

Solar Capital Ltd.  
Form 10-Q  
November 02, 2016  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarter Ended September 30, 2016

.. **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)

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**Maryland**  
(State of Incorporation)

**26-1381340**  
(I.R.S. Employer

Identification No.)

**500 Park Avenue**

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

**10022**  
(Zip Code)

**(212) 993-1670**

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller Reporting company

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, 2016 was 42,248,525.

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**SOLAR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016**

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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 context states otherwise.

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

(in thousands, except share amounts)

	September 30, 2016 (unaudited)	December 31, 2015
<b>Assets</b>		
Investments at fair value:		
Companies less than 5% owned (cost: \$890,455 and \$926,055, respectively)	\$ 876,797	\$ 886,788
Companies 5% to 25% owned (cost: \$8,511 and \$8,511, respectively)	1,294	1,233
Companies more than 25% owned (cost: \$460,168 and \$410,142, respectively)	483,736	424,570
Total investments (cost: \$1,359,134 and \$1,344,708, respectively)	1,361,827	1,312,591
Cash	3,755	2,587
Cash equivalents (cost: \$289,940 and \$274,983, respectively)	289,940	274,983
Receivable for investments sold	9,368	11,374
Interest receivable	6,736	6,408
Dividends receivable	9,753	8,487
Prepaid expenses and other assets	987	874
<b>Total assets</b>	<b>\$ 1,682,366</b>	<b>\$ 1,617,304</b>
<b>Liabilities</b>		
Revolving credit facilities (see notes 6 and 8)	\$ 217,700	\$ 207,900
Unsecured senior notes (\$100,000 and \$100,000 face amounts, respectively, reported net of unamortized debt issuance costs of \$2,913 and \$2,996, respectively. See note 8)	97,087	97,004
Senior secured notes (see notes 6 and 8)	75,000	75,000
Term loan (see notes 6 and 8)	50,000	50,000
Distributions payable	16,899	16,986
Payable for cash equivalents purchased	289,940	274,983
Management fee payable (see note 3)	7,318	6,523
Performance-based incentive fee payable (see note 3)	4,251	1,408
Administrative services expense payable (see note 3)	2,388	2,324
Interest payable (see note 8)	2,713	1,665
Other liabilities and accrued expenses	1,507	813
<b>Total liabilities</b>	<b>\$ 764,803</b>	<b>\$ 734,606</b>
Commitments and contingencies (see notes 12 and 13)		
<b>Net Assets</b>		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 42,248,525 and 42,464,762 shares issued and outstanding, respectively	\$ 422	\$ 425
Paid-in capital in excess of par	990,586	993,991

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Distributions in excess of net investment income	(12,838)	(15,592)
Accumulated net realized loss	(63,300)	(64,009)
Net unrealized appreciation (depreciation)	2,693	(32,117)
<b>Total net assets</b>	\$ 917,563	\$ 882,698
<b>Net Asset Value Per Share</b>	\$ 21.72	\$ 20.79

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, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>INVESTMENT INCOME:</b>				
Interest:				
Companies less than 5% owned	\$ 29,076	\$ 21,066	\$ 83,375	\$ 56,219
Companies more than 25% owned	429	639	1,437	2,022
Dividends:				
Companies less than 5% owned	1	8	1	10
Companies more than 25% owned	9,852	8,393	29,604	25,329
Other income:				
Companies less than 5% owned	403	334	702	459
Companies more than 25% owned	37	5	81	14
Total investment income	39,798	30,445	115,200	84,053
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 7,318	\$ 6,254	\$ 21,245	\$ 18,155
Performance-based incentive fees (see note 3)	4,251	1,971	13,363	1,971
Interest and other credit facility expenses (see note 8)	8,519	3,875	19,083	11,105
Administrative services expense (see note 3)	1,617	1,245	4,417	3,844
Other general and administrative expenses	1,089	811	3,640	2,308
Total expenses	22,794	14,156	61,748	37,383
Performance-based incentive fees waived (see note 3)		(700)		(700)
Net expenses	22,794	13,456	61,748	36,683
Net investment income	\$ 17,004	\$ 16,989	\$ 53,452	\$ 47,370
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:</b>				
Net realized gain (loss) on investments and cash equivalents:				
Companies less than 5% owned	\$ 469	\$ 151	\$ 507	\$ (5,080)
Companies 5% to 25% owned	301	337	201	(1,063)
Companies more than 25% owned		(373)		(353)
Net realized gain (loss) on investments and cash equivalents	770	115	708	(6,496)
Net realized gain (loss) on foreign currencies	(1)	(42)	1	(45)
Net realized gain (loss)	769	73	709	(6,541)
Net change in unrealized gain (loss) on investments and cash equivalents	7,846	(17,008)	34,810	(12,577)
Net change in unrealized gain (loss) on foreign currencies		32		9

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Net change in unrealized gain (loss)	7,846	(16,976)	34,810	(12,568)
Net realized and unrealized gain (loss) on investments, cash equivalents and foreign currencies	8,615	(16,903)	35,519	(19,109)
<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ 25,619	\$ 86	\$ 88,971	\$ 28,261
<b>EARNINGS PER SHARE (see note 5)</b>	\$ 0.61	\$ 0.00	\$ 2.11	\$ 0.67

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, 2016 (unaudited)	Year ended December 31, 2015
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 53,452	\$ 64,356
Net realized gain (loss)	709	(4,874)
Net change in unrealized gain (loss)	34,810	(45,402)
<b>Net increase in net assets resulting from operations</b>	<b>88,971</b>	<b>14,080</b>
<b>Distributions to stockholders:</b>		
From net investment income	(50,698)	(67,944)
<b>Capital transactions:</b>		
Repurchases of common stock	(3,408)	(6)
<b>Net decrease in net assets resulting from capital transactions</b>	<b>(3,408)</b>	<b>(6)</b>
<b>Total increase (decrease) in net assets</b>	<b>34,865</b>	<b>(53,870)</b>
Net assets at beginning of period	882,698	936,568
<b>Net assets at end of period<sup>(1)</sup></b>	<b>\$ 917,563</b>	<b>\$ 882,698</b>
<b>Capital stock activity:</b>		
Common stock repurchased	(216,237)	(400)
<b>Net decrease from capital stock activity</b>	<b>(216,237)</b>	<b>(400)</b>

(1) Includes overdistributed net investment income of (\$12,838) and (\$15,592), 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, 2016	September 30, 2015
<b>Cash Flows from Operating Activities:</b>		
<b>Net increase in net assets resulting from operations</b>	\$ 88,971	\$ 28,261
Adjustments to reconcile net increase in net assets resulting from operations to net cash used in operating activities:		
Net realized (gain) loss on investments and cash equivalents	(708)	6,496
Net realized (gain) loss on foreign currencies	(1)	45
Net change in unrealized (gain) loss on investments and cash equivalents	(34,810)	12,577
Net change in unrealized gain on foreign currencies		(9)
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(372,727)	(320,568)
Proceeds from disposition of investments	358,767	115,889
Capitalization of payment-in-kind interest		(380)
Collections of payment-in-kind interest	243	
Receivable for investments sold	2,006	603
Interest receivable	(328)	(4,947)
Dividends receivable	(1,266)	16
Prepaid expenses and other assets	(113)	(44)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments and cash equivalents purchased	14,957	(67,996)
Management fee payable	795	145
Performance-based incentive fee payable	2,843	(2,927)
Administrative services expense payable	64	(660)
Interest payable	1,048	1,186
Other liabilities and accrued expenses	694	210
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>60,435</b>	<b>(232,103)</b>
<b>Cash Flows from Financing Activities:</b>		
Cash distributions paid	(50,785)	(50,959)
Deferred financing costs	83	29
Repurchase of common stock	(3,408)	
Proceeds from borrowings	570,000	145,200
Repayment of borrowings	(560,200)	(71,800)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(44,310)</b>	<b>22,470</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16,125</b>	<b>(209,633)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>277,570</b>	<b>635,340</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 293,695</b>	<b>\$ 425,707</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 18,035	\$ 9,919

See notes to consolidated financial statements.



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

September 30, 2016

(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index <sup>(10)</sup>	LIBOR Floor	Interest Rate <sup>(1)</sup>	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans 94.0%</b>									
AccentCare, Inc.	Health Care Providers & Services	L+950	1.00%	10.50%	9/3/2015	9/3/2022	\$ 17,500	\$ 17,227	\$ 17,325
Achaogen, Inc.	Pharmaceuticals	L+699	1.00%	7.99%	8/5/2015	8/5/2019	25,000	25,156	24,750
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021	29,000	28,720	25,375
AgaMatrix, Inc.	Health Care Equipment & Supplies	L+835		8.87%	2/6/2015	2/1/2019	9,667	9,665	9,618
AirXpanders, Inc. (6)	Health Care Equipment & Supplies			7.34%	4/22/2016	7/14/2017	1,375	1,344	1,402
American Teleconferencing Services, Ltd. (PGI)	Communications Equipment	L+650	1.00%	7.50%	5/5/2016	12/8/2021	5,664	5,127	5,537
Amerilife Group, LLC	Insurance	L+875	1.00%	9.75%	7/9/2015	1/10/2023	15,000	14,735	14,700
Argo Turboserve Corporation & Argo Tech, LLC	Air Freight & Logistics	L+1025		11.09%	5/2/2014	5/2/2018	12,730	12,730	12,603
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021	8,960	8,671	8,934
AviatorCap SII, LLC I <sup>(3)</sup>	Aerospace & Defense			12.00%	5/31/2011	1/31/2019	605	605	605
AviatorCap SII, LLC II <sup>(3)</sup>	Aerospace & Defense			11.00%	8/23/2011	1/31/2019	13	13	13
Axcella Health Inc.	Pharmaceuticals	L+880		9.32%	8/7/2015	8/31/2019	20,000	20,093	20,000
Bishop Lifting Products, Inc. <sup>(8)</sup>	Trading Companies & Distributors	L+800	1.00%	9.00%	3/24/2014	3/27/2022	25,000	24,819	20,000
Breathe Technologies, Inc.	Health Care Equipment & Supplies	L+830		8.82%	11/5/2015	11/5/2019	15,000	15,030	13,500
CardioDx, Inc.	Health Care Providers & Services	P+670		10.20%	6/18/2015	4/1/2019	7,500	7,597	7,275
Cardiva Medical, Inc.	Health Care Equipment & Supplies	L+870		9.22%	8/19/2015	8/19/2019	8,500	8,618	8,415
CAS Medical Systems, Inc.	Health Care Equipment & Supplies	L+875		9.27%	6/30/2016	7/1/2020	6,000	5,982	6,000
Cerapedics, Inc.	Health Care Equipment & Supplies			8.68- 8.78%	4/22/2016	3/1/2019	7,013	6,707	7,013
Cianna Medical, Inc.	Health Care Equipment & Supplies	L+900		9.52%	9/28/2016	9/28/2020	6,000	5,963	5,963
Clinical Ink, Inc.	Health Care Technology	L+850	0.70%	9.20%	3/8/2016	3/8/2020	6,500	6,472	6,435
Conventus Orthopaedics, Inc.	Health Care Equipment & Supplies	L+865		9.17%	6/15/2016	6/1/2020	5,250	5,159	5,171
Datapipe, Inc.	IT Services	L+800	1.00%	9.00%	8/14/2014	9/15/2019	27,000	26,599	26,595
Delphinus Medical Technologies, Inc.	Health Care Equipment & Supplies			9.25-9.30%	4/22/2016	2/23/2017	1,000	989	1,020
	Multiline Retail			12.00% PIK	11/5/2012	10/31/2019	10,782	8,511	1,294

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Direct Buy Inc. <sup>(4)**</sup>										
DISA Holdings Acquisition										
Subsidiary Corp	Professional Services	L+850	1.00%	9.50%	12/9/2014	6/9/2021		51,476	50,873	49,932
Easyfinancial Services, Inc. <sup>(5)(6)</sup>	Consumer Finance	BA+699	1.00%	7.99%	9/27/2012	10/4/2019	C\$	10,000	9,261	7,586
Emerging Markets Communications, LLC	Wireless Telecommunication Services	L+962.5	1.00%	10.63%	6/29/2015	7/1/2022	\$	27,000	26,646	27,000
Entegriion, Inc.	Health Care Equipment & Supplies			10.03%	4/22/2016	4/1/2017		700	687	707
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	7.75%	12/7/2015	12/14/2021		3,915	3,862	3,915
Genoa, A QoL Healthcare Company, LLC	Health Care Providers & Services	L+775	1.00%	8.75%	4/21/2015	4/30/2023		14,000	13,878	14,000
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020		7,349	5,915	7,137
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020		18,500	18,253	17,613
Greystone Select Holdings LLC & Greystone & Co., Inc.	Thrifths & Mortgage Finance	L+800	1.00%	9.00%	3/25/2014	3/26/2021		9,704	9,665	9,558
Hyland Software, Inc.	Software	L+725	1.00%	8.25%	6/12/2015	6/30/2023		5,000	4,978	4,963
IHS Intermediate, Inc.	Health Care Providers & Services	L+825	1.00%	9.25%	6/19/2015	7/20/2022		25,000	24,564	24,000
Inmar Acquisition Sub, Inc.	Professional Services	L+700	1.00%	8.00%	1/27/2014	1/27/2022		10,000	9,926	9,925
K2 Pure Solutions NoCal, L.P	Chemicals	L+900	1.00%	10.00%	8/19/2013	8/19/2019		7,475	7,392	7,326
Kore Wireless Group, Inc.	Wireless Telecommunication Services	L+825	1.00%	9.25%	9/12/2014	3/12/2021		55,500	54,666	54,945
LegalZoom.com, Inc.	Internet Software & Services	L+700	1.00%	8.00%	5/13/2015	5/13/2020		38,278	37,620	38,661
Lumeris Solutions Company, LLC	Health Care Technology			9.42%	4/22/2016	12/27/2017		9,981	10,051	10,081
Mitralign, Inc.	Health Care Equipment & Supplies			9.48%	4/22/2016	12/1/2018		1,875	1,788	1,866
Nabsys 2.0 LLC	Life Sciences Tools & Services			8.90%	4/22/2016	10/13/2018		5,524	5,318	5,524
OraMetrix, Inc.	Health Care Technology			9.50%	4/22/2016	11/21/2017		7,000	6,740	6,930
PhyMed Management LLC	Health Care Providers & Services	L+875	1.00%	9.75%	12/18/2015	5/18/2021		32,321	31,174	31,189
PQ Bypass, Inc.	Health Care Equipment & Supplies	L+885		9.37%	4/21/2016	4/21/2020		5,000	4,913	4,925
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/2015	11/25/2021		1,017	1,009	1,017
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+839	1.00%	9.39%	11/25/2015	11/25/2021		8,900	8,741	8,744
Rapid Micro Biosystems, Inc.	Life Sciences Tools & Services	L+880		9.32%	6/30/2015	6/30/2019		16,000	16,257	15,760
Rug Doctor LLC <sup>(3)</sup>	Diversified Consumer Services	L+975	1.50%	11.25%	12/23/2013	12/31/2018		9,111	8,904	9,111
Salient Partners, L.P	Asset Management	L+850	1.00%	9.50%	6/10/2015	6/9/2021		15,307	15,054	15,001
Scynexis, Inc.	Pharmaceuticals	L+849		9.01%	9/30/2016	9/30/2020		15,000	14,745	14,745
SOINT, LLC <sup>(3)</sup>	Aerospace & Defense			15.00%	6/8/2012	11/30/2018		3,213	3,204	3,213
Southern Auto Finance Company <sup>(6)</sup>	Consumer Finance			11.15%	10/19/2011	12/4/2018		25,000	24,794	24,750
Sunesis Pharmaceuticals, Inc.	Pharmaceuticals	L+854		9.06%	3/31/2016	4/1/2020		7,500	7,370	7,462
Syngen, Inc.	Life Sciences Tools & Services			11.18%	4/22/2016	6/1/2017		225	222	232
T2 Biosystems, Inc.	Health Care Equipment & Supplies	L+705		7.57%	7/11/2014	7/1/2019		23,611	23,919	23,611
TierPoint, LLC	IT Services	L+875-887.5	1.00%	9.75-9.88%	12/2/2014	12/2/2022		34,000	33,643	33,082
	Trading Companies and Distributors	L+750	1.00%	8.50%	9/26/2014	10/1/2022		20,000	19,838	20,000

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TMK Hawk Parent, Corp. (TriMark)										
TouchTunes Interactive Networks, Inc.	Media	L+825	1.00%	9.25%	5/28/2015	5/27/2022	14,000	13,820	13,685	
Trevi Therapeutics, Inc.	Pharmaceuticals	L+775		8.27%	12/29/2014	6/29/2018	6,875	7,016	6,875	
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+925	1.00%	10.25%	9/24/2014	9/24/2020	30,000	29,783	29,700	
Varilease Finance, Inc.	Multi-Sector Holdings	L+825	1.00%	9.25%	8/22/2014	8/24/2020	48,000	47,371	47,760	