September 30, 2018	Nine months ended September 30, 2017
<b>Selected Income Statement Information for SSLP (in thousands):</b>				
Interest income	\$ 3,843	\$ 3,495	\$ 11,215	\$ 10,730
Service fees*	\$ 21	\$ 28	\$ 78	\$ 89
Interest and other credit facility expenses	1,062	1,109	3,538	2,795
Other general and administrative expenses	7	21	93	96
Total expenses	1,090	1,158	3,709	2,980



Net investment income	\$ 2,753	\$ 2,337	\$ 7,506	\$ 7,750
Realized gain (loss) on investments	(125)		(122)	127
Net change in unrealized gain (loss) on investments	(602)	88	(948)	310
Net realized and unrealized gain (loss) on investments	(727)	88	(1,070)	437
Net income	\$ 2,026	\$ 2,425	\$ 6,436	\$ 8,187

\* 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

---

**Table of Contents**

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 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 \$26.2 million and \$48.8 million of borrowings outstanding as of September 30, 2018 and December 31, 2017, respectively. On September 14, 2018, the Company acquired WFI's share of the equity in SSLP II and now holds 100% of the equity in SSLP II. As such, the Company is consolidating SSLP II as of this date. For financial reporting purposes, assets consolidated were recorded at fair value and the cost basis of the assets consolidated were carried forward to align with the ongoing reporting of the Company's realized and unrealized gains and losses. Also due to the consolidation, the current \$0.09 million in unrealized depreciation on the Company's equity investment in SSLP II is being reflected in unrealized depreciation in our consolidated assets and liabilities as well as an adjustment to net increase in net assets resulting from operations on the Company's consolidated statement of cash flows. The effect of consolidation did not affect the Company's net assets at September 30, 2018.

As of September 30, 2018 and December 31, 2017, SSLP II had total assets of \$95.2 million and \$124.7 million, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 12 and 15 different borrowers, respectively. For the three months ended September 30, 2018 and September 30, 2017, SSLP II invested \$0.1 million in 1 portfolio company and \$11.7 million in 5 portfolio companies, respectively. Investments prepaid or sold totaled \$47.1 million and \$1.4 million for the same periods, respectively. At September 30, 2018 and December 31, 2017, the weighted average yield of SSLP II's portfolio was 9.3% and 8.0%, respectively, measured at fair value and 9.4% and 8.3%, respectively, measured at cost.

**Table of Contents****SSLP II Portfolio as of September 30, 2018 (dollar amounts in thousands)**

<b>Description</b>	<b>Industry</b>	<b>Spread Above Index (1)</b>	<b>LIBOR Floor</b>	<b>Interest Rate (2)</b>	<b>Maturity Date</b>	<b>Par Amount</b>	<b>Cost</b>	<b>Fair Value (3)</b>
Alteon Health, LLC (fka Island Medical)	Health Care Providers & Services	L+650	1.00%	8.74%	9/1/22	\$ 4,830	\$ 4,793	\$ 4,613
American Teleconferencing Services, Ltd. (PGI)	Communications Equipment	L+650	1.00%	8.84%	12/8/21	10,679	9,964	10,679
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	7.23%	8/1/21	1,210	1,203	1,210
Atria Wealth Solutions, Inc.	Diversified Financial Services	L+600	1.00%	8.61%	11/30/22	8,416	8,331	8,331
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	8.99%	12/14/21	7,722	7,722	7,722
Global Holdings LLC & Payment Concepts LLC	Consumer Finance	L+650	1.00%	9.83%	5/5/22	7,159	7,049	7,159
Logix Holding Company, LLC	Communications Equipment	L+575	1.00%	7.99%	12/22/24	7,197	7,131	7,197
On Location Events, LLC & PrimeSport Holdings Inc.	Media	L+550	1.00%	7.83%	9/29/21	7,808	7,732	7,750
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	7.84%	7/5/22	8,480	8,390	8,480
PPT Management Holdings, LLC	Health Care Providers & Services	L+750PIK	1.00%	9.69%	12/16/22	8,389	8,327	7,130
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	6.64%	11/25/21	566	566	566
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+826	1.00%	10.65%	11/25/21	7,178	7,093	7,178
Solara Medical Supplies, Inc.	Health Care Providers & Services	L+600	1.00%	8.39%	5/31/23	3,462	3,412	3,427
							\$ 81,713	\$ 81,442

(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 September 30, 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.

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

Description	Industry	Spread			Maturity Date	Par Amount	Cost	Fair Value (3)
		Above LIBOR Index (1)	Floor Rate (%)	Interest Rate (2)				
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 September 30, 2018 and December 31, 2017 and for the three and nine months ended September 30, 2018 and 2017:

	September 30, 2018			December 31, 2017
<b>Selected Balance Sheet Information for SSLP II (in thousands):</b>				
Investments at fair value (cost \$81,713 and \$120,132, respectively)	\$ 81,442			\$ 121,376
Cash and other assets	13,757			3,360
Total assets	\$ 95,199			\$ 124,736
Debt outstanding	\$ 26,168			\$ 48,788
Payable for investments purchased	10,330			9,281
Distributions payable	2,389			1,638
Interest payable and other credit facility related expenses	741			654
Accrued expenses and other payables	174			217
Total liabilities	\$ 39,802			\$ 60,578
Members equity	\$ 55,397			\$ 64,158
Total liabilities and members equity	\$ 95,199			\$ 124,736
	<b>Three months ended September 30, 2018</b>	<b>Three months ended September 30, 2017</b>	<b>Nine months ended September 30, 2018</b>	<b>Nine months ended September 30, 2017</b>
<b>Selected Income Statement Information for SSLP II (in thousands):</b>				
Interest income	\$ 3,125	\$ 2,363	\$ 8,273	\$ 6,616
Service fees*	\$ 23	\$ 28	\$ 83	\$ 80
Interest and other credit facility expenses	707	558	2,205	1,496
Other general and administrative expenses	6	20	83	85
Total expenses	736	606	2,371	1,661
Net investment income	\$ 2,389	\$ 1,757	\$ 5,902	\$ 4,955

Realized gain on investments	(14)		(13)	46
Net change in unrealized gain (loss) on investments	(674)	(297)	(1,516)	128
Net realized and unrealized gain (loss) on investments	(688)	(297)	(1,529)	174
Net income	\$ 1,701	\$ 1,460	\$ 4,373	\$ 5,129

\* 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

---

**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 nine months ended September 30, 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, 2022 Unsecured Notes, SSLP Facility and SSLP II Facility***

The Company and its wholly-owned investment subsidiaries SSLP and SSLP II have made irrevocable elections to apply the fair value option of accounting to the Credit Facility, the 2022 Unsecured Notes, the consolidated SSLP Facility and the consolidated SSLP II Facility, in accordance with ASC 825-10. We believe accounting for the Credit Facility, 2022 Unsecured Notes, the SSLP Facility and the SSLP II Facility at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility.

***Revenue Recognition***

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

---

**Table of Contents**

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

The typically higher yields and interest rates on PIK securities, to the extent we invested, reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Investment Adviser based on non-cash accruals that ultimately may not be realized, but the Investment Adviser will be under no obligation to reimburse the Company for these fees. For the three and nine months ended September 30, 2018, capitalized PIK income totaled \$0.05 million and \$0.1 million, respectively. For the three and nine months ended September 30, 2017, capitalized PIK income totaled \$0.1 million and \$0.2 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 August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this

---

**Table of Contents**

Update modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement, based on the concepts in the Concepts Statement, including the consideration of costs and benefits. ASU 2018-13 is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact of ASU 2018-13 on its consolidated financial statements and disclosures.

In August 2018, the US Securities and Exchange Commission adopted final rules to eliminate redundant, duplicative, overlapping, outdated or superseded disclosure requirements in light of other disclosure requirements, GAAP or changes in the information environment. These rules amend certain provisions of Regulation S-X and Regulation S-K, certain rules promulgated under the Securities Act of 1933 and the Securities Exchange Act of 1934 and certain related forms. These changes become effective thirty days after the date of publication in the Federal Register. The Company is evaluating the impact of these changes on its consolidated financial statements and disclosures.

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.

**RESULTS OF OPERATIONS**

Results comparisons are for the three and nine months ended September 30, 2018 and September 30, 2017:

**Investment Income**

For the three and nine months ended September 30, 2018, gross investment income totaled \$37.1 million and \$115.3 million, respectively. For the three and nine months ended September 30, 2017, gross investment income totaled \$36.1 million and \$104.4 million, respectively. The increase in gross investment income for the year over year

three and nine month periods was primarily due to growth of the average income producing investment portfolio.



---

**Table of Contents****Expenses**

Expenses totaled \$18.7 million and \$58.9 million, respectively, for the three and nine months ended September 30, 2018, of which \$11.0 million and \$33.4 million, respectively, were base management fees and performance-based incentive fees and \$5.5 million and \$17.5 million, respectively, were interest and other credit facility expenses. Administrative services and other general and administrative expenses totaled \$2.2 million and \$7.9 million, respectively, for the three and nine months ended September 30, 2018. Expenses totaled \$18.8 million and \$54.7 million, respectively, for the three and nine months ended September 30, 2017, of which \$11.1 million and \$32.4 million, respectively, were base management fees and performance-based incentive fees and \$5.3 million and \$16.0 million, respectively, were interest and other credit facility expenses. Administrative services and other general and administrative expenses totaled \$2.4 million and \$6.3 million, respectively, for the three and nine months ended September 30, 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 nine months ended September 30, 2018 versus the nine months ended September 30, 2017 was primarily due to higher performance-based incentive fees resulting from higher income and higher interest expense resulting from an increase in average borrowings to support a larger average income producing investment portfolio.

**Net Investment Income**

The Company's net investment income totaled \$18.4 million and \$56.4 million, or \$0.44 and \$1.34, per average share, respectively, for the three and nine months ended September 30, 2018. The Company's net investment income totaled \$17.3 million and \$49.7 million, or \$0.41 and \$1.18, per average share, respectively, for the three and nine months ended September 30, 2017.

**Net Realized Gain**

The Company had investment sales and prepayments totaling approximately \$161 million and \$505 million, respectively, for the three and nine months ended September 30, 2018. Net realized gains over the same periods were \$0.7 million and \$1.2 million, respectively. The Company had investment sales and prepayments totaling approximately \$56 million and \$271 million, respectively, for the three and nine months ended September 30, 2017. Net realized losses over the same periods were \$8.5 million and \$8.1 million, respectively. Net realized gains for the three and nine months ended September 30, 2018 were related to the sale of select assets and the redemption of our warrants in Claret Medical. Net realized losses for the three and nine months ended September 30, 2017 were primarily related to the exit of Direct Buy Inc. from the portfolio.

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

For the three and nine months ended September 30, 2018, net change in unrealized gain (loss) on the Company's assets and liabilities totaled (\$1.0) million and \$0.3 million, respectively. For the three and nine months ended September 30, 2017, net change in unrealized gain on the Company's assets and liabilities totaled \$8.4 million and \$11.4 million, respectively. Net unrealized loss for the three months ended September 30, 2018 is primarily due to depreciation in the value of our investments in Rug Doctor and NEF Holdings, among others, partially offset by appreciation on our investments in Crystal Financial LLC and Bishop Lifting Products, Inc., among others. Net unrealized gain for the nine months ended September 30, 2018 is primarily due to appreciation in the value of our investments in Rug Doctor and Bishop Lifting Products, Inc., among others, partially offset by depreciation on our investments in Crystal

Financial LLC and Kore Wireless Group, Inc., among others. Net unrealized gain for the three months ended September 30, 2017 is primarily due to the reversal of unrealized depreciation on our investment in Direct Buy Inc. due to its exit from the portfolio, as well as appreciation in the value of our investments in Breathe Technologies, Inc. and Aegis Toxicology Sciences Corporation, among

---

**Table of Contents**

others. Partially offsetting the net change in unrealized gain was depreciation on our investments in Rug Doctor, Kore Wireless Group, Inc., American Teleconferencing Services, Ltd. and Crystal Financial LLC, among others. Net unrealized gain for the nine months ended September 30, 2017 is primarily due to the reversal of unrealized depreciation on our investment in Direct Buy Inc. due to its exit from the portfolio, as well as appreciation in the value of our investments in Bishop Lifting Products, Inc., Breathe Technologies, Inc., Aegis Toxicology Sciences Corporation, and Senior Secured Unitranche Loan Program LLC, among others. Partially offsetting the net change in unrealized gain was unrealized depreciation on our investments in Rug Doctor and Kore Wireless Group, Inc., among others.

**Net Increase in Net Assets From Operations**

For the three and nine months ended September 30, 2018, the Company had a net increase in net assets resulting from operations of \$18.1 million and \$58.0 million, respectively. For the same periods, earnings per average share were \$0.43 and \$1.37, respectively. For the three and nine months ended September 30, 2017, the Company had a net increase in net assets resulting from operations of \$17.2 million and \$53.1 million, respectively. For the same periods, earnings per average share were \$0.41 and \$1.26, respectively.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through its Credit Facilities, 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 September 30, 2018, we had a total of \$636.8 million of unused borrowing capacity under the Credit Facilities, 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 July 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 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.

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.

## **Table of Contents**

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 \$200 million in cash equivalents as of September 30, 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.

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 July 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 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.

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.

### *Revolving & Term Loan Facilities*

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

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

---

**Table of Contents**

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. 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 and on July 13, 2018, revolving credit commitments were further expanded by \$35 million to \$480 million. At September 30, 2018, outstanding USD equivalent borrowings under the Credit Facility totaled \$164.0 million, composed of \$114.0 million of revolving credit and \$50.0 million of term loans.

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 \$23.0 million of borrowings outstanding as of September 30, 2018.

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 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 \$26.2 million of borrowings outstanding as of September 30, 2018.

On September 26, 2018, NEFPASS SPV LLC, a newly formed wholly owned subsidiary of NEFPASS LLC, as borrower entered into a \$50 million senior secured revolving credit facility (the "NEFPASS Facility") with Keybank acting as administrative agent. The Company acts as servicer under the NEFPASS Facility. The NEFPASS Facility is scheduled to mature on September 26, 2023. The NEFPASS Facility generally bears interest at a rate of LIBOR plus 2.15%. NEFPASS and NEFPASS SPV 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 NEFPASS Facility also includes usual and customary events of default for credit facilities of this nature. There were \$30.0 million of borrowings outstanding as of September 30, 2018.

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 September 30, 2018, the Company was in compliance with all financial and

operational covenants required by our Credit Facilities.



**Table of Contents****Contractual Obligations**

A summary of our significant contractual payment obligations is as follows as of September 30, 2018:

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

	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More Than 5 Years</b>
Revolving credit facilities (1)	\$ 193.2	\$	\$ 137.0	\$ 56.2	\$
Unsecured senior notes	246.0			246.0	
Term Loans	50.0		50.0		

(1) As of September 30, 2018, we had a total of \$636.8 million of unused borrowing capacity under our revolving credit facilities, subject to borrowing base limits.

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 Amount Outstanding (1)</b>	<b>Asset Coverage Per Unit (2)</b>	<b>Involuntary Liquidating Preference Per Unit (3)</b>	<b>Average Market Value Per Unit (4)</b>
<b>Revolving Credit Facility</b>				
Fiscal 2018 (through September 30, 2018)	\$ 114,000	\$ 675		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 September 30, 2018)	150,000	888		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 September 30, 2018)	21,000	124		N/A
Fiscal 2017	21,000	105		N/A
<b>2023 Unsecured Notes</b>				
Fiscal 2018 (through September 30, 2018)	75,000	444		N/A

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

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

**Table of Contents**

<b>Class and Year</b>	<b>Total Amount Outstanding (1)</b>	<b>Asset Coverage Per Unit (2)</b>	<b>Involuntary Liquidating Preference Per Unit (3)</b>	<b>Average Market Value Per Unit (4)</b>
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
<b>Term Loans</b>				
Fiscal 2018 (through September 30, 2018)	50,000	296		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>NEFPASS Facility</b>				
Fiscal 2018 (through September 30, 2018)	30,000	178		N/A
<b>SSLP Facility</b>				
Fiscal 2018 (through September 30, 2018)	22,998	136		N/A
<b>SSLP II Facility</b>				
Fiscal 2018 (through September 30, 2018)	26,168	155		N/A
<b>Total Senior Securities</b>				
Fiscal 2018 (through September 30, 2018)	\$ 489,166	\$ 2,896		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 September 30, 2018, asset coverage was 289.6%.
- (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, \$100,175, \$98,196, \$94,301, \$93,392, and \$92,302, respectively.

**Table of Contents**

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 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 September 30, 2018 and December 31, 2017, respectively:

	<b>September 30, 2018</b>	<b>December 31, 2017</b>
<i>(in millions)</i>		
Crystal Financial LLC*	\$ 44.3	\$ 44.3
BioElectron Technology Corporation**	17.5	
Phynet Dermatology LLC	12.4	
Cardiva Medical, Inc.**	9.0	
Breathe Technologies, Inc.**	8.0	
Corindus Vascular Robotics, Inc.**	6.2	
Delphinus Medical Technologies, Inc.**	3.7	3.7
Atria Wealth Solutions, Inc	3.7	
Solara Medical Supplies, Inc	1.7	
Datto, Inc	1.7	1.7
iCIMS, Inc	0.8	
MRI Software LLC		2.3
Radiology Partners, Inc		0.9
Alera Group Intermediate Holdings, Inc		3.9
Accentcare, Inc		3.4
CardioFocus, Inc		1.0
WJV658, LLC		0.8

Total Commitments	\$	109.0	\$	62.0
-------------------	----	-------	----	------

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

**Table of Contents**

\*\* Commitments are subject to the portfolio company achieving certain milestones. As of September 30, 2018, these milestones have not yet been achieved, and as such the portfolio company would not have been able to draw on any of the stated commitment at that time.

As of September 30, 2018 and December 31, 2017, the Company had sufficient cash available and/or liquid securities available to fund its commitments.

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

**Distributions**

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

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
<b>Fiscal 2018</b>			
November 5, 2018	December 20, 2018	January 4, 2019	\$ 0.41
August 2, 2018	September 20, 2018	October 2, 2018	0.41
May 7, 2018	June 21, 2018	July 3, 2018	0.41
February 22, 2018	March 22, 2018	April 3, 2018	0.41
<i>Total 2018</i>			\$ 1.64
<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.



## **Table of Contents**

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

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

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

## **Related Parties**

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

We have entered into 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.

**Table of Contents**

Related party transactions may occur among Solar Capital Ltd., Crystal Financial LLC, Equipment Operating Leases 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, Equipment Operating Leases 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 nine months ended September 30, 2018, certain of the investments in our comprehensive investment portfolio had floating interest rates. These floating rate investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has a revolving credit facility that is generally based on floating LIBOR. Assuming no changes to our balance sheet as of September 30, 2018 and no new defaults by portfolio companies, a hypothetical one-quarter of one percent decrease in LIBOR on our comprehensive floating rate assets and liabilities would reduce our net investment income by three cents per average share over the next twelve months. Assuming no changes to our balance sheet as of September 30, 2018 and no new defaults by portfolio companies, a hypothetical one percent increase in LIBOR on our comprehensive floating rate assets and liabilities would increase our net investment income by approximately thirteen 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 September 30, 2018, we have no interest rate hedging instruments outstanding on our balance sheet.

Increase (Decrease) in LIBOR	(0.25%)	1.00%
Increase (Decrease) in Net Investment Income Per Share Per Year	(\$ 0.03)	\$ 0.13

We may also have exposure to foreign currencies 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 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 September 30, 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.

---

**Table of Contents*****(b) Changes in Internal Controls Over Financial Reporting***

Management has not identified any change in the Company's internal control over financial reporting that occurred during the third quarter of 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**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 May 24, 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. Other than as set forth below, there have been no material changes during the period ended September 30, 2018 to the risk factors discussed in *Risk Factors* in the May 24, 2018 filing of our Registration Statement on Form N-2.

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

In order to satisfy the tax requirements applicable to a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our ordinary income and realized net capital gains except for certain realized net long-term capital gains, which we may retain, pay applicable income taxes with respect thereto and elect to treat as deemed distributions to our stockholders. We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as *senior securities*, up to the maximum amount permitted by the Investment Company Act of 1940, as amended (the *1940 Act*). Under the provisions of the 1940 Act, we had been permitted, as a BDC, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. However, our shareholders have approved a resolution permitting the Company to be subject to a 150% asset coverage ratio effective as of October 12, 2018. If the value of our assets declines, we may be unable to satisfy the asset coverage test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common

stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. In addition, because our management fee is calculated as a percentage of our gross assets, which includes any borrowings for investment purposes, the management fee expenses will increase if we incur additional indebtedness.

As of September 30, 2018, we had \$164.0 million outstanding under the Credit Facility, composed of \$114.0 million of revolving credit and \$50.0 million outstanding of term loans. We also had \$75.0 million

---

**Table of Contents**

outstanding of the 2023 Unsecured Notes, \$150.0 million outstanding of the 2022 Unsecured Notes, \$21.0 million outstanding of the 2022 Tranche C Notes, \$30.0 million outstanding under the NEFPASS Facility, \$23.0 million outstanding under the SSLP Facility and \$26.2 million outstanding under the SSLP II Facility. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would generally vote together with common stockholders but would have separate voting rights on certain matters and might have other rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

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

At our 2018 Annual Stockholders Meeting, our stockholders approved our ability to sell or otherwise issue shares of our common stock, not exceeding 25% of our then outstanding common stock immediately prior to each such offering, at a price or prices below the then current net asset value per share, in each case subject to the approval of our board of directors and compliance with the conditions set forth in the proxy statement pertaining thereto, during a period beginning on October 11, 2018 and expiring on the earlier of the one-year anniversary of the date of the 2018 Annual Stockholders Meeting and the date of our 2019 Annual Stockholders Meeting. However, notwithstanding such stockholder approval, since our initial public offering on February 9, 2010, we have not sold any shares of our common stock in an offering that resulted in proceeds to us of less than our then current net asset value per share. Any offering of our common stock that requires stockholder approval must occur, if at all, within one year after receiving such stockholder approval.

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

We borrow money as part of our business plan. Borrowings, also known as leverage magnify the potential for loss on amounts invested and, therefore, increase the risks associated with investing in our securities. As of September 30, 2018, we had \$164.0 million outstanding under the Credit Facility, composed of \$114.0 million of revolving credit and \$50.0 million outstanding of term loans. We also had \$75.0 million outstanding of the 2023 Unsecured Notes, \$150.0 million outstanding of the 2022 Unsecured Notes, \$21.0 million outstanding of the 2022 Tranche C Notes, \$30.0 million outstanding under the NEFPASS Facility, \$23.0 million outstanding under the SSLP Facility and \$26.2 million outstanding under the SSLP II Facility. We may borrow from and issue senior debt securities to banks, insurance companies and other lenders in the future. Lenders of these senior securities, including the Credit Facility, the 2022 Unsecured Notes, the 2023 Unsecured Notes, the 2022 Tranche C Notes, the NEFPASS Facility, the SSLP Facility and the SSLP II Facility will have fixed dollar claims on our assets that are superior to the claims of our

common stockholders, and we would expect such lenders to seek recovery against our assets in the event of a default. If the value of our assets decreases, leveraging would cause



**Table of Contents**

net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make distribution payments on our common stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, as the management fee payable to our investment adviser, Solar Capital Partners, will be payable based on our gross assets, including those assets acquired through the use of leverage, Solar Capital Partners will have a financial incentive to incur leverage which may not be consistent with our stockholders' interests. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to Solar Capital Partners.

As a BDC, we generally had been required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. However, our shareholders have approved a resolution permitting the Company to be subject to a 150% asset coverage ratio effective as of October 12, 2018. Even though the Company is subject to a 150% asset coverage ratio effective as of October 12, 2018, contractual leverage limitations under our existing credit facilities or future borrowings may limit our ability to incur additional indebtedness. Some of our wholly and substantially owned portfolio companies, including Crystal Financial LLC and NEF Holdings LLC, may incur significantly more leverage than we can but we do not consolidate Crystal Financial LLC and NEF Holdings LLC and their leverage is non-recourse to us. Additionally, the Credit Facility requires us to comply with certain financial and other restrictive covenants including maintaining an asset coverage ratio of not less than 200% at any time. Failure to maintain compliance with these covenants could result in an event of default and all of our debt being declared immediately due and payable. If this ratio declines below 200%, we may not be able to incur additional debt and could be required by law to sell a portion of our investments to repay some debt when it is disadvantageous to do so, which could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on our investment advisers' and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

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

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

	Assumed total return (net of interest expense)				
	(10)%	(5)%	0%	5%	10%
Corresponding return to stockholder (1)	(20.2)%	(11.2)%	(2.3)%	6.7%	15.7%

(1) Assumes \$1.67 billion in total assets and \$489.2 million in total debt outstanding, which reflects our total assets and total debt outstanding as of September 30, 2018, and a cost of funds of 4.27%. Excludes non-leverage related

expenses.

In order for us to cover our annual interest payments on our outstanding indebtedness at September 30, 2018, we must achieve annual returns on our September 30, 2018 total assets of at least 1.3%.

---

**Table of Contents*****Recent legislation allows us to incur additional leverage, which could increase the risk of investing in the Company.***

The 1940 Act had generally been prohibiting us from incurring indebtedness unless immediately after such borrowing we had an asset coverage for total borrowings of at least 200% (i.e., the amount of debt may not exceed 50% of the value of our total assets). However, on March 23, 2018, the Small Business Credit Availability Act (the SBCA ) was signed into law, which included various changes to regulations under the federal securities laws that impact BDCs. The SBCA included changes to the 1940 Act to allow BDCs to decrease their asset coverage requirement from 200% to 150% (i.e. the amount of debt may not exceed 66.7% of the value of our total assets), if certain requirements are met. On August 2, 2018, our board of directors, including a required majority (as such term is defined in Section 57(o) of the 1940 Act) approved the application of the modified asset coverage requirements set forth in Section 61(a)(2) of the 1940 Act, as amended by the SBCA and recommended the submission of a proposal for stockholders to approve the application of the 150% minimum asset coverage ratio to the Company at our annual meeting of stockholders, which was held on October 11, 2018. The stockholder proposal was approved by the required votes of the Company's stockholders at such annual meeting of stockholders, and thus the Company became subject to the 150% minimum asset coverage ratio on October 12, 2018. Changing the asset coverage ratio permits the Company to double its leverage, which results in increased leverage risk and increased expenses.

As a result of the SBCA, and of us obtaining the necessary stockholder approval, we are able to increase our leverage up to an amount that reduces our asset coverage ratio from 200% to 150%. Leverage magnifies the potential for loss on investments in our indebtedness and on invested equity capital. As we use leverage to partially finance our investments, you will experience increased risks of investing in our securities. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged our business. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net investment income to increase more than it would without the leverage, while any decrease in our income would cause net investment income to decline more sharply than it would have had we not borrowed. Such a decline could negatively affect our ability to pay common stock dividends, scheduled debt payments or other payments related to our securities. Leverage is generally considered a speculative investment technique.

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

We did not engage in unregistered sales of securities during the quarter ended September 30, 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 (10)</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 (8)</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 (9)</u>
10.5	<u>Third Amended and Restated Investment Advisory and Management Agreement by and between the Registrant and Solar Capital Partners, LLC (11)</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>
11.1	<u>Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)</u>

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.\*
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.\*

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

<b>Number</b>	<b>Description</b>
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 8-K filed on July 6, 2012.
- (9) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on November 2, 2016.
- (10) 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.
- (11) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on August 6, 2018.

\* 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 November 5, 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)**