

Solar Capital Ltd.
Form 10-Q
November 05, 2018
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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.

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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
Assets		
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
Total assets	\$ 1,665,292	\$ 1,641,565
Liabilities		
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	

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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
Total liabilities	\$ 737,700	\$ 719,960

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
Total net assets	\$ 927,592	\$ 921,605
Net Asset Value Per Share	\$ 21.95	\$ 21.81

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
INVESTMENT INCOME:				
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
EXPENSES:				
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
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:				
Net realized gain (loss) on investments and cash				

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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
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 18,130	\$ 17,163	\$ 57,968	\$ 53,104
EARNINGS PER SHARE (see note 5)	\$ 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)

	Nine months ended September 30, 2018 (unaudited)	Year ended December 31, 2017
Increase in net assets resulting from operations:		
Net investment income	\$ 56,438	\$ 68,363
Net realized gain (loss)	1,237	(12,015)
Net change in unrealized gain	293	14,082
Net increase in net assets resulting from operations	57,968	70,430
Distributions to stockholders:		
From net investment income	(51,981)	(67,612)
Capital transactions (see note 16):		
Reinvestment of distributions		280
Net increase (decrease) in net assets resulting from capital transactions		280
Total increase in net assets	5,987	3,098
Net assets at beginning of period	921,605	918,507
Net assets at end of period (1)	\$ 927,592	\$ 921,605
Capital stock activity (see note 16):		
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)**

	Nine months ended	
	September 30, 2018	September 30, 2017
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 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)	
(Increase) decrease in operating assets:		
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)
Increase (decrease) in operating liabilities:		
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)
Net Cash Provided by (Used in) Operating Activities	163,322	(141,061)
Cash Flows from Financing Activities:		
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

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Repayment of secured borrowings	(510,600)	(467,400)
Net Cash Provided by (Used in) Financing Activities	(104,123)	34,459
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	59,199	(106,602)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	150,789	312,046
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 209,988	\$ 205,444
Supplemental disclosure of cash flow information:		
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
Senior Secured Loans 84.3%									
Bank Debt/Senior Secured Loans									
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

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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

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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
Total Senior Secured Loans								\$ 781,256	\$ 782,143

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

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Productions, (10)(12)							
Commercial Sales Rentals, C (10)(12)	Commercial Services & Supplies	10.00%	9/18/2018	10/1/2021	2,193	2,131	2,131
Equipment Rating Services, LLC (10)(14)	Multi-Sector Holdings	7.53-8.37%	4/27/2018	8/1/22-4/27/2025	33,630	33,630	33,630
Family First Light, C(10)(12)	Road & Rail	9.29-11.52%	7/31/2017	7/2/2019-1/22/2022	970	968	968
Florida CL Technical Services, Inc. (18)	Commercial Services & Supplies	8.77%	3/22/2018	7/13/2023	2,058	2,058	2,058
Georgia Jet, (10)(12)	Airlines	8.00%	12/4/2017	12/4/2021	2,513	2,513	2,513
Telecomm Systems (10)(18)	Wireless Telecommunication Services	12.00%	5/10/2018	5/10/2021	1,739	1,739	1,739
Flat Plains Compression Holdings, LLC (12)	Oil, Gas & Consumable Fuels	9.37-9.93%	3/19/2018	8/1/2019-9/7/19	9,241	9,210	9,210
Joe Coaches A, C(10)(18)	Road & Rail	8.12-9.90%	7/31/2017	7/1/2022-11/17/2022	5,315	5,316	5,316
Key Contracting Company, LLC (12)(13)	Oil, Gas & Consumable Fuels	10.00%	11/15/2017	11/15/2020	4,074	4,074	4,074
Orstate NDT, (10)(18)	Road & Rail	11.32-12.09%	6/11/2018	7/1/2023-10/1/2023	2,536	2,536	2,536
Motorsports, (10)(18)	Road & Rail	13.96%	8/17/2018	1/25/2022	423	420	420
Light Transfer Services, Inc. & Empstr ess, Inc. (18)	Commercial Services & Supplies	12.05-12.76%	7/31/2017	4/11/2020-4/30/2020	605	605	605
Al Pak, LLC (18)	Road & Rail	8.58%	2/5/2018	3/1/2024	757	757	757
Microcorp Enterprises, C(10)(12)	Road & Rail	12.18%	7/31/2017	2/3/2021	3,100	3,100	3,100
Cal Manufacturing, C dba	Paper & Forest Products	12.91-12.98%	7/31/2017	7/30/2022-10/25/2022	1,437	1,437	1,437

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)**

Description	Industry	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
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

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

**Preferred
Equity 1.0%**

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)**

Description	Industry	Acquisition Date	Shares/Units	Cost	Fair Value
Common Equity/Equity Interests/Warrants	34.7%				
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

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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
Total Common Equity/Equity Interests/Warrants				\$ 306,392	\$ 321,616
Total Investments (8) 152.1%				\$ 1,393,139	\$ 1,410,780

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

Name of Issuer	Fair Value at December 31, 2017	Gross Additions	Gross Reductions	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/ Dividend/ Other Income	Fair Value at September 30, 2018
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

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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.

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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)**

Industry Classification	Percentage of Total Investments (at fair value) as of September 30, 2018
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%
Total Investments	100.0%

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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
Senior Secured Loans 83.5%									
<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

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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.

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Description	Industry	Spread Above LIBOR Index (9) Floor	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value	
<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

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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
Total Life Science Senior Secured Loans								\$ 212,915	\$ 212,947
Total Senior Secured Loans								\$ 767,419	\$ 769,101

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)**

Description	Industry	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Equipment Financing							
23.7%							
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

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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)**

Description	Industry	Interest Rate (1)	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
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

					Shares/ Units		
NEF Holdings, LLC Equity Interests (3)(11)(12)	Multi-Sector Holdings		7/31/2017		200	145,000	145,500
Total Equipment Financing						\$ 217,934	\$ 218,583
Preferred Equity							
1.4%							
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
Total Preferred Equity						\$ 11,848	\$ 12,837

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)**

Description	Industry	Acquisition Date	Shares/ Units	Cost	Fair Value
Common Equity/Equity Interests/Warrants					
50.0%					
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

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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**

				Maturity Date	Par Amount		
Cash Equivalents 15.7%							
U.S. Treasury Bill	Government	12/28/2017	2/8/2018	\$ 145,000	\$ 144,826	\$ 144,826	
Total Investments & Cash Equivalents 174.3%					\$ 1,589,093	\$ 1,605,996	
Liabilities in Excess of Other Assets (74.3%)							(684,391)
Net Assets 100.0%							\$ 921,605

(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:

Name of Issuer	Fair Value at December 31, 2016	Gross Additions	Gross Reduction	Realized Gain (Loss)	Change in Unrealized Gain (Loss)	Interest/ Dividend/ Other Income	Fair Value at December 31, 2017
Ark Real Estate Partners LP	\$ 336	\$	\$	\$ (6)	\$ (73)	\$	\$ 263
Ark Real Estate Partners II LP	8				(2)		6
AviatorCap SII, LLC I	497		487			31	10
Crystal Financial LLC	305,000				(1,800)	31,600	303,200
NEF Holdings, LLC		145,000			500	5,898	145,500
RD Holdco Inc. (Rug Doctor, common equity)	13,574				(3,472)		10,102
RD Holdco Inc. (Rug Doctor, class B)	5,216						5,216
RD Holdco Inc. (Rug Doctor, warrants)	168				(133)		35
Rug Doctor LLC	9,111				(92)	1,149	9,111
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)

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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)**

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2017
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.

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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

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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:

- (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.

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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

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(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.

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- (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,

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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.

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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:

Three months ended September 30 **Nine months ended September 30,**