

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

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter Ended March 31, 2017

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 814-00754

SOLAR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

Maryland
(State of Incorporation)

26-1381340
(I.R.S. Employer
Identification No.)

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

10022
(Zip Code)

(212) 993-1670
(Registrant's telephone number, including area code)

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

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

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

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

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

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of May 1, 2017 was 42,260,826.

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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)

	March 31, 2017 (unaudited)	December 31, 2016
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: \$835,590 and \$815,955, respectively)	\$ 825,238	\$ 804,783
Companies 5% to 25% owned (cost: \$8,511 and \$8,511, respectively)	—	777
Companies more than 25% owned (cost: \$476,317 and \$477,491, respectively)	498,257	499,218
Total investments (cost: \$1,320,418 and \$1,301,957, respectively)	1,323,495	1,304,778
Cash	24,132	2,152
Cash equivalents (cost: \$399,808 and \$309,894, respectively)	399,808	309,894
Receivable for investments sold	17,526	13,602
Interest receivable	5,898	8,079
Dividends receivable	11,594	10,952
Other receivable	55	54
Prepaid expenses and other assets	1,404	1,036
Total assets	\$ 1,783,912	\$1,650,547
Liabilities		
Revolving credit facilities (see notes 6 and 8)	\$ —	\$ 115,200
Unsecured senior notes due 2022 (see notes 6 and 8)	150,000	50,000
Unsecured senior notes due 2042 (\$100,000 and \$100,000 face amounts, respectively, reported net of unamortized debt issuance costs of \$2,859 and \$2,886, respectively. See note 8)	97,141	97,114
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	16,899
Payable for investments and cash equivalents purchased	459,980	309,894
Management fee payable (see note 3)	6,719	6,870
Performance-based incentive fee payable (see note 3)	4,083	4,412
Interest payable (see note 8)	4,059	2,225
Administrative services expense payable (see note 3)	437	3,289
Other liabilities and accrued expenses	828	1,137
Total liabilities	\$ 865,146	\$ 732,040
Commitments and contingencies (see notes 12, 13 & 14)		
Net Assets		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 42,248,525 and 42,248,525 shares issued and outstanding, respectively	\$ 422	\$ 422
Paid-in capital in excess of par	989,732	989,732
Distributions in excess of net investment income	(12,416)	(11,847)
Accumulated net realized loss	(62,049)	(62,621)
Net unrealized appreciation	3,077	2,821
Total net assets	\$ 918,766	\$ 918,507
Net Asset Value Per Share	\$ 21.75	\$ 21.74

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(in thousands, except share amounts)

	Three months ended	
	March 31,	March 31,
	2017	2016
INVESTMENT INCOME:		
Interest:		
Companies less than 5% owned	\$21,818	\$23,597
Companies more than 25% owned	334	531
Dividends:		
Companies less than 5% owned	10	—
Companies more than 25% owned	11,678	9,886
Other income:		
Companies less than 5% owned	492	—
Companies more than 25% owned	60	19
Total investment income	<u>34,392</u>	<u>34,033</u>
EXPENSES:		
Management fees (see note 3)	\$ 6,719	\$ 6,748
Performance-based incentive fees (see note 3)	4,083	4,030
Interest and other credit facility expenses (see note 8)	5,669	5,021
Administrative services expense (see note 3)	1,335	1,319
Other general and administrative expenses	256	795
Total expenses	<u>18,062</u>	<u>17,913</u>
Performance-based incentive fees waived (see note 3)	—	(795)
Net expenses	<u>18,062</u>	<u>17,118</u>
Net investment income	<u>\$16,330</u>	<u>\$16,915</u>
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:		
Net realized gain (loss) on investments and cash equivalents:		
Companies less than 5% owned	\$ 588	\$ —
Companies 5% to 25% owned	(15)	—
Net realized gain on investments and cash equivalents	<u>573</u>	<u>—</u>
Net realized gain (loss) on foreign currencies	(1)	1
Net realized gain	<u>572</u>	<u>1</u>
Net change in unrealized gain (loss) on investments and cash equivalents	256	11,260
Net change in unrealized gain (loss) on foreign currencies	—	1
Net change in unrealized gain (loss)	<u>256</u>	<u>11,261</u>
Net realized and unrealized gain (loss) on investments, cash equivalents and foreign currencies	<u>828</u>	<u>11,262</u>
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	<u>\$17,158</u>	<u>\$28,177</u>
EARNINGS PER SHARE (see note 5)	<u>\$ 0.41</u>	<u>\$ 0.67</u>

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(in thousands, except share amounts)

	Three months ended March 31, 2017 (unaudited)	Year ended December 31, 2016
Increase in net assets resulting from operations:		
Net investment income	\$ 16,330	\$ 71,101
Net realized gain	572	776
Net change in unrealized gain	256	34,938
Net increase in net assets resulting from operations	<u>17,158</u>	<u>106,815</u>
Distributions to stockholders:		
From net investment income	<u>(16,899)</u>	<u>(67,598)</u>
Capital transactions (see note 16):		
Repurchases of common stock	<u>—</u>	<u>(3,408)</u>
Net decrease in net assets resulting from capital transactions	<u>—</u>	<u>(3,408)</u>
Total increase in net assets	259	35,809
Net assets at beginning of period	918,507	882,698
Net assets at end of period ⁽¹⁾	<u>\$ 918,766</u>	<u>\$ 918,507</u>
Capital stock activity:		
Common stock repurchased	<u>—</u>	<u>(216,237)</u>
Net decrease from capital stock activity	<u>—</u>	<u>(216,237)</u>

(1) Includes overdistributed net investment income of (\$12,416) and (\$11,847), respectively.

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(in thousands)

	Three months ended	
	March 31, 2017	March 31, 2016
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 17,158	\$ 28,177
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	(573)	—
Net realized (gain) loss on foreign currencies	1	(1)
Net change in unrealized (gain) loss on investments and cash equivalents	(256)	(11,260)
Net change in unrealized gain on foreign currencies	—	(1)
(Increase) decrease in operating assets:		
Purchase of investments	(101,369)	(43,861)
Proceeds from disposition of investments	83,347	29,862
Capitalization of payment-in-kind interest	(40)	—
Collections of payment-in-kind interest	173	—
Receivable for investments sold	(3,924)	533
Interest receivable	2,181	(1,760)
Dividends receivable	(642)	(1,271)
Other receivable	(1)	(11)
Prepaid expenses and other assets	(368)	(444)
Increase (decrease) in operating liabilities:		
Payable for investments and cash equivalents purchased	150,086	(2,534)
Management fee payable	(151)	225
Performance-based incentive fee payable	(329)	1,827
Administrative services expense payable	(2,852)	(2,090)
Interest payable	1,834	1,428
Other liabilities and accrued expenses	(309)	164
Net Cash Provided by (Used in) Operating Activities	<u>143,966</u>	<u>(1,017)</u>
Cash Flows from Financing Activities:		
Cash distributions paid	(16,899)	(16,986)
Proceeds from issuance of unsecured debt	100,000	—
Deferred financing costs	27	28
Repurchase of common stock	—	(3,408)
Proceeds from secured borrowings	97,500	114,000
Repayment of secured borrowings	(212,700)	(99,500)
Net Cash Used in Financing Activities	<u>(32,072)</u>	<u>(5,866)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	111,894	(6,883)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	312,046	277,570
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 423,940</u>	<u>\$ 270,687</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 3,835	\$ 3,593

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)
March 31, 2017
(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index ⁽¹⁰⁾	LIBOR Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans — 87.8%									
AccentCare, Inc	Health Care Providers & Services	L+950	1.00%	10.50%	9/3/2015	9/3/2022	\$ 10,000	\$ 9,854	\$ 9,725
Achaogen, Inc. ⁽⁶⁾	Pharmaceuticals	L+699	1.00%	7.99%	8/5/2015	8/5/2019	25,000	25,433	25,925
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	L+850	1.00%	9.66%	2/20/2014	8/24/2021	31,000	30,543	27,900
AgaMatrix, Inc	Health Care Equipment & Supplies	L+835	—	9.13%	2/6/2015	2/1/2019	7,667	7,760	7,782
AirXpanders, Inc.	Health Care Equipment & Supplies	—	—	7.34%	4/22/2016	7/14/2017	625	673	663
American Teleconferencing Services, Ltd. (PGI)	Communications Equipment	L+650	1.00%	7.50%	5/5/2016	12/8/2021	22,518	21,865	22,406
Amerilife Group, LLC	Insurance	L+875	1.00%	9.75%	7/9/2015	1/10/2023	15,000	14,750	14,700
Argo Turboserve Corporation & Argo Tech, LLC††	Air Freight & Logistics	L+1225 ⁽¹¹⁾	—	13.31%	5/2/2014	5/2/2018	12,077	11,985	11,987
aTyr Pharma, Inc	Pharmaceuticals	P+410	—	7.85%	11/18/2016	11/18/2020	5,000	4,929	4,950
AviatorCap SII, LLC I ⁽³⁾	Aerospace & Defense	—	—	12.00%	5/31/2011	1/31/2019	383	383	383
Axcella Health Inc	Pharmaceuticals	L+880	—	9.58%	8/7/2015	8/31/2019	20,000	20,361	20,350
Bishop Lifting Products, Inc. ⁽⁸⁾	Trading Companies & Distributors	L+800	1.00%	9.00%	3/24/2014	3/27/2022	25,000	24,834	21,000
Breathe Technologies, Inc	Health Care Equipment & Supplies	L+830	—	9.08%	11/5/2015	11/5/2019	15,000	15,145	13,500
CardioDx, Inc	Health Care Providers & Services	P+670	—	10.70%	6/18/2015	4/1/2019	6,250	6,550	6,250
CardioFocus, Inc	Health Care Equipment & Supplies	L+750	—	8.48%	3/31/2017	7/1/2020	4,300	4,237	4,237
Cardiva Medical, Inc	Health Care Equipment & Supplies	L+865	—	9.43%	2/2/2017	2/2/2021	6,000	6,021	6,000
CAS Medical Systems, Inc	Health Care Equipment & Supplies	L+875	—	9.53%	6/30/2016	7/1/2020	6,000	6,022	6,000
Cianna Medical, Inc	Health Care Equipment & Supplies	L+900	—	9.78%	9/28/2016	9/28/2020	6,000	6,012	6,000
Clinical Ink, Inc	Health Care Technology	L+850	0.70%	9.28%	3/8/2016	3/8/2020	6,500	6,507	6,435
Conventus Orthopaedics, Inc	Health Care Equipment & Supplies	L+865	—	9.46%	6/15/2016	6/1/2020	5,250	5,205	5,092
Datapipe, Inc	IT Services	L+800	1.00%	9.00%	8/14/2014	9/15/2019	27,000	26,659	26,932
Direct Buy Inc. ^{(4)**††}	Multiline Retail	—	—	12.00% PIK	11/5/2012	10/31/2019	11,439	8,511	—
DISA Holdings Acquisition Subsidiary Corp	Professional Services	L+850	1.00%	9.50%	12/9/2014	6/9/2021	51,476	50,925	50,961
Easyfinancial Services, Inc. ⁽⁵⁾⁽⁶⁾	Consumer Finance	BA+699	1.00%	7.99%	9/27/2012	10/4/2019	C\$ 10,000	9,261	7,491
Entegron, Inc	Health Care Equipment & Supplies	—	—	10.03%	4/22/2016	4/1/2017	\$ 100	128	104
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	7.75%	12/7/2015	12/14/2021	10,139	10,091	10,139
Global Holdings LLC & Payment Concepts LLC	Consumer Finance	L+650	1.00%	7.50%	3/31/2017	5/3/2022	17,500	17,150	17,150
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	7,307	6,043	7,306
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	18,500	18,278	18,454
Greystone Select Holdings LLC & Greystone & Co., Inc.	Thrifts & Mortgage Finance	L+800	1.00%	9.00%	3/29/2017	4/17/2024	20,000	19,800	19,800
IHS Intermediate, Inc	Health Care Providers & Services	L+825	1.00%	9.25%	6/19/2015	7/20/2022	25,000	24,593	24,125
Inmar Acquisition Sub, Inc	Professional Services	L+700	1.00%	8.15%	1/27/2014	1/27/2022	10,000	9,932	10,000
Island Medical Management Holdings, LLC	Health Care Providers & Services	L+550	1.00%	6.50%	3/31/2017	9/1/2022	4,638	4,592	4,592
K2 Pure Solutions NoCal, L.P	Chemicals	L+900	1.00%	10.00%	8/19/2013	2/19/2021	7,475	7,383	7,251
Kore Wireless Group, Inc	Wireless Telecommunication Services	L+825	1.00%	9.25%	9/12/2014	3/12/2021	55,500	54,742	55,084
Lumeris Solutions Company, LLC	Health Care Technology	L+860	0.25%	9.58%	3/22/2017	2/1/2020	16,000	15,882	15,873
Mitralign, Inc	Health Care Equipment & Supplies	—	—	9.48%	4/22/2016	12/1/2018	1,458	1,416	1,451
Nabsys 2.0 LLC	Life Sciences Tools & Services	—	—	8.90%	4/22/2016	10/13/2018	4,373	4,395	4,439
PhyMed Management LLC	Health Care Providers & Services	L+875	1.00%	9.75%	12/18/2015	5/18/2021	32,321	31,272	31,190
PQ Bypass, Inc.	Health Care Equipment & Supplies	L+885	—	9.63%	4/21/2016	4/21/2020	5,000	4,952	4,975
Rapid Micro Biosystems, Inc.	Life Sciences Tools & Services	L+880	—	9.58%	6/30/2015	6/30/2019	16,000	16,401	15,760
Rug Doctor LLC ⁽³⁾	Diversified Consumer Services	L+975	1.50%	11.25%	12/23/2013	12/31/2018	9,111	8,950	9,111
Salient Partners, L.P	Asset Management	L+850	1.00%	9.52%	6/10/2015	6/9/2021	14,580	14,361	14,361
Scynexis, Inc	Pharmaceuticals	L+849	—	9.30%	9/30/2016	9/30/2020	15,000	14,865	14,850
SentreHeart, Inc	Health Care Equipment & Supplies	L+885	—	9.63%	11/15/2016	11/15/2020	10,000	9,824	9,799
SOINT, LLC ⁽³⁾	Aerospace & Defense	—	—	15.00%	6/8/2012	11/30/2018	820	818	820
Southern Auto Finance Company ⁽⁶⁾	Consumer Finance	—	—	11.50%	10/19/2011	12/4/2018	25,000	24,836	24,500
Sunesis Pharmaceuticals, Inc.	Pharmaceuticals	L+854	—	9.35%	3/31/2016	4/1/2020	7,500	7,425	7,481
TierPoint, LLC	IT Services	L+875-887.5	1.00%	9.75-9.88%	12/2/2014	12/2/2022	34,000	33,669	34,000
TMK Hawk Parent, Corp. (TriMark)	Trading Companies and Distributors	L+750	1.00%	8.50%	9/26/2014	10/1/2022	20,000	19,848	20,000
TouchTunes Interactive Networks, Inc	Media	L+825	1.00%	9.35%	5/28/2015	5/27/2022	14,000	13,832	13,825
Trevi Therapeutics, Inc	Pharmaceuticals	L+775	—	8.53%	12/29/2014	6/29/2018	5,500	5,737	5,555
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+925	1.00%	10.25%	9/24/2014	9/24/2020	30,000	29,806	29,775
Vapotherm, Inc	Health Care Equipment & Supplies	L+899	—	9.77%	11/16/2016	5/16/2021	20,000	19,855	19,800
Varilease Finance, Inc	Multi-Sector Holdings	L+825	1.00%	9.25%	8/22/2014	8/24/2020	48,000	47,439	48,000
Total Bank Debt/Senior Secured Loans								\$822,740	\$806,239
Subordinated Debt/Corporate Notes — 3.1%									
Aleagus Technologies Holdings Corp	Health Care Technology	L+1200	1.00%	13.00%	6/24/2012	2/15/2019	\$ 28,200	\$ 27,965	\$ 28,200
							Shares/Units		
Preferred Equity — 1.6%									
SOAGG LLC ⁽³⁾⁽⁶⁾⁽⁷⁾	Aerospace & Defense	—	—	8.00%	12/14/2010	6/30/2018	5,295	\$ 5,295	\$ 5,571
SOINT, LLC ⁽³⁾⁽⁶⁾⁽⁷⁾	Aerospace & Defense	—	—	15.00%	6/8/2012	6/30/2018	86,667	8,667	9,100
Total Preferred Equity								\$ 13,962	\$ 14,671

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share/unit amounts)

Description	Industry	Acquisition Date	Maturity Date	Shares/Units	Cost	Fair Value
Common Equity/Equity Interests/Warrants — 51.6%						
Ark Real Estate Partners LP ^{(2)(3)*}	Diversified Real Estate Activities	3/12/2007		—	\$ 527	\$ 336
Ark Real Estate Partners II LP ^{(2)(3)*}	Diversified Real Estate Activities	10/23/2012		—	12	8
aTyr Pharma, Inc. Warrants*	Pharmaceuticals	11/18/2016		47,771	70	50
B Riley Financial Inc. ⁽⁶⁾	Research & Consulting Services	3/16/2007		38,015	2,684	570
CardioDx, Inc. Warrants*	Health Care Providers & Services	6/18/2015		39,863	129	—
CardoFocus, Inc. Warrants*	Health Care Equipment & Supplies	3/31/2017		357,643	42	42
CAS Medical Systems, Inc. Warrants*	Health Care Equipment & Supplies	6/30/2016		48,491	38	14
Cianna Medical, Inc. Warrants*	Health Care Equipment & Supplies	9/28/2016		89,726	37	38
Conventus Orthopaedics, Inc. Warrants*	Health Care Equipment & Supplies	6/15/2016		157,500	65	49
Crystal Financial LLC ⁽³⁾⁽⁶⁾	Diversified Financial Services	12/28/2012		280,303	280,737	305,700
Direct Buy Inc. ^{(4)*}	Multiline Retail	11/5/2012		76,999	—	—
Essence Group Holdings Corporation (Lumeris) Warrants*	Health Care Technology	3/22/2017		208,000	63	56
PQ Bypass, Inc. Warrants*	Health Care Equipment & Supplies	4/21/2016		176,471	70	46
RD Holdco Inc. (Rug Doctor) ^{(3)*}	Diversified Consumer Services	12/23/2013		231,177	15,683	12,566
RD Holdco Inc. (Rug Doctor) Class B ^{(3)*}	Diversified Consumer Services	12/23/2013		522	5,216	5,216
RD Holdco Inc. (Rug Doctor) Warrants ^{(3)*}	Diversified Consumer Services	12/23/2013		30,370	381	121
Scynexis, Inc. Warrants*	Pharmaceuticals	9/30/2016		122,435	105	27
Senior Secured Unitranche Loan Program LLC ⁽³⁾⁽⁶⁾	Asset Management	11/25/2015		—	101,878	100,781
Senior Secured Unitranche Loan Program II LLC ⁽³⁾⁽⁶⁾	Asset Management	8/5/2016		—	47,770	48,544
SentireHeart, Inc. Warrants*	Health Care Equipment & Supplies	11/15/2016		261,825	126	95
Sunesis Pharmaceuticals, Inc. Warrants*	Pharmaceuticals	3/31/2016		104,001	118	126
Total Common Equity/Equity Interests/Warrants					\$ 455,751	\$ 474,385
Total Investments⁽⁹⁾ — 144.1%					\$1,320,418	\$1,323,495

Par Amount						
Cash Equivalents — 43.5%						
U.S. Treasury Bill	Government	3/30/2017	4/27/2017	\$ 400,000	\$ 399,808	\$ 399,808
Total Investments & Cash Equivalents — 187.6%					\$1,720,226	\$1,723,303
Liabilities in Excess of Other Assets — (87.6%)						(804,537)
Net Assets — 100.0%						\$ 918,766

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

Name of Issuer	Fair Value at December 31, 2016	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/Dividend/Other Income	Fair Value at March 31, 2017
ARK Real Estate Partners LP	\$ 336	\$ —	\$ —	\$ —	\$ —	\$ 336
ARK Real Estate Partners II LP	8	—	—	—	—	8
AviatorCap SII, LLC I	497	—	114	—	13	383
Crystal Financial LLC	305,000	—	—	—	7,900	305,700
RD Holdco Inc. (Rug Doctor, common equity)	13,574	—	—	—	—	12,566
RD Holdco Inc. (Rug Doctor, class B)	5,216	—	—	—	—	5,216
RD Holdco Inc. (Rug Doctor, warrants)	168	—	—	—	—	121
Rug Doctor LLC	9,111	—	—	—	284	9,111
Senior Secured Unitranche Loan Program LLC	100,653	—	—	—	2,181	100,781
Senior Secured Unitranche Loan Program II LLC	47,363	807	—	—	1,224	48,544
SOAGG LLC	5,806	—	327	—	108	5,571
SOINT, LLC	2,386	—	1,567	—	42	820
SOINT, LLC (preferred equity)	9,100	—	—	—	320	9,100
	<u>\$ 499,218</u>	<u>\$ 807</u>	<u>\$ 2,008</u>	<u>\$ —</u>	<u>\$ 12,072</u>	<u>\$ 498,257</u>

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

Name of Issuer	Fair Value at December 31, 2016	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/Dividend/Other Income	Fair Value at March 31, 2017
Direct Buy Inc. (common equity)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Direct Buy Inc. (senior secured loan)	777	333	—	—	—	—
DSW Group Holdings LLC	—	—	—	(15)†	—	—
	<u>\$ 777</u>	<u>\$ 333</u>	<u>\$ —</u>	<u>\$ (15)</u>	<u>\$ —</u>	<u>\$ —</u>

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)
March 31, 2017
(in thousands)

- (5) The following entity is domiciled outside the United States and the investments are denominated in Canadian Dollars: Easyfinancial Services, Inc. in Canada.
- (6) Indicates assets that the Company believes may not represent “qualifying assets” under Section 55(a) of the Investment Company Act of 1940 (“1940 Act”), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of March 31, 2017, on a fair value basis, non-qualifying assets in the portfolio represented 29.3% of the total assets of the Company.
- (7) Solar Capital Ltd.’s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (8) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
- (9) Aggregate net unrealized depreciation for U.S. federal income tax purposes is \$5,094; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$28,311 and \$33,405, respectively, based on a tax cost of \$1,328,589. All of the Company’s investments are pledged as collateral against the borrowings outstanding on the revolving credit facilities.
- (10) 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.
- (11) Spread is 10.25% Cash / 2.00% PIK.
- * Non-income producing security.
- ** Investment is on non-accrual status.
- † Represents estimated change in receivable balance.
- †† Investment contains a payment-in-kind (“PIK”) feature.

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of March 31, 2017</u>
Diversified Financial Services	23.1%
Asset Management	12.4%
Health Care Providers & Services	10.1%
Health Care Equipment & Supplies	6.5%
Pharmaceuticals	6.0%
Professional Services	4.6%
IT Services	4.6%
Wireless Telecommunication Services	4.2%
Health Care Technology	3.8%
Consumer Finance	3.7%
Communications Equipment	3.6%
Multi-Sector Holdings	3.6%
Trading Companies & Distributors	3.1%
Diversified Consumer Services	2.1%
Life Sciences Tools & Services	1.5%
Thrifts & Mortgage Finance	1.5%
Chemicals	1.3%
Aerospace & Defense	1.2%
Insurance	1.1%
Media	1.0%
Air Freight & Logistics	0.9%
Research & Consulting Services	0.1%
Diversified Real Estate Activities	0.0%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS
December 31, 2016
(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index ⁽¹⁰⁾	LIBOR Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans — 85.8%									
AccentCare, Inc	Health Care Providers & Services	L+950	1.00%	10.50%	9/3/2015	9/3/2022	\$ 17,500	\$ 17,235	\$ 17,369
Achaogen, Inc. ⁽⁶⁾	Pharmaceuticals	L+699	1.00%	7.99%	8/5/2015	8/5/2019	25,000	25,297	25,625
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021	29,000	28,731	27,115
AgaMatrix, Inc	Health Care Equipment & Supplies	L+835	—	9.00%	2/6/2015	2/1/2019	8,667	8,708	8,753
AirXpanders, Inc.	Health Care Equipment & Supplies	—	—	7.34%	4/22/2016	7/14/2017	1,000	1,015	1,025
American Teleconferencing Services, Ltd. (PGI)	Communications Equipment	L+650	1.00%	7.50%	5/5/2016	12/8/2021	5,591	5,081	5,437
Amerilife Group, LLC	Insurance	L+875	1.00%	9.75%	7/9/2015	1/10/2023	15,000	14,742	14,700
Argo Turboserve Corporation & Argo Tech, LLC	Air Freight & Logistics	L+1025	—	11.19%	5/2/2014	5/2/2018	12,330	12,330	12,206
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021	3,360	3,140	3,422
aTyr Pharma, Inc	Pharmaceuticals	P+410	—	7.60%	11/18/2016	11/18/2020	5,000	4,896	4,880
AviatorCap SII, LLC I ⁽³⁾	Aerospace & Defense	—	—	12.00%	5/31/2011	1/31/2019	497	497	497
Axcella Health Inc	Pharmaceuticals	L+880	—	9.41%	8/7/2015	8/31/2019	20,000	20,151	20,100
Bishop Lifting Products, Inc. ⁽⁸⁾	Trading Companies & Distributors	L+800	1.00%	9.00%	3/24/2014	3/27/2022	25,000	24,827	20,500
Breathe Technologies, Inc	Health Care Equipment & Supplies	L+830	—	8.91%	11/5/2015	11/5/2019	15,000	15,089	12,750
CardioDx, Inc	Health Care Providers & Services	P+670	—	10.45%	6/18/2015	4/1/2019	7,000	7,205	6,860
Cardiva Medical, Inc	Health Care Equipment & Supplies	L+870	—	9.31%	8/19/2015	8/19/2019	8,500	8,645	8,585
CAS Medical Systems, Inc	Health Care Equipment & Supplies	L+875	—	9.36%	6/30/2016	7/1/2020	6,000	6,003	6,000
Cerapedics, Inc	Health Care Equipment & Supplies	—	—	8.68-8.78%	4/22/2016	3/1/2019	6,394	6,181	6,394
Cianna Medical, Inc	Health Care Equipment & Supplies	L+900	—	9.61%	9/28/2016	9/28/2020	6,000	5,988	6,000
Clinical Ink, Inc	Health Care Technology	L+850	0.70%	9.20%	3/8/2016	3/8/2020	6,500	6,490	6,435
Conventus Orthopaedics, Inc	Health Care Equipment & Supplies	L+865	—	9.28%	6/15/2016	6/1/2020	5,250	5,182	5,198
Datapipe, Inc	IT Services	L+800	1.00%	9.00%	8/14/2014	9/15/2019	27,000	26,629	26,892
Delphinus Medical Technologies, Inc	Health Care Equipment & Supplies	—	—	9.25-9.30%	4/22/2016	2/23/2017	400	434	420
Direct Buy Inc. ^{(4)**}	Multiline Retail	—	—	12.00% PIK	11/5/2012	10/31/2019	11,105	8,511	777
DISA Holdings Acquisition Subsidiary Corp	Professional Services	L+850	1.00%	9.50%	12/9/2014	6/9/2021	51,476	50,898	50,704
Easyfinancial Services, Inc. ⁽⁵⁾⁽⁶⁾	Consumer Finance	BA+699	1.00%	7.99%	9/27/2012	10/4/2019	CS 10,000	9,261	7,410
Emerging Markets Communications, LLC	Wireless Telecommunication Services	L+962.5	1.00%	10.63%	6/29/2015	7/1/2022	\$ 27,000	26,658	27,000
Entegriion, Inc	Health Care Equipment & Supplies	—	—	10.03%	4/22/2016	4/1/2017	400	414	412
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	7.75%	12/7/2015	12/14/2021	10,164	10,114	10,164
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	7,328	5,978	7,310
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	18,500	18,265	18,012
Greystone Select Holdings LLC & Greystone & Co., Inc.	Thriffs & Mortgage Finance	L+800	1.00%	9.00%	3/25/2014	3/26/2021	9,680	9,642	9,559
Hyland Software, Inc	Software	L+725	1.00%	8.25%	6/12/2015	6/30/2023	5,000	4,979	5,000
IHS Intermediate, Inc	Health Care Providers & Services	L+825	1.00%	9.25%	6/19/2015	7/20/2022	25,000	24,578	24,125
Inmar Acquisition Sub, Inc	Professional Services	L+700	1.00%	8.00%	1/27/2014	1/27/2022	10,000	9,929	9,850
K2 Pure Solutions NoCal, L.P	Chemicals	L+900	1.00%	10.00%	8/19/2013	2/19/2021	7,475	7,398	7,176
Kore Wireless Group, Inc	Wireless Telecommunication Services	L+825	1.00%	9.25%	9/12/2014	3/12/2021	55,500	54,704	54,945

Lumeris Solutions Company, LLC	Health Care Technology	—	—	9.42%	4/22/2016	12/27/2017	8,296	8,458	8,379
Mitralign, Inc	Health Care Equipment & Supplies	—	—	9.48%	4/22/2016	12/1/2018	1,667	1,604	1,658
Nabsys 2.0 LLC	Life Sciences Tools & Services	—	—	8.90%	4/22/2016	10/13/2018	5,064	4,959	5,115
PhyMed Management LLC	Health Care Providers & Services	L+875	1.00%	9.75%	12/18/2015	5/18/2021	32,321	31,222	31,190
PQ Bypass, Inc.	Health Care Equipment & Supplies	L+885	—	9.46%	4/21/2016	4/21/2020	5,000	4,933	4,950
Rapid Micro Biosystems, Inc.	Life Sciences Tools & Services	L+880	—	9.42%	6/30/2015	6/30/2019	16,000	16,331	15,760
Rug Doctor LLC ⁽³⁾	Diversified Consumer Services	L+975	1.50%	11.25%	12/23/2013	12/31/2018	9,111	8,927	9,111
Salient Partners, L.P	Asset Management	L+850	1.00%	9.50%	6/10/2015	6/9/2021	14,993	14,757	14,619
Scynexis, Inc	Pharmaceuticals	L+849	—	9.12%	9/30/2016	9/30/2020	15,000	14,806	14,850
SentreHeart, Inc	Health Care Equipment & Supplies	L+885	—	9.46%	11/15/2016	11/15/2020	7,500	7,341	7,325
SOINT, LLC ⁽³⁾	Aerospace & Defense	—	—	15.00%	6/8/2012	11/30/2018	2,386	2,381	2,386
Southern Auto Finance Company ⁽⁶⁾	Consumer Finance	—	—	11.15%	10/19/2011	12/4/2018	25,000	24,815	24,500
Sunesis Pharmaceuticals, Inc.	Pharmaceuticals	L+854	—	9.17%	3/31/2016	4/1/2020	7,500	7,398	7,463
TierPoint, LLC	IT Services	L+875-887.5	1.00%	9.75-9.88%	12/2/2014	12/2/2022	34,000	33,656	33,439
TMK Hawk Parent, Corp. (TriMark)	Trading Companies and Distributors	L+750	1.00%	8.50%	9/26/2014	10/1/2022	20,000	19,843	20,000
TouchTunes Interactive Networks, Inc	Media	L+825	1.00%	9.25%	5/28/2015	5/27/2022	14,000	13,826	13,825
Trevi Therapeutics, Inc	Pharmaceuticals	L+775	—	8.37%	12/29/2014	6/29/2018	6,531	6,720	6,597
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+925	1.00%	10.25%	9/24/2014	9/24/2020	30,000	29,795	29,700
Vapotherm, Inc	Health Care Equipment & Supplies	L+899	—	9.60%	11/16/2016	5/16/2021	10,000	9,915	9,900
Varilease Finance, Inc	Multi-Sector Holdings	L+825	1.00%	9.25%	8/22/2014	8/24/2020	48,000	47,405	47,880
Total Bank Debt/Senior Secured Loans								\$804,917	\$788,254
Subordinated Debt/Corporate Notes — 3.1%									
Alegeus Technologies Holdings Corp	Health Care Technology	L+1200	1.00%	13.00%	6/24/2012	2/15/2019	28,200	\$ 27,937	\$ 28,059

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 31, 2016
(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index ⁽¹⁰⁾	LIBOR Floor	Interest Rate ⁽¹⁾	Acquisition Date	Maturity Date	Shares/Units	Cost	Fair Value
Preferred Equity — 1.6%									
SOAGG LLC ⁽³⁾⁽⁶⁾⁽⁷⁾	Aerospace & Defense	—	—	8.00%	12/14/2010	6/30/2018	5,622	\$ 5,622	\$ 5,806
SOINT, LLC ⁽³⁾⁽⁶⁾⁽⁷⁾	Aerospace & Defense	—	—	15.00%	6/8/2012	6/30/2018	86,667	8,667	9,100
Total Preferred Equity								\$ 14,289	\$ 14,906
Common Equity/Equity Interests/Warrants—51.6%									
Ark Real Estate Partners LP ^{(2)(3)*}	Diversified Real Estate Activities				3/12/2007		—	\$ 527	\$ 336
Ark Real Estate Partners II LP ^{(2)(3)*}	Diversified Real Estate Activities				10/23/2012		—	12	8
aTyr Pharma, Inc. Warrants*	Pharmaceuticals				11/18/2016		47,771	70	23
B Riley Financial Inc. ⁽⁶⁾	Research & Consulting Services				3/16/2007		38,015	2,684	701
CardioDx, Inc. Warrants*	Health Care Providers & Services				6/18/2015		39,863	129	—
CAS Medical Systems, Inc. Warrants*	Health Care Equipment & Supplies				6/30/2016		48,491	38	29
Cianna Medical, Inc. Warrants*	Health Care Equipment & Supplies				9/28/2016		89,726	37	52
Conventus Orthopaedics, Inc. Warrants*	Health Care Equipment & Supplies				6/15/2016		157,500	65	67
Crystal Financial LLC ⁽³⁾⁽⁶⁾	Diversified Financial Services				12/28/2012		280,303	280,737	305,000
Direct Buy Inc. ^{(4)*}	Multiline Retail				11/5/2012		76,999	—	—
PQ Bypass, Inc. Warrants*	Health Care Equipment & Supplies				4/21/2016		176,471	70	63
RD Holdco Inc. (Rug Doctor) ^{(3)*}	Diversified Consumer Services				12/23/2013		231,177	15,683	13,574
RD Holdco Inc. (Rug Doctor) Class B ^{(3)*}	Diversified Consumer Services				12/23/2013		522	5,216	5,216
RD Holdco Inc. (Rug Doctor) Warrants ^{(3)*}	Diversified Consumer Services				12/23/2013		30,370	381	168
Scynexis, Inc. Warrants*	Pharmaceuticals				9/30/2016		122,435	105	90
Senior Secured Unitranche Loan Program LLC ⁽³⁾⁽⁶⁾	Asset Management				11/25/2015		—	101,878	100,653
Senior Secured Unitranche Loan Program II LLC ⁽³⁾⁽⁶⁾	Asset Management				8/5/2016		—	46,963	47,363
SentreHeart, Inc. Warrants*	Health Care Equipment & Supplies				11/15/2016		196,369	101	98
Sunesis Pharmaceuticals, Inc. Warrants*	Pharmaceuticals				3/31/2016		104,001	118	118
Total Common Equity/Equity Interests/Warrants								\$ 454,814	\$ 473,559
Total Investments⁽⁹⁾ — 142.1%								\$1,301,957	\$1,304,778
Par Amount									
Cash Equivalents — 33.7%									
U.S. Treasury Bill	Government				12/29/2016	2/2/2017	\$ 310,000	\$ 309,894	\$ 309,894
Total Investments & Cash Equivalents —175.8%								\$1,611,851	\$1,614,672
Liabilities in Excess of Other Assets — (75.8%)								(696,165)	(696,165)
Net Assets — 100.0%								\$ 918,507	\$ 918,507

- (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 interest rate in effect as of December 31, 2016.
- (2) Ark Real Estate Partners is held through SLRC ADI Corp., a taxable subsidiary.
- (3) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 (“1940 Act”), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2016 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/Dividend/Other Income	Fair Value at December 31, 2016
ARK Real Estate Partners HPLP	\$ 364	\$ —	\$ —	\$ (29)	\$ —	\$ 336
	9	—	—	(1)	—	8

AviatorCap SII, LLC I	914	—	417	—	85	497
AviatorCap SII, LLC II	350	—	350	—	15	—
Crystal Financial LLC	290,000	5,737	—	—	31,600	305,000
RD Holdco Inc. (Rug Doctor, common equity)	14,335	—	—	—	—	13,574
RD Holdco Inc. (Rug Doctor, class B)	5,216	—	—	—	—	5,216
RD Holdco Inc. (Rug Doctor, warrants)	214	—	—	—	—	168
Rug Doctor LLC	8,838	—	—	—	1,151	9,111
Senior Secured Unitranche Loan Program LLC	80,677	50,093	28,875	—	6,084	100,653
Senior Secured Unitranche Loan Program II LLC	—	63,093	16,130	—	1,228	47,363
SOAGG LLC	8,632	—	2,590	—	545	5,806
SOINT, LLC	5,705	—	3,318	—	602	2,386
SOINT, LLC (preferred equity)	9,316	—	—	—	1,304	9,100
	<u>\$ 424,570</u>	<u>\$ 118,923</u>	<u>\$ 51,680</u>	<u>\$ (30)</u>	<u>\$ 42,614</u>	<u>\$ 499,218</u>

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.
CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)
December 31, 2016
(in thousands)

(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, 2016 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/ Dividend Income	Fair Value at December 31, 2016
Direct Buy Inc. (common equity)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Direct Buy Inc. (senior secured loan)	1,233	1,238	—	—	—	777
DSW Group Holdings LLC	—	—	—	197†	—	—
	<u>\$ 1,233</u>	<u>\$ 1,238</u>	<u>\$ —</u>	<u>\$ 197</u>	<u>\$ —</u>	<u>\$ 777</u>

- (5) The following entity is domiciled outside the United States and the investments are denominated in Canadian Dollars: Easyfinancial Services, Inc. in Canada.
- (6) 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, 2016, on a fair value basis, non-qualifying assets in the portfolio represented 31.6% of the total assets of the Company.
- (7) Solar Capital Ltd.'s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (8) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
- (9) Aggregate net unrealized depreciation for U.S. federal income tax purposes is \$7,928; aggregate gross unrealized appreciation and depreciation for federal tax purposes is \$27,715 and \$35,643, respectively, based on a tax cost of \$1,312,706. All of the Company's investments are pledged as collateral against the borrowings outstanding on the revolving credit facilities.
- (10) 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.
- * Non-income producing security.
- ** Investment is on non-accrual status.
- † Represents estimated change in receivable balance.

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of December 31, 2016</u>
Diversified Financial Services	23.4%
Asset Management	12.5%
Health Care Providers & Services	10.4%
Wireless Telecommunication Services	6.3%
Pharmaceuticals	6.1%
Health Care Equipment & Supplies	6.1%
Professional Services	4.6%
IT Services	4.6%
Multi-Sector Holdings	3.7%
Health Care Technology	3.3%
Trading Companies & Distributors	3.1%
Consumer Finance	2.4%
Communications Equipment	2.4%
Diversified Consumer Services	2.1%
Life Sciences Tools & Services	1.6%
Insurance	1.4%
Aerospace & Defense	1.4%
Chemicals	1.3%
Media	1.1%
Air Freight & Logistics	0.9%
Thriffs & Mortgage Finance	0.7%
Software	0.4%
Multiline Retail	0.1%
Research & Consulting Services	0.1%
Diversified Real Estate Activities	0.0%
Total Investments	<u>100.0%</u>

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
March 31, 2017
(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 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, unitranche loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded.

Note 2. Significant Accounting Policies

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

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

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expenses during the reported periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2017.

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 typically utilize independent third-party valuation firms to assist us in determining fair value. Accordingly, such investments go through our multi-step valuation process as described below. In each case, independent valuation firms consider observable market inputs together with significant unobservable inputs in arriving at their valuation recommendations. Debt investments with maturities of 60 days or less shall each be valued at cost plus accreted discount, or minus amortized premium, which is expected to approximate fair value, unless such valuation, in the judgment of 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 to reflect any comments; and

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- (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 and the audit committee.

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient for fair value. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation approaches to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2017, 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.

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- (e) The Company intends to comply with the applicable provisions of the Internal Revenue Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all U.S. federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on such estimated excess taxable income as appropriate.
- (f) Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts annually. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.
- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810—*Consolidation*, the Company consolidates its interest in investment company subsidiaries, financing subsidiaries and certain wholly-owned holding companies that serve to facilitate investment in portfolio companies. In addition, the Company may also consolidate any controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments in terms of U.S. dollars and therefore the earnings of the Company.
- (j) The Company has made an irrevocable election to apply the fair value option of accounting to its senior secured credit facility (the "Credit Facility"), its unsecured senior notes due 2022 (the "2022 Unsecured Notes") and its senior secured notes (the "Senior Secured Notes") (see note 6 and 8), in accordance with ASC 825-10. The Company uses an independent third-party valuation firm to assist in measuring their fair value.
- (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.

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- (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.
- (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 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 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 October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended rules (together, "final rules") intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. The Company is currently evaluating the impact that the adoption of the amendments to Regulation S-X will have on its consolidated financial statements and disclosures.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows, which will amend 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 are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of ASU 2016-18 on its consolidated financial statements and disclosures.

In December 2016, the FASB issued ASU 2016-19, Technical Corrections and Improvements. As part of this guidance, ASU 2016-19 amends FASB ASC 820 to clarify the difference between a valuation approach and a valuation technique. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. ASU 2016-19 is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. The Company has evaluated the impact of ASU 2016-19 on its consolidated financial statements and disclosures and determined that the adoption of ASU 2016-19 has not had a material impact on its consolidated financial statements.

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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 an 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 2.00%. For purposes of computing the base management fee, gross assets exclude temporary assets acquired at the end of each fiscal quarter for purposes of preserving investment flexibility in the next fiscal quarter. Temporary assets include, but are not limited to, U.S. treasury bills, other short-term U.S. government or government agency securities, repurchase agreements or cash borrowings.

The 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 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 an incentive fee with respect to Solar Capital's pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Solar Capital's pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Solar Capital's pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Solar Capital's pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro-rated for any period of less than three months.

The second part of the 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 incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the three months ended March 31, 2017 and 2016.

For the three months ended March 31, 2017 and 2016, the Company recognized \$6,719 and \$6,748, respectively, in base management fees and \$4,083 and \$4,030, respectively, in performance-based incentive fees. For the three months ended March 31, 2017 and 2016, \$0 and \$795, respectively, of such performance-based incentive fees were waived. The voluntary fee waiver for the three months ended March 31, 2016 was made at the Investment Adviser's discretion and was subject to recapture by the Investment Adviser and reimbursement by the Company when net investment income during fiscal 2016 equaled or exceeded distributions declared in fiscal 2016.

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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 months ended March 31, 2017 and 2016, the Company recognized expenses under the Administration Agreement of \$1,335 and \$1,319, respectively. No managerial assistance fees were accrued or collected for the three months ended March 31, 2017 and 2016.

Note 4. Net Asset Value Per Share

At March 31, 2017, the Company’s total net assets and net asset value per share were \$918,766 and \$21.75, respectively. This compares to total net assets and net asset value per share at December 31, 2016 of \$918,507 and \$21.74, respectively.

Note 5. Earnings Per Share

The following table sets forth the computation of basic and diluted net increase in net assets per share resulting from operations, pursuant to ASC 260-10, for the three months ended March 31, 2017 and 2016:

	Three months ended March 31,	
	2017	2016
<u>Earnings per share (basic & diluted)</u>		
Numerator—net increase in net assets resulting from operations:	\$ 17,158	\$ 28,177
Denominator—weighted average shares:	42,248,525	42,287,207
Earnings per share:	\$ 0.41	\$ 0.67

Note 6. Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuations used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

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

- a) Quoted prices for similar assets or liabilities in active markets;

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

Level 3. Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's and, if applicable, an independent third-party valuation firm's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

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

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

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

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2017 and December 31, 2016:

Fair Value Measurements
As of March 31, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Measured at Net Asset Value*</u>	<u>Total</u>
Assets:					
Bank Debt/Senior Secured Loans	\$ —	\$25,760	\$ 780,479	\$ —	\$ 806,239
Subordinated Debt/Corporate Notes	—	—	28,200	—	28,200
Preferred Equity	—	—	14,671	—	14,671
Common Equity/Equity Interests/Warrants	570	—	324,490	149,325	474,385
Total Investments	<u>\$ 570</u>	<u>\$25,760</u>	<u>\$1,147,840</u>	<u>\$ 149,325</u>	<u>\$1,323,495</u>
Liabilities:					
Credit Facility, Senior Secured Notes and 2022 Unsecured Notes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 275,000</u>	<u>\$ —</u>	<u>\$ 275,000</u>

* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the

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amounts presented in the Consolidated Statements of Assets and Liabilities. The two portfolio investments in this category are Senior Secured Unitranche Loan Program, LLC (“SSLP”) and Senior Secured Unitranche Loan Program II, LLC (“SSLP II”). See Note 13 & 14, respectively, for more information on these investments, including their investment strategies and the Company’s unfunded equity commitments to SSLP and SSLP II. Neither of these investments is redeemable by the Company absent an election by the members of the entities to liquidate all investments and distribute the proceeds to the members.

Fair Value Measurements
As of December 31, 2016

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Measured at</u> <u>Net Asset Value*</u>	<u>Total</u>
Assets:					
Bank Debt/Senior Secured Loans	\$ —	\$28,744	\$ 759,510	\$ —	\$ 788,254
Subordinated Debt/Corporate Notes	—	—	28,059	—	28,059
Preferred Equity	—	—	14,906	—	14,906
Common Equity/Equity Interests/Warrants	<u>701</u>	<u>—</u>	<u>324,842</u>	<u>148,016</u>	<u>473,559</u>
Total Investments	<u>\$ 701</u>	<u>\$28,744</u>	<u>\$1,127,317</u>	<u>\$ 148,016</u>	<u>\$1,304,778</u>
Liabilities:					
Credit Facility, Senior Secured Notes and 2022 Unsecured Notes	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 290,200</u>	<u>\$ —</u>	<u>\$ 290,200</u>

* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient for fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities.

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The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2017 and the year ended December 31, 2016 as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2017 and December 31, 2016:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Equity Interests/ Warrants
Fair value, December 31, 2016	\$ 759,510	\$ 28,059	\$ 14,906	\$ 324,842
Total gains or losses included in earnings:				
Net realized gain (loss)	328	—	—	—
Net change in unrealized gain (loss)	81	114	92	(482)
Purchase of investment securities	100,344	27	—	130
Proceeds from dispositions of investment securities	(79,784)	—	(327)	—
Transfers in/out of Level 3	—	—	—	—
Fair value, March 31, 2017	<u>\$ 780,479</u>	<u>\$ 28,200</u>	<u>\$ 14,671</u>	<u>\$ 324,490</u>
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized gain (loss)	<u>\$ 505</u>	<u>\$ 114</u>	<u>\$ 92</u>	<u>\$ (482)</u>

During the three months ended March 31, 2017, there were no transfers in and out of Levels 1 and 2.

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

Credit Facility, Senior Secured Notes and 2022 Unsecured Notes	For the three months ended March 31, 2017
Beginning fair value	\$ 290,200
Net realized (gain) loss	—
Net change in unrealized (gain) loss	—
Borrowings	197,500
Repayments	(212,700)
Transfers in/out of Level 3	—
Ending fair value	<u>\$ 275,000</u>

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes, in accordance with ASC 825-10. On March 31, 2017, there were borrowings of \$50,000, \$75,000 and \$150,000, respectively, on the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes. The Company used an independent third-party

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valuation firm to assist in measuring the fair value of the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes.

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Equity Interests/ Warrants
Fair value, December 31, 2015	\$ 800,291	\$ 67,314	\$ 17,948	\$ 310,239
Total gains or losses included in earnings:				
Net realized gain (loss)	702	77	—	(144)
Net change in unrealized gain (loss)	10,613	8,479	(452)	8,360
Purchase of investment securities	317,268	189	—	6,387
Proceeds from dispositions of investment securities	(369,364)	(48,000)	(2,590)	—
Transfers in/out of Level 3	—	—	—	—
Fair value, December 31, 2016	<u>\$ 759,510</u>	<u>\$ 28,059</u>	<u>\$ 14,906</u>	<u>\$ 324,842</u>
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized gain (loss)	<u>\$ 6,943</u>	<u>\$ 602</u>	<u>\$ (452)</u>	<u>\$ 8,362</u>

During the year ended December 31, 2016, there were no transfers in and out of Levels 1 and 2.

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the year ended December 31, 2016:

Credit Facility, Senior Secured Notes and 2022 Unsecured Notes	For the year ended December 31, 2016
Beginning fair value	\$ 332,900
Net realized (gain) loss	—
Net change in unrealized (gain) loss	—
Borrowings	728,500
Repayments	(771,200)
Transfers in/out of Level 3	—
Ending fair value	<u>\$ 290,200</u>

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes, in accordance with ASC 825-10. On December 31, 2016, there were borrowings of \$165,200, \$75,000 and \$50,000, respectively, on the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes. The Company used an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes.

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Quantitative Information about Level 3 Fair Value Measurements

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

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

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

	Asset or Liability	Fair Value at March 31, 2017	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt/Senior Secured Loans	Asset	\$ 780,479	Yield Analysis	Market Yield	6.8% – 20.7% (11.5%)
Subordinated Debt/Corporate Note	Asset	\$ 28,200	Yield Analysis	Market Yield	15.0% – 15.0% (15.0%)
Preferred Equity	Asset	\$ 14,671	Yield Analysis	Market Yield	8.0% – 11.3% (10.0%)
Common Equity/Equity Interests/Warrants	Asset	\$ 18,790	Enterprise Value	EBITDA Multiple	5.5x – 6.5x (6.3x)
		\$ 305,700	Enterprise Value	Return on Equity	7.7% – 13.6% (13.6%)
Credit Facility	Liability	\$ 50,000	Yield Analysis	Market Yield	L+1.4% – L+4.8% (L+2.0%)
Senior Secured Notes	Liability	\$ 75,000	Yield Analysis	Market Yield	5.6% – 6.1% (5.9%)
2022 Unsecured Notes	Liability	\$ 150,000	Yield Analysis	Market Yield	4.5% – 4.7% (4.5%)

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2016 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2016	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt/Senior Secured Loans	Asset	\$ 758,733	Yield Analysis	Market Yield	8.2% – 51.6% (11.5%)
		\$ 777	Enterprise Value	EBITDA Multiple	4.0x – 5.0x (4.5x)
Subordinated Debt/Corporate Note	Asset	\$ 28,059	Yield Analysis	Market Yield	14.9% – 14.9% (14.9%)
Preferred Equity	Asset	\$ 14,906	Yield Analysis	Market Yield	8.0% – 11.3% (10.0%)
Common Equity/Equity Interests/Warrants	Asset	\$ 19,842	Enterprise Value	EBITDA Multiple	5.5x – 6.5x (6.3x)
		\$ 305,000	Enterprise Value	Return on Equity	7.7% – 12.5% (11.9%)
Credit Facility	Liability	\$ 165,200	Yield Analysis	Market Yield	L+1.4% – L+4.8% (L+2.0%)
Senior Secured Notes	Liability	\$ 75,000	Yield Analysis	Market Yield	5.6% – 6.1% (5.9%)
2022 Unsecured Notes	Liability	\$ 50,000	Yield Analysis	Market Yield	4.4% – 4.7% (4.4%)

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

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Note 7. Derivatives

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

As of March 31, 2017 and December 31, 2016, there were no open forward foreign currency contracts outstanding. The Company also had no derivatives designated as hedging instruments at March 31, 2017 and December 31, 2016.

Note 8. Debt

Unsecured Senior Notes

On November 16, 2012, the Company and U.S. Bank National Association entered into an Indenture and a First Supplemental Indenture relating to the Company's issuance, offer and sale of \$100,000 aggregate principal amount of its 6.75% Unsecured Senior Notes due 2042 (the "2042 Unsecured Notes"). The 2042 Unsecured Notes will mature on November 15, 2042 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after November 15, 2017 at a redemption price of \$25 per security plus accrued and unpaid interest. The 2042 Unsecured Notes bear interest at a rate of 6.75% per year payable quarterly on February 15, May 15, August 15 and November 15 of each year. The 2042 Unsecured Notes are direct senior unsecured obligations of the Company.

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

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

Revolving and Term Loan Facility

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

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commitments, reducing total outstanding revolving credit commitments by \$110,000 to \$395,000. At March 31, 2017, outstanding USD equivalent borrowings under the Credit Facility totaled \$50,000, comprised solely of outstanding term loans.

Senior Secured Notes

On May 10, 2012, the Company closed a private offering of \$75,000 of Senior Secured Notes with a fixed interest rate of 5.875% and a maturity date of May 10, 2017. Interest on the Senior Secured Notes is due semi-annually on May 10 and November 10. The Senior Secured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

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

The Company has made an irrevocable election to apply the fair value option of accounting to its Credit Facility, Senior Secured Notes and 2022 Unsecured Notes, in accordance with ASC 825-10. We believe accounting for the Credit Facility, Senior Secured Notes and 2022 Unsecured Notes at fair value better aligns the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. ASC 825-10 requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statement of Assets and Liabilities and changes in fair value of the Credit Facility, the Senior Secured Notes and the 2022 Unsecured Notes are reported in the Consolidated Statement of Operations.

The average annualized interest cost for all borrowings for the three months ended March 31, 2017 and the year ended December 31, 2016 was 5.13% and 4.11%, respectively. These costs are exclusive of other credit facility expenses such as unused fees, agency fees and other prepaid expenses related to establishing and/or amending the Credit Facility, the 2022 Unsecured Notes, the 2042 Unsecured Notes, and the Senior Secured Notes (collectively the "Credit Facilities"), if any. During the three months ended March 31, 2017, the Company expensed \$536 in conjunction with the February issue of 2022 Unsecured Notes. During the year ended December 31, 2016, the Company expensed \$2,781 in conjunction with the September 2016 amendment to the Credit Facility and \$280 in conjunction with the November issue of the 2022 Unsecured Notes. The maximum amounts borrowed on the Credit Facilities during the three months ended March 31, 2017 and the year ended December 31, 2016 were \$399,200 and \$610,900, respectively.

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Note 9. Financial Highlights and Senior Securities Table

The following is a schedule of financial highlights for the three months ended March 31, 2017 and for the year ended December 31, 2016:

	Three months ended March 31, 2017 (unaudited)	Year ended December 31, 2016
Per Share Data:^(a)		
Net asset value, beginning of year	\$ 21.74	\$ 20.79
Net investment income	0.39	1.68
Net realized and unrealized gain	0.02	0.84
Net increase in net assets resulting from operations	0.41	2.52
Distributions to stockholders:		
From net investment income	(0.40)	(1.60)
Anti-dilution	—	0.03
Net asset value, end of period	\$ 21.75	\$ 21.74
Per share market value, end of period	\$ 22.61	\$ 20.82
Total Return ^(b)	10.52%	37.49%
Net assets, end of period	\$ 918,766	\$ 918,507
Shares outstanding, end of period	42,248,525	42,248,525
Ratios to average net assets^(c):		
Net investment income	1.78%	7.91%
Operating expenses	1.35%	6.25%
Interest and other credit facility expenses*	0.62%	2.73%
Total expenses	1.97%	8.98%
Average debt outstanding	\$ 369,830	\$ 495,795
Portfolio turnover ratio	6.5%	31.0%

(a) Calculated using the average shares outstanding method.

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

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

* Ratios shown without the non-recurring costs associated with the amendment of the Credit Facility and establishment of the 2022 Unsecured Notes would be 0.56% and 2.39%, respectively for the periods shown.

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

<u>Class and Year</u>	<u>Total Amount Outstanding⁽¹⁾</u>	<u>Asset Coverage Per Unit⁽²⁾</u>	<u>Involuntary Liquidating Preference Per Unit⁽³⁾</u>	<u>Average Market Value Per Unit⁽⁴⁾</u>
Revolving Credit Facilities				
Fiscal 2017 (through March 31, 2017)	\$ —	\$ —	—	N/A
Fiscal 2016	115,200	990	—	N/A
Fiscal 2015	207,900	1,459	—	N/A
Fiscal 2014	—	—	—	N/A
Fiscal 2013	—	—	—	N/A
Fiscal 2012	264,452	1,510	—	N/A
Fiscal 2011	201,355	3,757	—	N/A
Fiscal 2010	400,000	2,668	—	N/A
Fiscal 2009	88,114	8,920	—	N/A
2022 Unsecured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 150,000	\$ 1,380	—	N/A
Fiscal 2016	50,000	430	—	N/A
2042 Unsecured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 100,000	\$ 920	—	\$ 1,010
Fiscal 2016	100,000	859	—	1,002
Fiscal 2015	100,000	702	—	982
Fiscal 2014	100,000	2,294	—	943
Fiscal 2013	100,000	2,411	—	934
Fiscal 2012	100,000	571	—	923
Senior Secured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 75,000	\$ 690	—	N/A
Fiscal 2016	75,000	645	—	N/A
Fiscal 2015	75,000	527	—	N/A
Fiscal 2014	75,000	1,721	—	N/A
Fiscal 2013	75,000	1,808	—	N/A
Fiscal 2012	75,000	428	—	N/A
Term Loans				
Fiscal 2017 (through March 31, 2017)	\$ 50,000	\$ 460	—	N/A
Fiscal 2016	50,000	430	—	N/A
Fiscal 2015	50,000	351	—	N/A
Fiscal 2014	50,000	1,147	—	N/A
Fiscal 2013	50,000	1,206	—	N/A
Fiscal 2012	50,000	285	—	N/A
Fiscal 2011	35,000	653	—	N/A
Fiscal 2010	35,000	233	—	N/A
Total Senior Securities				
Fiscal 2017 (through March 31, 2017)	\$ 375,000	\$ 3,450	—	N/A
Fiscal 2016	390,200	3,354	—	N/A
Fiscal 2015	432,900	3,039	—	N/A
Fiscal 2014	225,000	5,162	—	N/A
Fiscal 2013	225,000	5,425	—	N/A
Fiscal 2012	489,452	2,794	—	N/A
Fiscal 2011	236,355	4,410	—	N/A
Fiscal 2010	435,000	2,901	—	N/A
Fiscal 2009	88,114	8,920	—	N/A

(1) Total amount of each class of senior securities outstanding at the end of the period presented.

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- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period. As of March 31, 2017, asset coverage was 345.0%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable except for the 2042 Unsecured Notes which are publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit. The average market value for the fiscal 2017, 2016, 2015, 2014, 2013 and 2012 periods was \$100,983, \$100,175, \$98,196, \$94,301, \$93,392, and \$92,302, respectively.

Note 10. Crystal Financial LLC

On December 28, 2012, we completed the acquisition of Crystal Capital Financial Holdings LLC (“Crystal Financial”), a commercial finance company focused on providing asset-based and other secured financing solutions (the “Crystal Acquisition”). We invested \$275,000 in cash to effect the Crystal Acquisition. Crystal Financial owned approximately 98% of the outstanding ownership interest in Crystal Financial LLC. The remaining financial interest was held by various employees of Crystal Financial LLC, through their investment in Crystal Management LP. Crystal Financial LLC had a diversified portfolio of 23 loans having a total par value of approximately \$400,000 at November 30, 2012 and a \$275,000 committed revolving credit facility. On January 27, 2014, the revolving credit facility was expanded to \$300,000. On March 31, 2014, we exchanged \$137,500 of our equity interest in Crystal Financial in exchange for \$137,500 in floating rate senior secured notes in Crystal Financial bearing interest at LIBOR plus 9.50%, maturing on March 31, 2019. On May 18, 2015, the revolving credit facility was expanded to \$350,000. Our financial statements, including our schedule of investments, reflected our investments in Crystal Financial on a consolidated basis. On July 28, 2016, the Company purchased Crystal Management LP’s approximately 2% equity interest in Crystal Financial LLC for approximately \$5,737. Upon the closing of this transaction, the Company holds 100% of the equity interest in Crystal Financial LLC. On September 30, 2016, Crystal Capital Financial Holdings LLC was dissolved.

As of March 31, 2017 Crystal Financial LLC had 25 funded commitments to 24 different issuers with a total par value of approximately \$347,108 on total assets of \$465,823. As of December 31, 2016, Crystal Financial LLC had 26 funded commitments to 25 different issuers with a total par value of approximately \$368,784 on total assets of \$459,732. As of March 31, 2017 and December 31, 2016, the largest loan outstanding totaled \$37,509 and \$36,255, respectively. For the same periods, the average exposure per issuer was \$14,463 and \$14,751, respectively. Crystal Financial LLC’s credit facility, which is non-recourse to Solar Capital, had approximately \$176,065 and \$175,422 of borrowings outstanding at March 31, 2017 and December 31, 2016, respectively. For the three months ended March 31, 2017 and 2016, Crystal Financial LLC had net income of \$7,839 and \$9,199, respectively, on gross income of \$12,260 and \$15,211, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

Note 11. Stock Repurchase Programs

On July 31, 2013, the Board authorized a program for the purpose of repurchasing up to \$100,000 of the Company’s common stock. Under the repurchase program, the Company could have, but was not obligated to,

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repurchase its outstanding common stock in the open market from time to time provided that the Company complied with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in Rules 10b-18 and 10b-5 under the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. On December 5, 2013, the Board extended the repurchase program to be in place until the earlier of July 31, 2014 or until \$100,000 of the Company's outstanding shares of common stock had been repurchased. On July 31, 2014, the Company's stock repurchase program expired. During the fiscal year ended December 31, 2014, the Company repurchased 1,779,033 shares at an average price of approximately \$21.97 per share, inclusive of commissions. The total dollar amount of shares repurchased in that period was \$39,078. During the year ended December 31, 2013, the Company repurchased 796,418 shares at an average price of approximately \$21.98 per share, inclusive of commissions, for a total dollar amount of \$17,508.

On October 7, 2015, the Board authorized a new share repurchase program to purchase common stock in the open market in an amount up to \$30,000. Under the repurchase program, the Company may, but is not obligated to, repurchase its outstanding common stock in the open market from time to time provided that the Company complies with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in Rules 10b-18 and 10b-5 under the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. During the year ended December 31, 2016, the Company repurchased 216,237 shares at an average price of \$15.76 per share, inclusive of commissions. The total dollar amount of shares repurchased for the year ended December 31, 2016 was \$3,408. On October 7, 2016, the Company's stock repurchase program expired.

Note 12. Commitments and Contingencies

The Company had unfunded debt and equity commitments to various delayed draw loans as well as to Crystal Financial LLC. The total amount of these unfunded commitments as of March 31, 2017 and December 31, 2016 is \$51,662 and \$64,013, respectively, comprised of the following:

	<u>March 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Crystal Financial LLC	\$44,263	\$ 44,263
aTyr Pharma, Inc	5,000	5,000
CardioFocus, Inc	2,000	—
Island Medical Management Holdings, LLC	399	—
Vapotherm, Inc	—	10,000
SentreHeart, Inc	—	2,500
Conventus Orthopaedics, Inc	—	2,250
Total Commitments*	<u>\$51,662</u>	<u>\$ 64,013</u>

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

As of March 31, 2017 and December 31, 2016, the Company had sufficient cash available and/or liquid securities available to fund its commitments as well as the commitments to Senior Secured Unitranche Loan Program LLC ("SSLP") disclosed in Note 13, Senior Secured Unitranche Loan Program II LLC ("SSLP II") disclosed in Note 14 and Solar Life Science Program LLC ("LSJV") disclosed in Note 15.

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Note 13. Senior Secured Unitranche Loan Program LLC

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

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

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

On November 25, 2015, SSLP commenced operations. On June 30, 2016, SSLP as transferor and SSLP 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP, as borrower entered into a \$200,000 senior secured revolving credit facility (the “SSLP Facility”) with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP Facility. The SSLP Facility is scheduled to mature on June 30, 2021. The SSLP Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP and SSLP 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$76,148 and \$67,148 of borrowings outstanding as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Company and Voya had contributed combined equity capital in the amount of \$116,433 and \$116,433, respectively. Of the \$116,433 of contributed equity capital at March 31, 2017, the Company contributed \$29,884 in the form of investments and \$71,995 in the form of cash and Voya contributed \$14,554 in the form of cash. As of March 31, 2017, the Company and Voya’s remaining commitments to SSLP totaled \$73,121 and \$10,446, respectively. The Company, along with Voya, controls the funding of SSLP and SSLP may not call the unfunded commitments without approval of both the Company and Voya.

As of March 31, 2017 and December 31, 2016, SSLP had total assets of \$208,468 and \$184,816, respectively. For the same periods, SSLP’s portfolio consisted of floating rate senior secured loans to 12 and 11 different borrowers, respectively. For the three months ended March 31, 2017, SSLP invested \$24,020 in 4 portfolio companies. Investments prepaid totaled \$589 for the three months ended March 31, 2017. At

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March 31, 2017 and December 31, 2016, the weighted average yield of SSLP's portfolio was 7.4% and 7.4%, respectively, measured at fair value and 7.4% and 7.5%, respectively, measured at cost.

SSLP Portfolio as of March 31, 2017

<u>Description</u>	<u>Industry</u>	<u>Spread Above Index⁽¹⁾</u>	<u>LIBOR Floor</u>	<u>Interest Rate⁽²⁾</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Cost</u>	<u>Fair Value⁽³⁾</u>
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 12,813	\$ 12,773	\$ 12,748
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	13,824	13,691	13,686
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.04%	8/1/21	3,208	3,180	3,196
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.40%	6/28/22	13,036	12,919	12,971
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.65%	11/30/23	13,840	13,574	13,564
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	34,563	34,133	34,563
Island Medical Management Holdings, LLC ⁽⁴⁾	Health Care Providers & Services	L+550	1.00%	6.50%	9/1/22	13,812	13,674	13,674
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	21,043	20,759	20,780
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.15%	12/16/22	11,970	11,855	11,850
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.40%	11/25/21	2,406	2,387	2,406
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+836	1.00%	9.51%	11/25/21	22,250	21,881	21,889
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	19,507	19,369	19,410
VetCor Professional Practices LLC	Health Care Facilities	L+600	1.00%	7.15%	4/20/21	23,726	23,562	23,251
							<u>\$203,757</u>	<u>\$203,988</u>

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

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share amounts)

SSLP Portfolio as of December 31, 2016 (audited)

Description	Industry	Spread Above Index(1)	LIBOR Floor	Interest Rate(2)	Maturity Date	Par Amount	Cost	Fair Value(3)
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 4,875	\$ 4,875	\$ 4,875
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	13,824	13,686	13,686
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.00%	8/1/21	3,292	3,261	3,275
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.25%	6/28/22	13,102	12,979	12,971
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.50%	11/30/23	13,875	13,600	13,597
Falmouth Group Holdings Corp. (AMPAC)(4)	Chemicals	L+675	1.00%	7.75%	12/14/21	34,650	34,202	34,650
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	20,625	20,336	20,367
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.00%	12/16/22	12,000	11,881	11,880
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/21	2,475	2,454	2,475
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+839	1.00%	9.39%	11/25/21	22,250	21,866	21,861
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	19,557	19,407	19,362
VetCor Professional Practices LLC	Health Care Facilities	L+625	1.00%	7.25%	4/20/21	21,818	21,686	21,491
							<u>\$180,233</u>	<u>\$180,490</u>

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ("LIBOR" or "L") index rate or the prime index rate (PRIME or "P"), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2016.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Below is certain summarized financial information for SSLP as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016:

	March 31, 2017	December 31, 2016 (audited)
Selected Balance Sheet Information for SSLP:		
Investments at fair value (cost \$203,757 and \$180,233, respectively)	\$ 203,988	\$ 180,490
Cash and other assets	4,480	4,326
Total assets	<u>\$ 208,468</u>	<u>\$ 184,816</u>
Debt outstanding	\$ 76,148	\$ 67,148
Payable for investments purchased	13,674	—
Distributions payable	2,427	1,688
Interest payable and other credit facility related expenses	781	660
Accrued expenses and other payables	260	287
Total liabilities	<u>\$ 93,290</u>	<u>\$ 69,783</u>
Members' equity	<u>\$ 115,178</u>	<u>\$ 115,033</u>
Total liabilities and members' equity	<u>\$ 208,468</u>	<u>\$ 184,816</u>

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share amounts)

	Three months ended March 31, 2017	Three months ended March 31, 2016
Selected Income Statement Information for SSLP:		
Interest income	\$ 3,447	\$ 1,846
Service fees*	\$ 31	\$ 15
Interest and other credit facility expenses	781	—
Other general and administrative expenses	37	35
Total expenses	\$ 849	\$ 50
Net investment income	\$ 2,598	\$ 1,796
Net change in unrealized gain (loss) on investments	(26)	(717)
Net income	<u>\$ 2,572</u>	<u>\$ 1,079</u>

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

Note 14. Senior Secured Unitranche Loan Program II LLC

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

On November 15, 2016, SSLP II as transferor and SSLP II 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP II, as borrower entered into a \$100,000 senior secured revolving credit facility (the "SSLP II Facility") with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP II Facility. The SSLP II Facility is scheduled to mature on November 15, 2021. The SSLP II Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP II and SSLP II 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP II Facility also includes usual and customary events of default for credit facilities of this nature. There were \$45,250 and \$32,950 of borrowings outstanding as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Company and WFI contributed combined equity capital in the amount of \$59,231 and \$58,231, respectively. Of the \$59,231 of contributed equity capital at March 31, 2017, the Company contributed \$43,498 in the form of investments and \$4,272 in the form of cash and WFI contributed \$11,461 in the form of cash. As of March 31, 2017, the Company and WFI's remaining commitments to SSLP II totaled \$27,253 and \$6,539, respectively. The Company, along with WFI, controls the funding of SSLP II and SSLP II may not call the unfunded commitments without approval of both the Company and WFI.

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share amounts)

As of March 31, 2017 and December 31, 2016, SSLP II had total assets of \$114,369 and \$93,467, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 15 and 12 different borrowers, respectively. For the three months ended March 31, 2017, SSLP II invested \$19,987 in 5 portfolio companies. Investments prepaid totaled \$953 for the same period. At March 31, 2017 and December 31, 2016, the weighted average yield of SSLP II's portfolio was 7.3% and 7.6%, respectively, measured at fair value and 7.7% and 7.9%, respectively, measured at cost.

SSLP II Portfolio as of March 31, 2017

<u>Description</u>	<u>Industry</u>	<u>Spread Above Index(1)</u>	<u>LIBOR Floor</u>	<u>Interest Rate(2)</u>	<u>Maturity Date</u>	<u>Par Amount</u>	<u>Cost</u>	<u>Fair Value(3)</u>
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 7,000	\$ 6,965	\$ 6,965
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	5,184	5,134	5,132
American Teleconferencing Services, Ltd. (PGI) ⁽⁴⁾	Communications Equipment	L+650	1.00%	7.50%	12/8/21	14,429	13,126	14,357
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.04%	8/1/21	1,604	1,590	1,598
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.40%	6/28/22	5,214	5,167	5,188
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.65%	11/30/23	6,920	6,787	6,782
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	10,917	10,917	10,917
Island Medical Management Holdings, LLC ⁽⁴⁾	Health Care Providers & Services	L+550	1.00%	6.50%	9/1/22	6,906	6,837	6,837
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	9,259	9,132	9,143
Polycom, Inc.	Communications Equipment	L+525	1.00%	6.25%	9/27/23	11,050	10,631	11,050
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.15%	12/16/22	9,975	9,879	9,875
Professional DataSolutions, Inc.	Software	L+550	1.00%	6.50%	5/20/22	5,000	4,925	4,925
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.40%	11/25/21	963	963	963
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+836	1.00%	9.51%	11/25/21	8,900	8,754	8,756
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	4,975	4,930	4,950
VetCor Professional Practices LLC	Health Care Facilities	L+600	1.00%	7.15%	4/20/21	3,910	3,839	3,832
							<u>\$109,576</u>	<u>\$111,270</u>

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

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share amounts)

SSLP II Portfolio as of December 31, 2016 (audited)

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	\$ 5,184	\$ 5,132	\$ 5,132
American Teleconferencing Services, Ltd. (PGI) ⁽⁴⁾	Communications Equipment	L+650	1.00%	7.50%	12/8/21	14,619	13,244	14,217
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.00%	8/1/21	1,646	1,631	1,638
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.25%	6/28/22	5,241	5,191	5,188
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.50%	11/30/23	6,938	6,800	6,799
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	10,945	10,945	10,945
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	9,075	8,947	8,962
Polycom, Inc.	Communications Equipment	L+650	1.00%	7.50%	9/27/23	11,605	11,152	11,547
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.00%	12/16/22	10,000	9,901	9,900
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/21	990	990	990
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+839	1.00%	9.39%	11/25/21	8,900	8,748	8,744
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	4,988	4,938	4,938
VetCor Professional Practices LLC	Health Care Facilities	L+625	1.00%	7.25%	4/20/21	2,840	2,787	2,797
							<u>\$90,406</u>	<u>\$ 91,797</u>

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ("LIBOR" or "L") index rate or the prime index rate (PRIME or "P"), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2016.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Below is certain summarized financial information for SSLP II as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017:

	<u>March 31, 2017</u>	<u>December 31, 2016 (audited)</u>
Selected Balance Sheet Information for SSLP II:		
Investments at fair value (cost \$109,576 and \$90,406, respectively)	\$ 111,270	\$ 91,797
Cash and other assets	3,099	1,670
Total assets	<u>\$ 114,369</u>	<u>\$ 93,467</u>
Debt outstanding	\$ 45,250	\$ 32,950
Payable for investments purchased	6,837	—
Distributions payable	1,463	1,460
Interest payable and other credit facility related expenses	405	147
Accrued expenses and other payables	223	183
Total liabilities	<u>\$ 54,178</u>	<u>\$ 34,740</u>
Members' equity	<u>\$ 60,191</u>	<u>\$ 58,727</u>
Total liabilities and members' equity	<u>\$ 114,369</u>	<u>\$ 93,467</u>

SOLAR CAPITAL LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)
March 31, 2017
(in thousands, except share amounts)

	Three months ended March 31, 2017
Selected Income Statement Information for SSLP II:	
Interest income	\$ 2,091
Service fees*	\$ 24
Interest and other credit facility expenses	418
Other general and administrative expenses	25
Total expenses	\$ 467
Net investment income	\$ 1,624
Net change in unrealized gain on investments	303
Net income	\$ 1,927

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

Note 15. Solar Life Science Program LLC

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

Note 16. Capital Share Transactions

As of March 31, 2017 and December 31, 2016, 200,000,000 shares of \$0.01 par value capital stock were authorized.

Transactions in capital stock were as follows:

	Shares		Amount	
	Three months ended	Year ended	Three months ended	Year ended
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Repurchases of common stock	—	216,237	\$ —	\$ 3,408

On May 2, 2017, our Board declared a quarterly distribution of \$0.40 per share payable on July 5, 2017 to holders of record as of June 22, 2017.

Note 17. Subsequent Events

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

On May 2, 2017, our Board declared a quarterly distribution of \$0.40 per share payable on July 5, 2017 to holders of record as of June 22, 2017.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Solar Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. (the “Company”) as of March 31, 2017, the related consolidated statements of operations for the three-month periods ended March 31, 2017 and 2016, the related consolidated statement of changes in net assets for the three-month period ended March 31, 2017, and the related consolidated statements of cash flows for the three-month periods ended March 31, 2017 and 2016. These consolidated financial statements are the responsibility of the Company’s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd., as of December 31, 2016 and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2016, and in our report dated February 22, 2017, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
New York, New York
May 2, 2017

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

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

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

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

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

Overview

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

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

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

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

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

In addition, we may invest a portion of our portfolio in other types of investments, which we refer to as opportunistic investments, which are not our primary focus but are intended to enhance our overall returns. These investments may include, but are not limited to, direct investments in public companies that are not thinly traded and securities of leveraged companies located in select countries outside of the United States.

As of March 31, 2017, the Investment Adviser has directly invested approximately \$6.2 billion in more than 270 different portfolio companies since 2006. Over the same period, the Investment Adviser completed transactions with more than 165 different financial sponsors.

Recent Developments

On May 2, 2017, our Board declared a quarterly distribution of \$0.40 per share payable on July 5, 2017 to holders of record as of June 22, 2017.

Investments

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

Revenue

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

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

Expenses

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

- the cost of our organization and public offerings;
- the cost of calculating our net asset value, including the cost of any third-party valuation services;
- the cost of effecting sales and repurchases of our shares and other securities;
- interest payable on debt, if any, to finance our investments;
- fees payable to third parties relating to, or associated with, making investments, including fees and expenses associated with performing due diligence reviews of prospective investments and advisory fees;
- transfer agent and custodial fees;
- fees and expenses associated with marketing efforts;
- federal and state registration fees, any stock exchange listing fees;
- federal, state and local taxes;
- independent directors' fees and expenses;
- brokerage commissions;
- fidelity bond, directors and officers errors and omissions liability insurance and other insurance premiums;
- direct costs and expenses of administration, including printing, mailing, long distance telephone and staff;
- fees and expenses associated with independent audits and outside legal costs;
- costs associated with our reporting and compliance obligations under the 1940 Act and applicable federal and state securities laws; and
- all other expenses incurred by either Solar Capital Management or us in connection with administering our business, including payments under the Administration Agreement that will be based upon our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and our allocable portion of the costs of compensation and related expenses of our chief compliance officer and our chief financial officer and any administrative support staff.

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

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Portfolio and Investment Activity

During the three months ended March 31, 2017, we invested approximately \$99.6 million across 11 portfolio companies. This compares to investing approximately \$42.8 million in 6 portfolio companies for the three months ended March 31, 2016. Investments sold, prepaid or repaid during the three months ended March 31, 2017 totaled approximately \$84.7 million versus approximately \$30.6 million for the three months ended March 31, 2016.

At March 31, 2017, our portfolio consisted of 61 portfolio companies and was invested 61.0% in senior secured loans, 2.1% in subordinated debt, 1.1% in preferred equity and 35.8% in common equity/equity interests and warrants (of which 23.1% is Crystal Financial LLC, 7.6% is Senior Secured Unitranche Loan Program LLC and 3.7% is Senior Secured Unitranche Loan Program II LLC) measured at fair value versus 56 portfolio companies invested 63.4% in senior secured loans, 5.5% in subordinated debt, 1.3% in preferred equity and 29.8% in common equity/equity interests and warrants (of which 21.9% is Crystal Financial LLC and 6.1% is Senior Secured Unitranche Loan Program LLC) measured at fair value at March 31, 2016.

At March 31, 2017, 96.4% or \$1,257.1 million of our income producing investment portfolio* is floating rate and 3.6% or \$47.0 million is fixed rate, measured at fair value. At March 31, 2016, 90.7% or \$1,191.1 million of our income producing investment portfolio* was floating rate and 9.3% or \$121.4 million was fixed rate, measured at fair value. As of both March 31, 2017 and 2016, we had one issuer on non-accrual status.

Since inception through March 31, 2017, Solar Capital and its predecessor companies have invested approximately \$4.9 billion in 171 portfolio companies. Over the same period, Solar Capital has completed transactions with more than 125 different financial sponsors.

Crystal Financial LLC

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

As of March 31, 2017, Crystal Financial LLC had 25 funded commitments to 24 different issuers with a total par value of approximately \$347.1 million on total assets of \$465.8 million. As of December 31, 2016, Crystal Financial LLC had 26 funded commitments to 25 different issuers with a total par value of approximately \$368.8 million on total assets of \$459.7 million. As of March 31, 2017 and December 31, 2016, the largest loan outstanding totaling \$37.5 million and \$36.3 million, respectively. For the same periods, the average exposure per issuer was \$14.5 million and \$14.8 million, respectively. Crystal Financial LLC’s credit facility, which is

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

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non-recourse to Solar Capital, had approximately \$176.1 million and \$175.4 million of borrowings outstanding at March 31, 2017 and December 31, 2016, respectively. For the three months ended March 31, 2017 and March 31, 2016, Crystal Financial LLC had net income of \$7.8 million and \$9.2 million, respectively, on gross income of \$12.3 million and \$15.2 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions. As of March 31, 2017, and based upon our expectations for Crystal Financial LLC's portfolio performance, we believe that Crystal Financial LLC will be able to maintain its dividend payments to the Company.

Senior Secured Unitranche Loan Program LLC

On September 2, 2014, the Company entered into a limited liability company agreement with an affiliate (the "Investor") of a fund managed by Pacific Investment Management Company LLC ("PIMCO") to co-invest in middle market senior secured unitranche loans sourced by the same origination platform used by the Company. Initial funding commitments to the unitranche strategy total \$600 million, consisting of direct equity investments and co-investment commitments as described below. The joint venture vehicle known as the Senior Secured Unitranche Loan Program LLC ("SSLP") is structured as an unconsolidated Delaware limited liability company. The Company and the Investor initially made equity commitments to the SSLP of \$300.0 million and \$43.25 million, respectively. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and PIMCO (with approval from a representative of each required).

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

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

On November 25, 2015, SSLP commenced operations. On June 30, 2016, SSLP as transferor and SSLP 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP, as borrower entered into a \$200 million senior secured revolving credit facility (the "SSLP Facility") with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP Facility. The SSLP Facility is scheduled to mature on June 30, 2021. The SSLP Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP and SSLP 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP Facility also includes usual and customary events of default for credit facilities of this nature. There were \$76.1 million and \$67.1 million of borrowings outstanding as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Company and Voya had contributed combined equity capital in the amount of \$116.4 million and \$116.4 million, respectively. Of the \$116.4 million of contributed equity capital at March 31, 2017, the Company contributed \$29.9 million in the form of investments and \$72.0 million in the form of cash and Voya contributed \$14.5 million in the form of cash. As of March 31, 2017, the Company and Voya's remaining commitments to SSLP totaled \$73.1 million and \$10.5 million, respectively. The Company, along with Voya, controls the funding of SSLP and SSLP may not call the unfunded commitments without approval of both the Company and Voya.

As of March 31, 2017 and December 31, 2016, SSLP had total assets of \$208.5 million and \$184.8 million, respectively. For the same periods, SSLP's portfolio consisted of floating rate senior secured loans to 12 and 11

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different borrowers, respectively. For the three months ended March 31, 2017 and 2016, SSLP invested \$24.0 million in 4 portfolio companies and \$1.0 million in 1 portfolio company, respectively. Investments prepaid totaled \$0.6 million and \$0.2 million, respectively, for the three months ended March 31, 2017 and 2016. At March 31, 2017 and December 31, 2016, the weighted average yield of SSLP's portfolio was 7.4% and 7.4%, respectively, measured at fair value and 7.4% and 7.5%, respectively, measured at cost.

SSLP Portfolio as of March 31, 2017 (in thousands)

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 12,813	\$ 12,773	\$ 12,748
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	13,824	13,691	13,686
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.04%	8/1/21	3,208	3,180	3,196
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.40%	6/28/22	13,036	12,919	12,971
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.65%	11/30/23	13,840	13,574	13,564
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	34,563	34,133	34,563
Island Medical Management Holdings, LLC ⁽⁴⁾	Health Care Providers & Services	L+550	1.00%	6.50%	9/1/22	13,812	13,674	13,674
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	21,043	20,759	20,780
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.15%	12/16/22	11,970	11,855	11,850
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.40%	11/25/21	2,406	2,387	2,406
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+836	1.00%	9.51%	11/25/21	22,250	21,881	21,889
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	19,507	19,369	19,410
VetCor Professional Practices LLC	Health Care Facilities	L+600	1.00%	7.15%	4/20/21	23,726	23,562	23,251
							<u>\$203,757</u>	<u>\$203,988</u>

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

SSLP Portfolio as of December 31, 2016 (audited) (in thousands)

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 4,875	\$ 4,875	\$ 4,875
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	13,824	13,686	13,686
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.00%	8/1/21	3,292	3,261	3,275
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.25%	6/28/22	13,102	12,979	12,971
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.50%	11/30/23	13,875	13,600	13,597
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	34,650	34,202	34,650
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	20,625	20,336	20,367
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.00%	12/16/22	12,000	11,881	11,880
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/21	2,475	2,454	2,475
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+839	1.00%	9.39%	11/25/21	22,250	21,866	21,861
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	19,557	19,407	19,362
VetCor Professional Practices LLC	Health Care Facilities	L+625	1.00%	7.25%	4/20/21	21,818	21,686	21,491
							<u>\$180,233</u>	<u>\$180,490</u>

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
(2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ("LIBOR" or "L") index rate or the prime index rate (PRIME or "P"), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2016.
(3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
(4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Below is certain summarized financial information for SSLP as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017 and 2016:

	March 31, 2017	December 31, 2016 (audited)
Selected Balance Sheet Information for SSLP (in thousands):		
Investments at fair value (cost \$203,757 and \$180,233, respectively)	\$ 203,988	\$ 180,490
Cash and other assets	4,480	4,326
Total assets	\$ 208,468	\$ 184,816
Debt outstanding	\$ 76,148	\$ 67,148
Payable for investments purchased	13,674	—
Distributions payable	2,427	1,688
Interest payable and other credit facility related expenses	781	660
Accrued expenses and other payables	260	287
Total liabilities	\$ 93,290	\$ 69,783
Members' equity	\$ 115,178	\$ 115,033
Total liabilities and members' equity	\$ 208,468	\$ 184,816

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	Three months ended March 31, 2017	Three months ended March 31, 2016
Selected Income Statement Information for SSLP (in thousands):		
Interest income	\$ 3,447	\$ 1,846
Service fees*	\$ 31	\$ 15
Interest and other credit facility expenses	781	—
Other general and administrative expenses	37	35
Total expenses	\$ 849	\$ 50
Net investment income	\$ 2,598	\$ 1,796
Net change in unrealized gain (loss) on investments	(26)	(717)
Net income	\$ 2,572	\$ 1,079

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

Senior Secured Unitranche Loan Program II LLC

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

On November 15, 2016, SSLP II as transferor and SSLP II 2016-1, LLC, a newly formed wholly owned subsidiary of SSLP II, as borrower entered into a \$100 million senior secured revolving credit facility (the "SSLP II Facility") with Wells Fargo Bank, NA acting as administrative agent. Solar Capital Ltd. acts as servicer under the SSLP II Facility. The SSLP II Facility is scheduled to mature on November 15, 2021. The SSLP II Facility generally bears interest at a rate of LIBOR plus 2.50%. SSLP II and SSLP II 2016-1, LLC, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, including leverage restrictions, reporting requirements and other customary requirements for similar credit facilities. The SSLP II Facility also includes usual and customary events of default for credit facilities of this nature. There were \$45.3 million and \$33.0 million of borrowings outstanding as of March 31, 2017 and December 31, 2016, respectively. As of March 31, 2017 and December 31, 2016, the Company and WFI contributed combined equity capital in the amount of \$59.2 million and \$58.2 million, respectively. Of the \$59.2 million of contributed equity capital at March 31, 2017, the Company contributed \$43.5 million in the form of investments and \$4.3 million in the form of cash and WFI contributed \$11.4 million in the form of cash. As of March 31, 2017, the Company and WFI's remaining commitments to SSLP II totaled \$27.2 million and \$6.5 million, respectively. The Company, along with WFI, controls the funding of SSLP II and SSLP II may not call the unfunded commitments without approval of both the Company and WFI.

As of March 31, 2017 and December 31, 2016, SSLP II had total assets of \$114.4 million and \$93.5 million, respectively. For the same periods, SSLP II's portfolio consisted of floating rate senior secured loans to 15 and 12 different borrowers, respectively. For the three months ended March 31, 2017, SSLP II invested \$20.0 million in 5 portfolio companies. Investments prepaid totaled \$1.0 million for the same period. At March 31, 2017 and

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December 31, 2016, the weighted average yield of SSLP II's portfolio was 7.3% and 7.6%, respectively, measured at fair value and 7.7% and 7.9%, respectively, measured at cost.

SSLP II Portfolio as of March 31, 2017 (in thousands)

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
AccentCare, Inc.	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/21	\$ 7,000	\$ 6,965	\$ 6,965
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	5,184	5,134	5,132
American Teleconferencing Services, Ltd. (PGI) ⁽⁴⁾	Communications Equipment	L+650	1.00%	7.50%	12/8/21	14,429	13,126	14,357
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.04%	8/1/21	1,604	1,590	1,598
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.40%	6/28/22	5,214	5,167	5,188
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.65%	11/30/23	6,920	6,787	6,782
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	10,917	10,917	10,917
Island Medical Management Holdings, LLC ⁽⁴⁾	Health Care Providers & Services	L+550	1.00%	6.50%	9/1/22	6,906	6,837	6,837
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	9,259	9,132	9,143
Polycom, Inc.	Communications Equipment	L+525	1.00%	6.25%	9/27/23	11,050	10,631	11,050
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.15%	12/16/22	9,975	9,879	9,875
Professional DataSolutions, Inc.	Software	L+550	1.00%	6.50%	5/20/22	5,000	4,925	4,925
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.40%	11/25/21	963	963	963
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+836	1.00%	9.51%	11/25/21	8,900	8,754	8,756
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	4,975	4,930	4,950
VetCor Professional Practices LLC	Health Care Facilities	L+600	1.00%	7.15%	4/20/21	3,910	3,839	3,832
							<u>\$ 109,576</u>	<u>\$ 111,270</u>

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

SSLP II Portfolio as of December 31, 2016 (audited) (in thousands)

Description	Industry	Spread Above Index ⁽¹⁾	LIBOR Floor	Interest Rate ⁽²⁾	Maturity Date	Par Amount	Cost	Fair Value ⁽³⁾
Alera Group Intermediate Holdings, Inc.	Insurance	L+550	1.00%	6.50%	12/30/22	\$ 5,184	\$ 5,132	\$ 5,132
American Teleconferencing Services, Ltd. (PGI) ⁽⁴⁾	Communications Equipment	L+650	1.00%	7.50%	12/8/21	14,619	13,244	14,217
Associated Pathologists, LLC	Health Care Providers & Services	L+500	1.00%	6.00%	8/1/21	1,646	1,631	1,638
CIBT Holdings, Inc.	Professional Services	L+525	1.00%	6.25%	6/28/22	5,241	5,191	5,188
Empower Payments Acquisition, Inc. (RevSpring)	Professional Services	L+550	1.00%	6.50%	11/30/23	6,938	6,800	6,799
Falmouth Group Holdings Corp. (AMPAC) ⁽⁴⁾	Chemicals	L+675	1.00%	7.75%	12/14/21	10,945	10,945	10,945
Pet Holdings ULC & Pet Supermarket, Inc.	Specialty Retail	L+550	1.00%	6.50%	7/5/22	9,075	8,947	8,962
Polycom, Inc.	Communications Equipment	L+650	1.00%	7.50%	9/27/23	11,605	11,152	11,547
PPT Management Holdings, LLC	Health Care Providers & Services	L+600	1.00%	7.00%	12/16/22	10,000	9,901	9,900
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/21	990	990	990
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+839	1.00%	9.39%	11/25/21	8,900	8,748	8,744
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+500	1.00%	6.00%	12/31/19	4,988	4,938	4,938
VetCor Professional Practices LLC	Health Care Facilities	L+625	1.00%	7.25%	4/20/21	2,840	2,787	2,797
							\$ 90,406	\$ 91,797

- (1) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
- (2) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate ("LIBOR" or "L") index rate or the prime index rate (PRIME or "P"), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2016.
- (3) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board's valuation process described elsewhere herein.
- (4) The Company also holds this security on its Consolidated Statements of Assets and Liabilities.

Below is certain summarized financial information for SSLP II as of March 31, 2017 and December 31, 2016 and for the three months ended March 31, 2017:

	March 31, 2017	December 31, 2016 (audited)
Selected Balance Sheet Information for SSLP II (in thousands):		
Investments at fair value (cost \$109,576 and \$90,406, respectively)	\$111,270	\$ 91,797
Cash and other assets	3,099	1,670
Total assets	<u>\$114,369</u>	<u>\$ 93,467</u>
Debt outstanding	\$ 45,250	\$ 32,950
Payable for investments purchased	6,837	—
Distributions payable	1,463	1,460
Interest payable and other credit facility related expenses	405	147
Accrued expenses and other payables	223	183
Total liabilities	<u>\$ 54,178</u>	<u>\$ 34,740</u>
Members' equity	<u>\$ 60,191</u>	<u>\$ 58,727</u>
Total liabilities and members' equity	<u>\$114,369</u>	<u>\$ 93,467</u>

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	Three months ended March 31, 2017
Selected Income Statement Information for SSLP II (in thousands):	
Interest income	\$ 2,091
Service fees*	\$ 24
Interest and other credit facility expenses	418
Other general and administrative expenses	25
Total expenses	\$ 467
Net investment income	\$ 1,624
Net change in unrealized gain on investments	303
Net income	\$ 1,927

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

Stock Repurchase Programs

On July 31, 2013, the Board authorized a program for the purpose of repurchasing up to \$100 million of the Company's common stock. Under the repurchase program, the Company could have, but was not obligated to, repurchase its outstanding common stock in the open market from time to time provided that the Company complied with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in Rules 10b-18 and 10b-5 under the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. On December 5, 2013, the Board extended the repurchase program to be in place until the earlier of July 31, 2014 or until \$100 million of the Company's outstanding shares of common stock had been repurchased. On July 31, 2014, the Company's stock repurchase program expired. During the fiscal year ended December 31, 2014, the Company repurchased 1,779,033 shares at an average price of approximately \$21.97 per share, inclusive of commissions. The total dollar amount of shares repurchased in that period was \$39.1 million. During the year ended December 31, 2013, the Company repurchased 796,418 shares at an average price of approximately \$21.98 per share, inclusive of commissions, for a total dollar amount of \$17.5 million.

On October 7, 2015, the Board authorized a new share repurchase program to purchase common stock in the open market in an amount up to \$30 million. Under the repurchase program, the Company may, but is not obligated to, repurchase its outstanding common stock in the open market from time to time provided that the Company complies with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in Rules 10b-18 and 10b-5 under the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. During the year ended December 31, 2016, the Company repurchased 216,237 shares at an average price of \$15.76 per share, inclusive of commissions. The total dollar amount of shares repurchased during the year ended December 31, 2016 was \$3.4 million. On October 7, 2016, the Company's stock repurchase program expired.

Critical Accounting Policies

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

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Valuation of Portfolio Investments

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

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

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

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

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

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trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2017, there has been no change to the Company's valuation approaches or techniques and the nature of the related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

Valuation of Credit Facility, Senior Secured Notes and 2022 Unsecured Notes

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

Revenue Recognition

The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on investments may be recognized as income or applied to principal depending upon management's judgment. Some of our investments may have contractual PIK interest or dividends. PIK interest and dividends computed at the contractual rate are accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable

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

The typically higher yields and interest rates on PIK securities, to the extent we invested, reflects the payment deferral and increased credit risk associated with such instruments and that such investments may represent a significantly higher credit risk than coupon loans. PIK securities may have unreliable valuations because their continuing accruals require continuing judgments about the collectability of the deferred payments and the value of any associated collateral. PIK interest has the effect of generating investment income and increasing the incentive fees payable at a compounding rate. In addition, the deferral of PIK interest also increases the loan-to-value ratio at a compounding rate. PIK securities create the risk that incentive fees will be paid to the Investment Adviser based on non-cash accruals that ultimately may not be realized, but the Investment Adviser will be under no obligation to reimburse the Company for these fees. For the three months ended March 31, 2017 and 2016, capitalized PIK income totaled \$0.04 million and \$0.0 million, respectively.

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

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

Income Taxes

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

Recent Accounting Pronouncements

In October 2016, the U.S. Securities and Exchange Commission adopted new rules and amended rules (together, “final rules”) intended to modernize the reporting and disclosure of information by registered investment companies. In part, the final rules amend Regulation S-X and require standardized, enhanced disclosure about derivatives in investment company financial statements, as well as other amendments. The compliance date for the amendments to Regulation S-X is August 1, 2017. The Company is currently evaluating

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the impact that the adoption of the amendments to Regulation S-X will have on its consolidated financial statements and disclosures.

In November 2016, FASB issued ASU 2016-18, Statement of Cash Flows, which will amend 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 are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company is evaluating the impact of ASU 2016-18 on its consolidated financial statements and disclosures.

In December 2016, the FASB issued ASU 2016-19, Technical Corrections and Improvements. As part of this guidance, ASU 2016-19 amends FASB ASC 820 to clarify the difference between a valuation approach and a valuation technique. The amendment also requires an entity to disclose when there has been a change in either or both a valuation approach and/or a valuation technique. ASU 2016-19 is effective on a prospective basis for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. The Company has evaluated the impact of ASU 2016-19 on its consolidated financial statements and disclosures and determined that the adoption of ASU 2016-19 has not had a material impact on its consolidated financial statements.

RESULTS OF OPERATIONS

Results comparisons are for the three months ended March 31, 2017 and 2016:

Investment Income

For the three months ended March 31, 2017 and 2016, gross investment income totaled \$34.4 million and \$34.0 million, respectively. The increase in gross investment income for the year over year three month periods was primarily due to growth of the dividends from our investments in SSLP and SSLP II.

Expenses

Net expenses totaled \$18.1 million and \$17.1 million, respectively, for the three months ended March 31, 2017 and 2016, of which \$10.8 million and \$10.8 million, respectively, were base management fees and performance-based incentive fees and \$5.7 million and \$5.0 million, respectively, were interest and other credit facility expenses. Administrative services and other general and administrative expenses totaled \$1.6 million and \$2.1 million, respectively, for the three months ended March 31, 2017 and 2016. Expenses generally consist of management and performance-based incentive fees, administrative services fees, insurance expenses, legal fees, directors' fees, transfer agency fees, printing and proxy expenses, audit and tax services expenses, and other general and administrative expenses. Interest and other credit facility expenses generally consist of interest, unused fees, agency fees and loan origination fees, if any, among others. The increase in expenses for the three months ended March 31, 2017 versus the three months ended March 31, 2016 was primarily due to higher net performance-based incentive fees, as there was no waiver in the March 2017 quarter, and higher interest expense as we expensed \$0.5 million in conjunction with the February issue of 2022 Unsecured Notes.

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Net Investment Income

The Company's net investment income totaled \$16.3 million and \$16.9 million, or \$0.39 and \$0.40, per average share, respectively, for the three months ended March 31, 2017 and 2016.

Net Realized Gain (Loss)

The Company had investment sales and prepayments totaling approximately \$85 million and \$31 million, respectively, for the three months ended March 31, 2017 and 2016. Net realized gains over the same periods were \$0.6 million and \$0.0 million, respectively. Net realized gains for the three months ended March 31, 2017 were related to the sale of select assets. Net realized gains for the three months ended March 31, 2016 were de minimis.

Net Change in Unrealized Gain (Loss)

For the three months ended March 31, 2017 and 2016, net change in unrealized gain on the Company's assets and liabilities totaled \$0.3 million and \$11.3 million, respectively. Net unrealized gain for the three months ended March 31, 2017 is primarily due to appreciation in the value of our investments in Crystal Financial LLC, Breathe Technologies, Inc. and Tierpoint, LLC, among others. Partially offsetting the net change in unrealized gain was depreciation on our investments in Aegis Toxicology Sciences Corporation, Rug Doctor and Direct Buy Inc. among others. Net unrealized gain for the three months ended March 31, 2016 is primarily due to appreciation in the value of our investments in WireCo Worldgroup Inc., Rug Doctor, Crystal Financial, LLC, Global Tel*Link Corporation and Asurion, LLC, among others. Partially offsetting the net change in unrealized gain was depreciation on our investments in Bishop Lifting Products, Inc., Aegis Toxicology Sciences Corporation and Direct Buy, Inc., among others.

Net Increase in Net Assets From Operations

For the three months ended March 31, 2017 and 2016, the Company had a net increase in net assets resulting from operations of \$17.2 million and \$28.2 million, respectively. For the same periods, earnings per average share were \$0.41 and \$0.67, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity and capital resources are generated and generally available through its Credit Facility maturing in September 2021, through cash flows from operations, investment sales, prepayments of senior and subordinated loans, income earned on investments and cash equivalents, and periodic follow-on equity and/or debt offerings. As of March 31, 2017, we had a total of \$395.0 million of unused borrowing capacity under the Credit Facility, subject to borrowing base limits.

We may from time to time issue equity and/or debt securities in either public or private offerings. The issuance of such securities will depend on future market conditions, funding needs and other factors and there can be no assurance that any such issuance will occur or be successful. The primary uses of existing funds and any funds raised in the future is expected to be for investments in portfolio companies, repayment of indebtedness, cash distributions to our shareholders, or for other general corporate purposes.

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

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

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

On November 16, 2012, we issued \$100 million in aggregate principal amount of the 2042 Unsecured Notes for net proceeds of \$96.9 million. Interest on the 2042 Unsecured Notes is paid quarterly on February 15, May 15, August 15 and November 15, at a rate of 6.75% per year, commencing on February 15, 2013. The 2042 Unsecured Notes mature on November 15, 2042. The Company may redeem the 2042 Unsecured Notes in whole or in part at any time or from time to time on or after November 15, 2017.

On May 10, 2012, the Company closed a private offering of \$75 million of Senior Secured Notes with a fixed interest rate of 5.875% and a maturity date of May 10, 2017. Interest on the Senior Secured Notes is due semi-annually on May 10 and November 10. The Senior Secured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

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

Cash Equivalents

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. The Company makes purchases that are consistent with its purpose of making investments in securities described in paragraphs 1 through 3 of Section 55(a) of the 1940 Act. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents as temporary assets with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held approximately \$400 million in cash equivalents as of March 31, 2017.

Debt

Unsecured Notes

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

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

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On November 16, 2012, the Company and U.S. Bank National Association entered into an Indenture and a First Supplemental Indenture relating to the Company's issuance, offer and sale of \$100 million aggregate principal amount of its 2042 Unsecured Notes. The 2042 Unsecured Notes will mature on November 15, 2042 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after November 15, 2017 at a redemption price of \$25 per security plus accrued and unpaid interest. The 2042 Unsecured Notes bear interest at a rate of 6.75% per year payable quarterly on February 15, May 15, August 15 and November 15 of each year. The 2042 Unsecured Notes are direct senior unsecured obligations of the Company.

Revolving & Term Loan Facility

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

Senior Secured Notes

On May 10, 2012, the Company closed a private offering of \$75 million of Senior Secured Notes with a fixed interest rate of 5.875% and a maturity date of May 10, 2017. Interest on the Senior Secured Notes is due semi-annually on May 10 and November 10. The Senior Secured Notes were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended.

Certain covenants on our issued debt may restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. At March 31, 2017, the Company was in compliance with all financial and operational covenants required by the Credit Facilities.

Contractual Obligations

A summary of our significant contractual payment obligations is as follows as of March 31, 2017:

Payments Due by Period (in millions)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Revolving credit facility ⁽¹⁾	\$ —	\$ —	\$ —	\$ —	\$ —
Unsecured senior notes	150.0	—	—	—	150.0
Senior secured notes	75.0	75.0	—	—	—
Term Loans	50.0	—	—	50.0	—

(1) As of March 31, 2017, we had a total of \$395.0 million of unused borrowing capacity under our revolving credit facilities, subject to borrowing base limits.

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

<u>Class and Year</u>	<u>Total Amount Outstanding(1)</u>	<u>Asset Coverage Per Unit(2)</u>	<u>Involuntary Liquidating Preference Per Unit(3)</u>	<u>Average Market Value Per Unit(4)</u>
Revolving Credit Facilities				
Fiscal 2017 (through March 31, 2017)	\$ —	\$ —	—	N/A
Fiscal 2016	115,200	990	—	N/A
Fiscal 2015	207,900	1,459	—	N/A
Fiscal 2014	—	—	—	N/A
Fiscal 2013	—	—	—	N/A
Fiscal 2012	264,452	1,510	—	N/A
Fiscal 2011	201,355	3,757	—	N/A
Fiscal 2010	400,000	2,668	—	N/A
Fiscal 2009	88,114	8,920	—	N/A
2022 Unsecured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 150,000	\$ 1,380	—	N/A
Fiscal 2016	50,000	430	—	N/A
2042 Unsecured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 100,000	\$ 920	—	\$ 1,010
Fiscal 2016	100,000	859	—	1,002
Fiscal 2015	100,000	702	—	982
Fiscal 2014	100,000	2,294	—	943
Fiscal 2013	100,000	2,411	—	934
Fiscal 2012	100,000	571	—	923
Senior Secured Notes				
Fiscal 2017 (through March 31, 2017)	\$ 75,000	\$ 690	—	N/A
Fiscal 2016	75,000	645	—	N/A
Fiscal 2015	75,000	527	—	N/A
Fiscal 2014	75,000	1,721	—	N/A
Fiscal 2013	75,000	1,808	—	N/A
Fiscal 2012	75,000	428	—	N/A
Term Loans				
Fiscal 2017 (through March 31, 2017)	\$ 50,000	\$ 460	—	N/A
Fiscal 2016	50,000	430	—	N/A
Fiscal 2015	50,000	351	—	N/A
Fiscal 2014	50,000	1,147	—	N/A
Fiscal 2013	50,000	1,206	—	N/A
Fiscal 2012	50,000	285	—	N/A
Fiscal 2011	35,000	653	—	N/A
Fiscal 2010	35,000	233	—	N/A
Total Senior Securities				
Fiscal 2017 (through March 31, 2017)	\$ 375,000	\$ 3,450	—	N/A
Fiscal 2016	390,200	3,354	—	N/A
Fiscal 2015	432,900	3,039	—	N/A
Fiscal 2014	225,000	5,162	—	N/A
Fiscal 2013	225,000	5,425	—	N/A
Fiscal 2012	489,452	2,794	—	N/A
Fiscal 2011	236,355	4,410	—	N/A
Fiscal 2010	435,000	2,901	—	N/A
Fiscal 2009	88,114	8,920	—	N/A

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to

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- determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period. As of March 31, 2017, asset coverage was 345.0%.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable except for the 2042 Unsecured Notes which are publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit. The average market value for the fiscal 2017, 2016, 2015, 2014, 2013 and 2012 periods was \$100,983, \$100,175, \$98,196, \$94,301, \$93,392, and \$92,302, respectively.

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

On October 15, 2015, SSLP entered into an amended and restated servicing agreement with the Company. SSLP engaged and retained the Company to provide certain administrative services relating to the facilities, supplies and necessary ongoing overhead support services for the operation of SSLP's ongoing business affairs in exchange for a fee. Either party may terminate this agreement upon 30 days' written notice to the other.

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

Off-Balance Sheet Arrangements

The Company had unfunded debt and equity commitments to various delayed draw loans as well as to Crystal Financial LLC. The total amount of these unfunded commitments as of March 31, 2017 and December 31, 2016 is \$51.7 million and \$64.0 million, respectively, comprised of the following:

	March 31, 2017	December 31, 2016
Crystal Financial LLC	\$ 44.3	\$ 44.3
aTyr Pharma, Inc	5.0	5.0
CardioFocus, Inc	2.0	—
Island Medical Management Holdings, LLC	0.4	—
Vapotherm, Inc	—	10.0
SentreHeart, Inc	—	2.5
Conventus Orthopaedics, Inc	—	2.2
Total Commitments*	<u>\$ 51.7</u>	<u>\$ 64.0</u>

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

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As of March 31, 2017 and December 31, 2016, the Company had sufficient cash available and/or liquid securities available to fund its commitments as well as the commitments to Senior Secured Unitranche Loan Program LLC (“SSLP”), Senior Secured Unitranche Loan Program II LLC (“SSLP II”) and Solar Life Science Program LLC (“LSJV”), all disclosed in the notes to the Consolidated Financial Statements.

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

Distributions

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

<u>Date Declared</u>	<u>Record Date</u>	<u>Payment Date</u>	<u>Amount</u>
Fiscal 2017			
May 2, 2017	June 22, 2017	July 5, 2017	\$ 0.40
February 22, 2017	March 23, 2017	April 4, 2017	0.40
<i>Total 2016</i>			<u>\$ 0.80</u>
Fiscal 2016			
November 2, 2016	December 15, 2016	January 4, 2017	\$ 0.40
August 2, 2016	September 22, 2016	October 4, 2016	0.40
May 3, 2016	June 23, 2016	July 1, 2016	0.40
February 24, 2016	March 24, 2016	April 1, 2016	0.40
<i>Total 2016</i>			<u>\$ 1.60</u>
Fiscal 2015			
November 3, 2015	December 17, 2015	January 6, 2016	\$ 0.40
August 4, 2015	September 24, 2015	October 2, 2015	0.40
May 5, 2015	June 25, 2015	July 1, 2015	0.40
February 25, 2015	March 19, 2015	April 2, 2015	0.40
<i>Total 2015</i>			<u>\$ 1.60</u>

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

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

We maintain an “opt out” dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders’ cash distributions will be automatically reinvested in additional shares

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of our common stock, unless they specifically “opt out” of the dividend reinvestment plan so as to receive cash distributions.

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

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

Related Parties

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

- We have entered into the Advisory Agreement with Solar Capital Partners. Mr. Gross, our Chairman and Chief Executive Officer and Mr. Spohler, our Chief Operating Officer and board member, are managing members and senior investment professionals of, and have financial and controlling interests in, the Investment Adviser. In addition, Mr. Peteka, our Chief Financial Officer, Treasurer and Corporate Secretary serves as the Chief Financial Officer for Solar Capital Partners.
- The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff.
- We have entered into a license agreement with the Investment Adviser, pursuant to which the Investment Adviser has granted us a non-exclusive, royalty-free license to use the name “Solar Capital.”

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are subject to financial market risks, including changes in interest rates. During the three months ended March 31, 2017, certain of the investments in our portfolio had floating interest rates. These floating rate investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has revolving credit facilities that are generally based on floating LIBOR. Assuming no changes to our balance sheet as of March 31, 2017 and no new defaults by portfolio companies, a hypothetical one-quarter of one percent decrease in LIBOR on our floating rate assets and liabilities would reduce our net investment income by \$0.01 per average share over the next twelve months. Assuming no changes to our balance sheet as of March 31, 2017 and no new defaults by portfolio companies, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would increase our net investment income by approximately fifteen cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in any benefits of certain changes in interest rates with respect to our portfolio of investments. At March 31, 2017, we have no interest rate hedging instruments outstanding.

Increase (Decrease) in LIBOR	(0.25%)	1.00%
Increase (Decrease) in Net Investment Income Per Share Per Year	(\$0.01)	\$0.15

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As of March 31, 2017 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely

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decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

(b) Changes in Internal Controls Over Financial Reporting

Management has not identified any change in the Company's internal control over financial reporting that occurred during the first quarter of 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We, Solar Capital Management, LLC and Solar Capital Partners, LLC are not currently subject to any material pending legal proceedings threatened against us. From time to time, we may be a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our business, financial condition or results of operations beyond what has been disclosed within these financial statements.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in “Risk Factors” in the April 28, 2017 filing of our Registration Statement on Form N-2, which could materially affect our business, financial condition and/or operating results. The risks described in our Registration Statement on Form N-2 are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

We did not engage in unregistered sales of securities during the quarter ended March 31, 2017.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement ⁽¹⁾
3.2	Amended and Restated Bylaws ⁽¹⁾
4.1	Form of Common Stock Certificate ⁽²⁾
4.2	Indenture, dated as of November 16, 2012, between the Registrant and U.S. Bank National Association as trustee ⁽³⁾
4.3	First Supplemental Indenture, dated November 16, 2012, relating to the 6.75% Senior Notes due 2042, between the Registrant and U.S. Bank National Association as trustee ⁽³⁾
4.4	In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, certain instruments respecting long-term debt of the Registrant have been omitted but will be furnished to the SEC upon request
10.1	Dividend Reinvestment Plan ⁽¹⁾
10.2	Form of Senior Secured Credit Agreement by and between the Registrant, Citibank, N.A., as administrative agent, the lenders party thereto, JPMorgan Chase Bank, N.A., as syndication agent, and SunTrust Bank, as documentation agent ⁽⁹⁾
10.3	Form of Amendment No. 1 to the Senior Secured Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent ⁽⁵⁾
10.4	Form of Amendment No. 2 to the Senior Secured Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent ⁽¹⁰⁾
10.5	First Amended and Restated Investment Advisory and Management Agreement by and between the Registrant and Solar Capital Partners, LLC ⁽¹¹⁾
10.6	Form of Custodian Agreement ⁽⁷⁾
10.7	Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC ⁽⁶⁾
10.8	Form of Indemnification Agreement by and between Registrant and each of its directors ⁽¹⁾
10.9	Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC ⁽¹⁾
10.10	Form of Share Purchase Agreement by and between Registrant and Solar Capital Investors II, LLC ⁽²⁾
10.11	Form of Registration Rights Agreement ⁽⁴⁾
10.12	Form of Subscription Agreement ⁽⁴⁾
10.13	Form of Amended and Restated Limited Liability Company Agreement, dated as of October 15, 2015, between Solar Capital Ltd., Voya Retirement Insurance and Annuity Company, ReliaStar Life Insurance Company, and Voya Insurance and Annuity Company, by and through Voya Investment Management LLC, as agent and investment manager ⁽⁸⁾
10.14	Form of Senior Secured Unitranche Loan Program II LLC Amended and Restated Limited Liability Company Agreement, dated as of August 5, 2016, by and between Solar Capital Ltd. and WFI Loanco, LLC ⁽¹²⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.15	Form of Solar Life Science Program LLC Limited Liability Company Agreement, dated as of February 22, 2017, by and between Solar Capital Ltd., Solar Senior Capital Ltd. and Deerfield Solar Holdings LLC*
11.1	Computation of Per Share Earnings (included in the notes to the financial statements contained in this report)
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*
(1)	Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 Pre-Effective Amendment No. 7 (File No. 333-148734) filed on January 7, 2010.
(2)	Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 (File No 333-148734) filed on February 9, 2010.
(3)	Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 Post-Effective Amendment No. 6 (File No. 333-172968) filed on November 16, 2012.
(4)	Previously filed in connection with Solar Capital Ltd.'s report on Form 8-K filed on November 29, 2010.
(5)	Previously filed in connection with Solar Capital Ltd.'s report on Form 10-Q filed on July 31, 2013.
(6)	Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 Post-Effective Amendment No. 10 (File No. 333-172968) filed on November 12, 2013.
(7)	Previously filed in connection with Solar Capital Ltd.'s report on Form 10-K filed on February 25, 2014.
(8)	Previously filed in connection with Solar Capital Ltd.'s report on Form 10-Q filed on November 3, 2015.
(9)	Previously filed in connection with Solar Capital Ltd.'s report on Form 8-K filed on July 6, 2012.
(10)	Previously filed in connection with Solar Capital Ltd.'s report on Form 10-Q filed on November 2, 2016.
(11)	Previously filed in connection with Solar Capital Ltd.'s report on Form 10-Q filed on August 2, 2016.
(12)	Previously filed in connection with Solar Capital Ltd.'s report on Form 8-K filed on August 11, 2016.
*	Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on May 2, 2017.

SOLAR CAPITAL LTD.

By: /s/ MICHAEL S. GROSS
Michael S. Gross
Chief Executive Officer
(Principal Executive Officer)

By: /s/ RICHARD L. PETEKA
Richard L. Peteka
Chief Financial Officer
(Principal Financial and Accounting Officer)

**SOLAR LIFE SCIENCE PROGRAM LLC
LIMITED LIABILITY COMPANY AGREEMENT**

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SOLAR LIFE SCIENCE PROGRAM LLC

LIMITED LIABILITY COMPANY AGREEMENT

This Limited Liability Company Agreement, dated as of February 22, 2017, is entered into by and between Solar Capital Ltd., Solar Senior Capital Ltd. and Deerfield Solar Holdings LLC (each, a "Member" and collectively, the "Members").

WHEREAS, the Members desire to form a limited liability company under the Act (as defined below) for the purposes and pursuant to the terms set forth herein; and

WHEREAS, the Members acknowledge that PIMCO/SCP Corporate Lending Fund, L.P. shall become a Member of the Company at such time as PIMCO/SCP Corporate Lending Fund, L.P. holds its initial closing and is issued an interest in the Company pursuant to its Subscription Agreement.

NOW THEREFORE, in consideration of the mutual agreements set forth below, and intending to be legally bound, the Members hereby agree as follows:

ARTICLE 1

DEFINITIONS

Section 1.1 Definitions. For purposes of this Agreement, the following terms shall have the following meanings:

"Act": the Delaware Limited Liability Company Act, as from time to time in effect.

"Affiliate": with respect to a Person, any other Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, such Person, including, without limitation, any general partner or managing member of such Person and any investment fund now or hereafter existing which is controlled by one or more general partners or management members of, or shares the same management company with, such Person. For purposes of this definition, "control," when used with respect to any specified Person, shall mean the power, direct or indirect, to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership or other ownership interests, by contract or otherwise; and the terms "controlling" and "controlled" shall have correlative meanings.

"Agreement": this Limited Liability Company Agreement, as it may from time to time be amended.

"Allocation Requirements": the meaning set forth in Section 6.13(b).

"Approved Amendment List" the meaning set forth in Section 6.13(f).

"Audit Committee": a Committee having the powers described in a charter to be approved by the Board promptly after the date hereof and which shall initially be comprised of two members, one of whom is the chief financial officer of SLRC and SUNS and the other member to be appointed by the Deerfield Manager after the date hereof.

"Board": the meaning set forth in Section 6.1.

"Capital Account": as to each Member, the capital account maintained on the books of the Company for such Member in accordance with Section 4.1.

“Capital Commitment”: as to each Member, the total amount set forth in such Member’s Subscription Agreement delivered herewith and on the Member List, which is contributed or agreed to be contributed to the Company by such Member as a Capital Contribution.

“Capital Contribution”: as to each Member, the aggregate amount of cash actually contributed to the equity capital of the Company by such Member. The Capital Contribution of a Member that is an assignee of all or a portion of an equity interest in the Company shall include the Capital Contribution of the assignor (or a pro rata portion thereof in the case of an assignment of less than the entire equity interest of the assignor).

“Cause Event” means with respect to any Member (i) such Member has engaged in conduct which constitutes gross negligence or willful misconduct with respect to the Company which has or reasonably could be expected to have in the good faith judgment of the other Members a material adverse effect on the business of the Company, (ii) such Member has been convicted of a felony or any fraud, theft, wrongful appropriation, embezzlement or any other financial crime, (iii) a bankruptcy or other similar insolvency event has occurred with respect to such Member, (iv) a default by such Member under this Agreement that has not been cured prior to the Default Date; or (v) such Member has triggered a Solar Triggering Event or a Deerfield Triggering Event that has been deemed a Cause Event pursuant to the terms hereof.

“Certificate of Formation”: the certificate of formation for the Company filed under the Act, as from time to time amended.

“Code”: the U.S. Internal Revenue Code of 1986, as from time to time amended.

“Common Investment”: the meaning set forth in Section 9.5(a)(ii).

“Conflict”: the meaning set forth in Section 6.13(e).

“Committee”: a committee appointed by the Board, pursuant to Section 6.8, including the Audit Committee.

“Company”: the limited liability company created and existing pursuant to the Certificate of Formation and this Agreement.

“Company Counsel”: the meaning set forth in Section 10.9.

“Credit Event”: the meaning set forth in Section 6.13(e).

“Deerfield”: collectively, Deerfield Solar Holdings LLC and its Affiliates.

“Deerfield Manager”: the individual designated by Deerfield to act as Manager hereunder pursuant to Section 6.2. Deerfield may designate, remove, or designate a successor to, the Deerfield Manager by written notice thereof to the Solar Managers.

“Deerfield Triggering Event”: means an event which shall occur if (a) both James Flynn and Alex Karnal cease to be involved in the day-to-day management of the investment activities of Deerfield; and (b) Solar determines in its sole discretion to treat such event as a Cause Event.

“Default Date”: the meaning set forth in Section 3.2(a).

“Defaulting Member”: the meaning set forth in Section 3.2(a).

“Distribution Date”: the meaning set forth in Section 5.1.

“Excluded Amendments”: amendments which modify or waive the terms, conditions or material information of any Investment, other than any immaterial, ministerial or administrative amendments for which the Deerfield Manager has not provided or withheld consent within three (3) calendar days following the receipt of notice of such amendment to Deerfield from Solar, including amendments which result in: (1) an amendment or waiver of a material covenant of a borrower for more than four consecutive quarters; (2) approval of an acquisition or disposition; or (3) an amendment or waiver of any payment term, including mandatory prepayments or any funding condition.

“Expenses”: all costs and expenses, of whatever nature, directly or indirectly borne by the Company including under the Servicing Agreement and, for the avoidance of doubt, excluding any costs or expenses incurred by a Member in its capacity as a Member.

“GAAP”: United States generally accepted accounting principles as in effect from time to time.

“Independent Financing”: the meaning set forth in Section 6.13(g).

“Interim Loan” shall mean an interim borrowing provided to the Company by any of the Members prior to the SCP PIMCO Threshold Date. The terms and conditions of each Interim Loan shall be subject to Manager Approval and each of the Members shall be provided with the opportunity to participate as a lender with respect to each Interim Loan, on a pro rata basis.

“Investment”: an investment of any type held, directly or indirectly, by the Company from time to time. It is the intention of the Members that the Company only invest in Senior Secured Loans to public and private companies in the life sciences industry principally located in the United States and Canada that are sourced by Solar, provided, that the Company’s investment strategy may be modified from time to time by Manager Approval.

“Investment Company Act”: the U.S. Investment Company Act of 1940, as amended.

“Investor Laws”: the meaning set forth in Section 7.2(b).

“Loss”: the meaning set forth in Section 6.16(a).

“Manager”: the meaning set forth in Section 6.1.

“Manager Approval”: as to any matter requiring Manager Approval hereunder, the unanimous approval or, solely with respect to any matter that may be unwound if not ratified, unanimous subsequent ratification by the Managers.

“Member”: each Person identified as a Member in the first sentence hereof, and any Person that is or becomes a Member of the Company.

“Member List”: the meaning set forth in Section 2.7.

“Order”: the order that was issued by the SEC on June 30, 2014 to Solar, which permits Solar to participate in certain co-investment transactions that otherwise would be prohibited under Sections 17(d) or 57(a)(4) of the Investment Company Act.

“Organizational Expenses”: means all costs, expenses and fees incurred directly in connection with the formation of the Company including, but not limited to, the drafting and filing of the Company’s certificate of formation, and fees of any service providers used to facilitate filings with the State of Delaware or any jurisdiction in which the Company applies for authority to do business, but excluding, for the avoidance of doubt,

expenses and fees incurred in a Member's capacity as a Member, including the negotiation of this Agreement, the servicing agreement by and among the Company and the Servicer and the subscription agreement by and between the Company and each of the Members.

“Person”: shall include an individual, corporation, partnership, association, joint venture, company, limited liability company, trust, governmental authority or other entity.

“PIMCO Appointee”: the meaning set forth in Section 6.13(e).

“Portfolio Company”: with respect to any Investment, any Person that is the issuer of any equity securities, equity-related securities or obligations, debt instruments or debt-related securities or obligations (including senior debt instruments, investments in senior loans, senior debt securities and any notes or other evidences of indebtedness, preferred equity, warrants, options, subordinated debt, mezzanine securities or similar securities or instruments) that are the subject of such Investment. Portfolio Companies do not include Subsidiaries.

“Proceeding”: has the meaning set forth in Section 6.16(a).

“Profit or Loss”: as to any fiscal period, the Company's taxable income or loss for such period for federal income tax purposes under the Code, including each item of the Company's income, gains, losses and deductions for such period and as adjusted under the Code and the Treasury Regulations thereunder (including adjustments for non-deductible expenses, certain excluded items of income and any gains or losses as a result of adjustments made pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(f)).

“Reinvestment Period”: the period of time from the date of this Agreement to the fourth anniversary of the date of this Agreement, unless extended at any time upon Manager Approval or terminated earlier pursuant to the terms hereof.

“SCP PIMCO”: PIMCO/SCP Corporate Lending Fund, L.P. or any Person substituted for PIMCO/SCP Corporate Lending Fund, L.P. as a Member and approved by Manager Approval.

“SCP PIMCO Threshold Date”: the date that is the earlier of: (i) the date on which SCP PIMCO can contribute capital to the Company, (ii) the date on which SCP PIMCO terminates its Capital Commitment pursuant to its Subscription Agreement or (iii) December 31, 2017.

“SEC”: U.S. Securities and Exchange Commission.

“Senior Secured Loans”: credit facilities which are secured by a first lien on some or all of the applicable issuer's assets.

“Servicer”: SLRC and SUNS or, subject to Manager Approval, an Affiliate of SLRC or SUNS that performs administrative and loan services for the Company or, subject to the conditions of Section 8.4, a substitute Servicer appointed by the Deerfield Manager. Solar Capital Partners, LLC and Solar Capital Management, LLC are hereby approved by Manager Approval to serve as delegates of the Servicer with respect to the Company.

“Servicing Agreement”: the Servicing Agreement between the Company and the Servicer, as amended from time to time with Manager Approval.

“SLRC”: Solar Capital Ltd., or any Person substituted for Solar Capital Ltd. as a Member and approved by Manager Approval.

“SLRC Manager”: the person designated by SLRC to act as a Manager hereunder pursuant to Section 6.2. SLRC may designate, remove, or designate a successor to the SLRC Manager by written notice thereof to the Deerfield Manager and the SUNS Manager.

“Solar”: collectively, SLRC, SUNS and their Affiliates.

“Solar Managers”: collectively the SLRC Manager and the SUNS Manager.

“Solar Triggering Event”: means an event which shall occur if (a) (i) at least one of Michael Gross or Bruce Spohler is not serving as a Solar Manager, or (ii) both Michael Gross and Bruce Spohler cease to be involved in the day-to-day management of the investment activities of Solar and (b) and Deerfield determines at its sole discretion to treat such event as a Cause Event.

“Subscription Agreement”: Each of the several subscription agreements entered into between the Company and a Member.

“Subsidiary”: any investment vehicle or financing vehicle directly or indirectly owned, in whole or in part, by the Company.

“SUNS”: Solar Senior Capital Ltd., or any Person substituted for Solar Senior Capital Ltd. as a Member and approved by Manager Approval.

“SUNS Manager”: the person designated by SUNS to act as a Manager hereunder pursuant to Section 6.2. SUNS may designate, remove, or designate a successor to the SUNS Manager by written notice thereof to the Deerfield Manager and SLRC Manager.

“Tax Liability”: as to any Member and any fiscal period, the amount of net taxable income allocated to such Member in respect of such Member’s ownership in the Company with respect to such period, multiplied by the greater of (i) fifty percent (50%) and (ii) the highest combined marginal federal, state and local income tax rates for an individual resident living in New York City, taking into account (x) the non-deductibility of any item for state or local income tax purposes that is deductible for federal income tax purposes, (y) the deductibility for federal income tax purposes of state or local income taxes, and (z) the deductibility of any item for state income tax purposes that is not deductible for federal income tax purposes. The Tax Liability for any fiscal period in which such Member was allocated net loss for federal income tax purposes shall be deemed to equal zero.

“Tax Matters Member”: the meaning set forth in Section 6.17.

“Treasury Regulations”: all final and temporary federal income tax regulations, as amended from time to time, issued under the Code by the United States Treasury Department.

“Value”: as of the date of computation with respect to some or all of the assets of the Company or any assets acquired by the Company, the value of such assets determined in accordance with Section 9.5.

Section 1.2 Other Definitional Provisions. Terms defined in the singular shall have a comparable meaning when used in the plural, and vice versa. Unless otherwise specified, references herein to applicable statutes or other laws are references to the federal laws of the United States.

ARTICLE 2

GENERAL PROVISIONS

Section 2.1 Formation of the Limited Liability Company. The Company was formed under and pursuant to the Act upon the filing of the Certificate of Formation in the office of the Secretary of State of the State of Delaware, and the Members hereby agree to continue the Company under and pursuant to the Act. Michael Gross is designated and hereby ratified as an “authorized person”, within the meaning of the Act, to execute, deliver and

file the Certificate of Formation of the Company and any amendments thereto with the Delaware Secretary of State pursuant to the Act as well as any other certificates (and any amendments to and/or restatements thereof) permitted or required to be filed with the Secretary of State of the State of Delaware. The Members agree that the rights, duties and liabilities of the Members shall be as provided in the Act, except as otherwise provided herein. Each Person being admitted as a Member as of the date hereof shall be admitted as a Member at the time such Person has executed this Agreement or a counterpart of this Agreement.

Section 2.2 Company Name. The name of the Company shall be “Solar Life Science Program LLC” or such other name as approved by Manager Approval.

Section 2.3 Place of Business; Agent for Service of Process.

(a) The registered office of the Company in the State of Delaware shall be c/o Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, or such other place as the Members may designate. The principal business office of the Company shall be at 500 Park Avenue, 3rd Floor, New York, NY 10022 or such other place as may be approved by Manager Approval. The Company may also maintain additional offices at such place or places as may be approved by Manager Approval.

(b) The agent for service of process on the Company pursuant to the Act shall be Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, New Castle County, Delaware 19808, or such other Person as the Board may designate with Manager Approval.

Section 2.4 Purpose and Powers of the Company.

(a) The purpose of the Company is to make Investments, either directly or indirectly, through Subsidiaries or other Persons.

(b) In furtherance of such purpose, subject to Section 6.10, the Company, either directly or indirectly, shall have the following powers:

(i) to form, invest in or through, transfer, dispose of or otherwise deal in the interests of, and exercise all rights, powers, privileges and other incidents of ownership with respect to, investment and financing vehicles (formed in the United States or otherwise) which hold one or more Investments, including, without limitation, investment and financing vehicles that are wholly or partially controlled, managed or administered by a Member, the Servicer or any of their Affiliates, and investment and financing vehicles that are partially owned by Persons other than the Company (including but not limited to Persons that may be controlled, managed or administered by a Member, the Servicer or any of their Affiliates), and investment vehicles formed for the purpose of making and administering revolving credit investments;

(ii) to purchase or otherwise acquire, transfer, dispose of or otherwise deal in, and exercise all rights, powers, privileges and other incidents of ownership or possession with respect to, Investments without regard to whether such Investments are publicly traded, readily marketable or restricted as to transfer;

(iii) to incur indebtedness for borrowed money, and to pledge, hypothecate, mortgage, collaterally assign, or otherwise grant security interests or liens on any Company assets, including without limitation the Capital Commitments and the power and authority to call the Capital Commitments;

(iv) to guarantee, or otherwise become liable for, the obligations of other Persons, including Portfolio Companies;

(v) to engage personnel and do such other acts and things as may be necessary or advisable in connection with the powers hereunder;

(vi) to engage and compensate attorneys, accountants, investment advisors, technical advisors, consultants, custodians, contractors and agents;

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- (vii) to pay and incur other expenses and obligations incident to the operation of the Company, including Organizational Expenses;
 - (viii) to establish, maintain, and close bank accounts and draw checks or other orders for the payment of money;
 - (ix) to enter into, make and perform all such contracts, agreements and other undertakings, and to take any and all actions and engage in any and all activities, as may be incidental to, or necessary, advisable or appropriate to, the carrying out of the foregoing purpose; and
 - (x) to take any other action permitted to be taken by a limited liability company under the Act.
- (c) The Company may enter into and perform Subscription Agreements among the Company and each Member, without any further act, vote or approval of any Member notwithstanding any other provision of this Agreement, the Act or any other applicable law, rule or regulation.

Section 2.5 Fiscal Year. The fiscal year of the Company shall end on December 31 of each year.

Section 2.6 Liability of Members. Except as expressly provided in this Agreement, a Member shall have such liability for the repayment, satisfaction and discharge of the debts, liabilities and obligations of the Company only as is provided by the Act. A Member that receives a distribution made in violation of the Act shall be liable to the Company for the amount of such distribution to the extent, and only to the extent, required by the Act. The Members shall not otherwise be liable for the repayment, satisfaction or discharge of the Company's debts, liabilities and obligations, except that each Member shall be required to make Capital Contributions in accordance with the terms of this Agreement and shall be required to repay any distributions which are not made in accordance with this Agreement. Notwithstanding the foregoing provisions of this Section 2.6, no Member shall be required to pay to any other Member or the Company any deficit or negative balance which may exist from time to time in such Member's Capital Account (including upon and after dissolution of the Company).

Section 2.7 Member List. The Board shall cause to be maintained in the principal office of the Company a list (the "Member List") setting forth, with respect to each Member, such Member's name, address, Capital Commitment, Capital Contributions and such other information as the Board may deem necessary or desirable or as required by the Act. The Board shall from time to time update the Member List as necessary to reflect accurately the information therein. Any reference in this Agreement to the Member List shall be deemed to be a reference to the Member List as in effect from time to time. No action of the Members shall be required to supplement or amend the Member List. Revisions to the Member List made by the Board as a result of changes to the information set forth therein made in accordance with this Agreement shall not constitute an amendment of this Agreement.

ARTICLE 3

COMPANY CAPITAL AND INTERESTS

Section 3.1 Capital Commitments.

(a) Each Member's Capital Commitment shall be set forth on the Member List and in such Member's Subscription Agreement and shall be payable in cash in U.S. dollars. Prior to the SCP PIMCO Threshold Date, subject to Manager Approval, the Servicer may utilize the proceeds from any Interim Loan to fund Investments or pay expenses; provided that the aggregate principal amount of all Interim Loans outstanding shall not exceed the Capital Commitment of any Member. Following the SCP PIMCO Threshold Date, subject to Manager Approval, each payment of a Member's Capital Commitment shall be made from time to time within fifteen (15) business days after notice from the Servicer specifying the amount then to be paid, or such later date as may be specified in such notice; provided, that the Members agree to use commercially reasonable efforts to

contribute capital in fewer than fifteen (15) business days if practicable. Capital Contributions shall be made by all Members pro rata based on their respective Capital Commitments.

(b) Each Member's obligation to fund its Capital Commitment shall commence on the date of the Member's admission to the Company and expire upon the termination of the Reinvestment Period; provided that following the expiration of the Reinvestment Period, Members shall remain obligated to fund their respective Capital Commitments for Investments approved by Manager Approval that the Company was contractually committed to make in whole or in part (as evidenced by a binding commitment letter, binding term sheet or binding letter of intent, or definitive legal documents under which less than all advances have been made) on or before the expiration of the Reinvestment Period, Expenses and all other obligations of the Company including, for the avoidance of doubt, protective advances required under the Investments.

(c) A Member may terminate all or any portion of its remaining Capital Commitments at any time upon thirty (30) days' prior written notice to the other Members. For the avoidance of doubt, termination of all or any portion of a Member's Capital Commitment shall not require Manager Approval or the consent of any other Member. Upon any such termination, the Reinvestment Period shall terminate and the Company shall be wound down in accordance with Section 8.3.

(d) For the avoidance of doubt, termination of a remaining Capital Commitment by a Member pursuant to Section 3.1(c) shall not extinguish such Member's obligation to contribute capital to the extent any revolver or delay draw exists on or prior to the date of termination and shall not terminate the remaining Capital Commitment of any other Member.

Section 3.2 Defaulting Members.

(a) Upon the failure of any Member (a "Defaulting Member") to pay in full any portion of such Member's Capital Commitment within ten (10) days after written notice from any other Member (the "Default Date") that such payment is overdue, each of the other Members, in its sole discretion, shall have the right to pursue one or more of the following remedies on behalf of the Company, and at the Company's expense, if such failure has not been cured in full within such ten-day period:

(i) collect such unpaid portion (and all attorneys' fees and other costs incident thereto) by exercising and/or pursuing any legal remedy the Company may have;

(ii) pay to the Company the Defaulting Member's unpaid portion of the capital call (and, upon such payment, a corresponding portion of the Defaulting Member's interest in the Company shall be transferred to such Member); and

(iii) upon thirty (30) days' written notice (which period may commence during the ten-day notice period provided above), and provided that the overdue payment has not been made, dissolve and wind down the Company in accordance with Article 8.

Except as set forth below, the non-defaulting Members' election to pursue any one of such remedies shall not be deemed to preclude such Members from pursuing any other such remedy, or any other available remedy, simultaneously or subsequently.

(b) Notwithstanding any provision of this Agreement to the contrary,

(i) a Defaulting Member shall remain fully liable to the creditors of the Company to the extent provided by law as if such default had not occurred; and

(ii) a Defaulting Member shall not be entitled to distributions made after the Default Date until the default is cured; provided, however, that the Company shall have the right, but not the obligation, to apply any such distributions towards the amount otherwise payable by the Defaulting Member to the Company.

Section 3.3 Interest or Withdrawals. No Member shall be entitled to receive any interest on any Capital Contribution to the Company. Except as otherwise specifically provided herein, no Member shall be entitled to withdraw any part of its Capital Contributions or Capital Account balance.

ARTICLE 4
ALLOCATIONS

Section 4.1 Capital Accounts.

(a) An individual capital account (a "Capital Account") shall be maintained for each Member consisting of such Member's Capital Contribution, increased or decreased by Profit or Loss allocated to such Member, decreased by the cash or Value of property (giving effect to any liabilities the property is subject to, or which the Member assumes) distributed to such Member, and otherwise maintained consistent with this Agreement. In the event that the Board determines that it is prudent to modify the manner in which Capital Accounts, including all debits and credits thereto, are computed in order to be maintained consistent with this Agreement, the Board is authorized to make such modifications to the extent that they do not result in a material adverse effect to any Member. Capital Accounts shall be maintained in a manner consistent with applicable Treasury Regulations.

(b) Profit or Loss shall be allocated among Members as of the end of each fiscal year of the Company; provided that Profit or Loss shall also be allocated at the end of (i) each period terminating on the date of any withdrawal by any Member, (ii) each period terminating immediately before the date of any admission or increase in Capital Commitment of any Member, (iii) the liquidation of the Company, or (iv) any period which is determined by Manager Approval to be appropriate.

Section 4.2 Allocations of Profits and Losses.

(a) Profit or Loss shall be allocated among the Members as provided by this Section 4.2. Loss shall be allocated among the Members pro rata in accordance with such Members' Capital Contributions.

(b) The Board shall cause the Company, at such times and in such amounts as determined by the Board, in good faith, to make special allocations of Profit and Loss or specific items of income, gain, loss or deduction to the Members in order to comply with certain requirements of Treasury Regulations Sections 1.704-1(b) and 1.704-2 (including the minimum gain chargeback requirement in Treasury Regulations Section 1.704-2(f), the partner minimum gain chargeback requirement in Treasury Regulations Section 1.704-2(i)(4) and the qualified income offset requirement of the alternate test for economic effect in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)).

Section 4.3 Changes of Interests. For purposes of allocating Profit or Loss for any fiscal year or other fiscal period between any Members whose relative Company interests have changed during such period, or to any withdrawing Member that is no longer a Member in the Company, the Company shall allocate according to any method allowed by the Code and selected with Manager Approval, provided, that if any such allocation would adversely affect a former Member to a greater extent than any permitted alternative, the approval of such former Member shall be required. Distributions with respect to an interest in the Company shall be payable to the owner of such interest on the date of distribution.

Section 4.4 Allocations for Tax Purposes.

(a) Each item of income, gain, loss, deduction or credit for federal income tax purposes shall be allocated in the same manner as such item is allocated pursuant to Section 4.2.

(b) In the event of any variation between the adjusted tax basis and value of any Company property reflected in the Members' capital accounts maintained for federal income tax purposes, such variation shall be taken into account in allocating taxable income or loss for federal income tax purposes in accordance with, and to the extent consistent with, the principles under Section 704(c) of the Code and applicable Treasury Regulations.

ARTICLE 5

DISTRIBUTIONS

Section 5.1 General. Except as otherwise provided in this Article 5 or Section 8.3, distributions shall be shared among the Members as set forth in this Section 5.1. On the last day of each fiscal quarter, Solar shall review the estimated earnings of the Company during such fiscal quarter, and to the extent Solar has determined, in its reasonable discretion, that there is available income sufficient to make a distribution from available cash or cash equivalents received from one or more Investments (whether from principal repayment or otherwise and after reduction, if any, as provided by Section 5.3 and Section 5.4), Solar shall cause the Company to make distributions of such amounts of income, shared among the Members in respect of their interests in the Company in proportion to their respective Capital Accounts; provided that the amount of any such distribution may be reduced as provided by Section 5.3 and Section 5.4, including for the purpose of reinvesting proceeds received from Investments as set forth in Section 5.4; and provided, further, that such distributions shall not require Manager Approval. Additionally, the Company shall make distributions of taxable earnings (which, for the avoidance of doubt, shall not be GAAP earnings) on an annual basis as determined by Solar; provided, that such distributions do not violate the terms and conditions of any credit facilities or other borrowings of the Company. The Company shall not be required to sell or dispose of any Investments to meet such distribution requests. In each case, the Company shall distribute such amounts to the Members on a date as soon as reasonably practicable after the relevant determination by Solar (each a "Distribution Date"). Any distributions to be made by the Company which are not in accordance with the foregoing and any determination not to make any distributions as set forth in this Section 5.1 shall be subject to Manager Approval.

Section 5.2 Tax Distributions. With respect to each fiscal year of the Company, if and to the extent that the Tax Liability of any Member with respect to such fiscal year, but for this Section 5.2, would have exceeded the distributions otherwise made to such Member under Section 5.1 with respect to such fiscal year, then, unless the Managers with Manager Approval otherwise direct, the Company shall distribute to all Members on a Distribution Date (but in no event later than March 15th following the end of such fiscal year), in proportion to their respective Capital Accounts, an amount sufficient so that, together with distributions under Section 5.1 with respect to such fiscal year, each Member shall have received as of such relevant Distribution Date, distributions with respect to such fiscal year no less than such Member's Tax Liability with respect to such fiscal year, unless (i) the Company, as agreed by Manager Approval, has insufficient cash available (without the requirement for borrowings or the sale of assets) to make any such distributions or (ii) such distributions violate the terms and conditions of any credit facilities or other borrowings of the Company.

Section 5.3 Withholding. To the extent the Company is required by law to withhold or to make tax payments (including any interest, penalties or additions imposed with respect thereto) on behalf of or with respect to any Member (including backup withholding), the Company may withhold such amounts and make such tax payments as so required. If the Company pays or incurs any withholding tax or other tax obligation with respect to the income allocable or distributable to one or more Members, then the amount of such withholding tax or tax obligation shall be treated as a distribution to such Member or Members, as applicable, pursuant to the terms of this Agreement. Such amount shall be debited against the Capital Account(s) of such Member or Members as of the close of the accounting period during which the Company so withholds or pays such obligation. If the amount so withheld, paid or incurred is greater than the balance of the Capital Account(s) of the relevant Member or Members, as applicable, then such Member or Members and any successors shall make a contribution to the capital of the Company, in the amount of such excess. If such Member or Members fail to

make such contribution, any amount which the Company is obligated to pay shall be deemed an interest-free advance from the Company to such Member or Members, payable by such Member by withholding from subsequent distributions or within ten (10) days after receiving written request for payment from the Company.

Section 5.4 Reinvestment; Certain Limitations; Distributions in Kind.

(a) Amounts constituting a return of Capital Contributions received by the Company during the Reinvestment Period with respect to Investments may, upon Manager Approval, be retained and used, or reserved to be used during the Reinvestment Period, to make future Investments. Alternatively, the Members, with Manager Approval, may cause the Company to distribute, in accordance with Section 5.1 through Section 5.3, any amount that could be retained for re-investment as set forth above. To the extent such distributed amount to a Member represents a distribution out of such Member's aggregate unreturned Capital Contributions, such amount shall be added to the unfunded Capital Commitment of such Member and may be recalled by the Company during the Reinvestment Period in accordance with Article 3.

(b) In no event shall the Company be required to make a distribution to the extent that it would (i) render the Company insolvent, or (ii) violate Section 18-607(a) of the Act.

(c) No part of any distribution shall be paid to any Member from which there is due and owing to the Company, at the time of such distribution, any amount required to be paid to the Company pursuant to Article 3. Any such withheld distribution shall be paid to such Member, without interest, when all past due installments of such Member's Capital Commitment have been paid in full by such Member.

(d) Manager Approval shall be required prior to the Company making any distribution in-kind. Distributions of securities and of other non-cash assets of the Company other than upon the dissolution and liquidation of the Company shall only be made pro rata to all Members (in proportion to their respective shares of the total distribution) with respect to each security or other such asset distributed. Securities listed on a national securities exchange that are not restricted as to transferability and unlisted securities for which an active trading market exists and that are not restricted as to transferability shall be valued in the manner contemplated by Section 9.5 as of the close of business on the day preceding the distribution, and all other securities and non-cash assets shall be valued as determined pursuant to Section 9.5.

ARTICLE 6

MANAGEMENT OF COMPANY

Section 6.1 Establishment of the Board. Outside of the authority granted to the Servicer hereunder and under the Servicing Agreement, the management and control of the Company shall be vested entirely in a board of managers of the Company (the "Board") which shall act by Manager Approval. The Board is hereby established and shall be comprised of natural Persons (each such Person, a "Manager") who shall be appointed in accordance with the provisions of Section 6.2. The business and affairs of the Company shall be managed, operated and controlled by or under the direction of the Board, and the Board shall have, and is hereby granted, the full and complete power, authority and discretion for, on behalf of and in the name of the Company, to take such actions as it may in its sole discretion deem necessary or advisable to carry out any and all of the objectives and purposes of the Company, subject only to the terms of this Agreement.

Section 6.2 Board Composition; Vacancies.

(a) The Company and the Members shall take such actions as may be required to ensure that the number of Managers constituting the Board is at all times three (3). The Board shall be comprised of the following Managers: (i) two (2) individuals designated by Solar, who shall initially be Michael S. Gross and Bruce Spohler,

and (ii) one (1) individual designated by Deerfield, who shall initially be Elise Wang. A Member may, by written notice to the other Members, appoint an alternate or proxy Board designee to take action in place of any current designee who may be temporarily unavailable at the time such action is required.

(b) In the event that a vacancy is created on the Board at any time due to the death, disability, retirement, resignation or removal of a Manager, then the Member who appointed such Manager pursuant to the terms of this Section 6.2 shall have the right to designate an individual to fill such vacancy and the Company and each Member hereby agree to take such actions as may be required to ensure the election or appointment of such designee to fill such vacancy on the Board.

Section 6.3 Removal; Resignation.

(a) A Manager may be removed or replaced at any time from the Board, with or without cause, upon, and only upon, the written request of the Member that designated the applicable Manager.

(b) A Manager may resign at any time from the Board by delivering his written resignation to the Board. Any such resignation shall be effective upon receipt thereof unless it is specified to be effective at some other time or upon the occurrence of some other event. The Board's acceptance of a resignation shall not be necessary to make it effective.

Section 6.4 Meetings.

(a) The Board shall meet no less frequently than once per fiscal quarter, at such time and at such place as the Board may designate. Meetings of the Board may be held either in person or by means of telephone or video conference or other communications device that permits all Managers participating in the meeting to hear each other, at the offices of the Company or such other place (either within or outside the State of Delaware) as may be determined from time to time by the Board. Written notice of each meeting of the Board shall be given to each Manager at least three (3) business days' written notice (if the meeting is to be held in person) or two (2) business days' written notice (if the meeting is to be held by telephone communications or video conference) prior to each such meeting or upon such shorter notice as may be approved by all the Managers.

(b) Special meetings of the Board shall be held on the call of all Managers upon at least three (3) business days' written notice (if the meeting is to be held in person) or two (2) business days' written notice (if the meeting is to be held by telephone communications or video conference) to the Managers, or upon such shorter notice as may be approved by all the Managers. Any Manager may waive such notice as to himself.

(c) Attendance of a Manager at any meeting shall constitute a waiver of notice of such meeting, except where a Manager attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting. Any Manager may waive notice as to himself.

Section 6.5 Quorum; Manner of Acting.

(a) Attendance by all Managers serving on the Board shall constitute a quorum for the transaction of business of the Board. At all times when the Board is conducting business at a meeting of the Board, a quorum of the Board must be present at such meeting. If a quorum shall not be present at any meeting of the Board, then the Managers present at the meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

(b) Any Manager may participate in a meeting of the Board by means of telephone or video conference or other communications device that permits all Managers participating in the meeting to hear each other, and participation in a meeting by such means shall constitute presence in person at such meeting.

(c) Each Manager shall have one vote on all matters submitted to the Board or any Committee thereof. Except as otherwise set forth in this Agreement, the Board shall act with Manager Approval, provided, that, notwithstanding the foregoing, the approval of a majority of the Managers constituting a quorum of the Board shall be sufficient for the Company to approve or make any amendment that is not an Excluded Amendment to the terms of any Investment. For the avoidance of doubt, any action taken by the Servicer in its capacity as the Servicer and pursuant to the Servicing Agreement shall not be an act of the Solar Managers, in their capacity as Managers, or Solar, in its capacity as a Member.

Section 6.6 Action By Written Consent. Notwithstanding anything herein to the contrary, any action of the Board (or any Committee) may be taken without a meeting if either (a) a written consent executed by all of the Managers of the Board (or Committee members appointed by Solar and Deerfield) shall approve such action; *provided*, that prior written notice of such action is provided to all Managers (or Committee members) at least one day before such action is taken. Such consent shall have the same force and effect as a vote at a meeting where a quorum was present and may be stated as such in any document or instrument filed with the Secretary of State of Delaware.

Section 6.7 Expense Reimbursement. Each Manager shall be reimbursed by the Company for his reasonable out-of-pocket expenses incurred in the performance of his duties as a Manager, pursuant to such policies as may from time to time be established by the Board.

Section 6.8 Committees. The Board may, by Manager Approval, designate from among the Managers (or other persons) one or more Committees, each of which shall be comprised of one or more Managers (or other persons selected by the Managers); provided, that in no event may the Board designate any Committee with all of the authority of the Board, and, provided, further, that each Committee shall include at least one member designated by the Deerfield Manager. The Board by Manager Approval may dissolve any Committee, and the Managers that appointed a member of a Committee may remove such member of a Committee at any time. Effective on the date of this Agreement, the Board establishes the Audit Committee. The members of the Audit Committee shall be designated by the Board, and the charter for the Audit Committee shall be approved by the Board promptly after the date hereof.

Section 6.9 Servicing Agreement. The Company is entering into the Servicing Agreement with the Servicer, pursuant to which certain functions are delegated to the Servicer. The Servicing Agreement is hereby approved by the Members, provided that amendments thereto are subject to Manager Approval. Notwithstanding any other provision of this Agreement, Deerfield, as an express third-party beneficiary of the Servicing Agreement, may enforce the terms thereof for Deerfield's benefit, without Manager Approval or other approval or consent of any Manager or Member or the Company; provided Deerfield provides notice of such action to the other Members.

Section 6.10 Restrictions. Without Manager Approval, the Company shall not:

- (a) approve or make any Investments or acquire any other entity or business;
- (b) sell, dispose of or transfer to a third Person any Investments or interests in any Investments;
- (c) approve or make any Excluded Amendments to the terms of any Investments;
- (d) enter into any agreement with respect to (i) a plan of merger or consolidation of the Company with or into another entity (which, for the avoidance of doubt, does not include the consolidation of entities as may be required by GAAP) or (ii) a sale of all or substantially all of the assets of the Company;
- (e) enter into any agreement with any Affiliate of a Member (except for the Servicing Agreement which has been approved by the Members);

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- (f) amend, modify or extend the terms of the Servicing Agreement or any expense reimbursement agreement;
 - (g) change the Servicer;
 - (h) incur any debt;
 - (i) enter into any contract, arrangement or agreement (or any amendment or waiver of such contract, arrangement or agreement), whether written or oral, pursuant to which the Company would either reasonably expect to pay or be paid at least \$150,000 in the aggregate over the life of such contract, agreement or arrangement; provided that this restriction shall exclude ordinary course due diligence expenses related to pursuing Investments;
 - (j) liquidate or dissolve the Company;
 - (k) convert the Company into a corporation for United States federal income tax purposes;
 - (l) create or issue any equity interests or securities convertible into or exchangeable for equity interests of the Company;
 - (m) subject to Solar's ability to declare dividends, maintain reserves for working capital in relation to quarterly or other distributions;
 - (n) make any tax or accounting elections or make a change in tax or accounting positions;
 - (o) sue, prosecute or settle any claims against third parties;
 - (p) delegate any duties of the Board except to Committees thereof as set forth in this Agreement;
 - (q) change the name of the Company;
 - (r) enter into any new line of business;
 - (s) cause the Company to conduct an initial public offering or register any class of its securities under the Securities Exchange Act of 1934, as amended;
 - (t) amend or waive any provisions of any of the Company's constituent documents, including, without limitation, the charters of any Committees; or
 - (u) commit or agree to do any of the foregoing.

Section 6.11 No Personal Liability. Except as otherwise provided in the Act, by applicable law or expressly in this Agreement, no Manager will be obligated personally for any debt, obligation or liability of the Company, whether arising in contract, tort or otherwise, solely by reason of being a Manager.

Section 6.12 Reliance by Third Parties. Notwithstanding any other provision of this Agreement, any contract, instrument or act on behalf of the Company by a Member, a Manager, or any other Person previously delegated by Manager Approval, with the exception of such contracts, instruments or acts requiring Manager Approval under this Agreement, shall be conclusive evidence in favor of any third party dealing with the Company that such Person has the authority, power and right to execute and deliver such contract or instrument and to take such act on behalf of the Company. This Section shall not be deemed to limit the liabilities and obligations of such Person to seek approval of the Board or Manager Approval as set forth in this Agreement.

Section 6.13 Members' Outside Transactions; Investment Opportunities; Time and Attention; Conflict of Interest ; Resolution of Trading Conflicts.

(a) Each Manager shall devote such time and effort as is reasonably necessary to diligently administer the activities and affairs of the Company, but shall not be obligated to spend full time or any specific portion of their time to the activities and affairs of the Company.

(b) Solar and its Affiliates may manage or administer other investment funds and other accounts with similar or dissimilar mandates, and may be subject to the provisions of the Investment Company Act, including, without limitation, Section 57 thereof, and the Investment Advisers Act of 1940, as amended, and the rules, regulations and interpretations thereof, with respect to the allocation of investment opportunities among such other investment funds and other accounts (the "Allocation Requirements"). For the avoidance of doubt, any transaction that arises under or in connection with this Agreement shall be subject to the terms and conditions of the Order.

(c) Subject to the other provisions of this Section 6.13 and other provisions of this Agreement, each of the Members, the Servicer and each of their respective Affiliates and members may engage in, invest in, participate in or otherwise enter into other business ventures of any kind, nature and description, individually and with others, including, without limitation, the formation and management of other investment funds with or without the same or similar purposes as the Company, and the ownership of and investment in securities, and neither the Company nor any other Member shall have any right in or to any such activities or the income or profits derived therefrom.

(d) In the event that any agreement (including with respect to any Interim Loan) or Investment contemplated for the Company is with (i) any Affiliate of any Member or (ii) any other party with which a Member has an existing relationship or investment, such Member shall disclose such relationship to the Board in advance of the Board's consideration of such agreement or Investment and all material information with respect thereto. Any such conflicts of interest and/or related transactions that are presented to the Company may only be approved, waived or otherwise consented to with Manager Approval. The Members and their respective Affiliates shall not enter into a new contract or agreement with any Portfolio Company without Manager Approval, including any terms (monetary or otherwise) or conditions thereof that would be less favorable to the Company than such terms and conditions as would be reasonably expected to be obtainable at the time in a comparable arm's length transaction with a person other than an Affiliate of Solar.

(e) Deerfield shall disclose to Solar the name of any publicly traded issuer in which Deerfield has an investment if the Company proposes to invest in the same issuer (including, by way of example and not limitation, any publicly traded equity, convertible securities, bonds or other instruments traded on an exchange or otherwise not acquired in a private transaction). In addition, Deerfield and Solar each agree that, notwithstanding any other provision of this Agreement, a "Conflict" shall exist if (x) Deerfield or any of its Affiliates holds the publicly traded securities, bonds or any similar instrument of or an interest in any Portfolio Company, and (y) the value of Deerfield's securities, bonds or similar instrument or interest in such Portfolio Company exceeds 50% of Deerfield's pro rata share of the Company's investment in such Portfolio Company. If a Conflict exists and an event (each, a "Credit Event") requires the Company to approve one of the items on the Approved Amendment List below, Solar and Deerfield shall use commercially reasonable efforts to mutually agree on a reasonable course of action to address the required actions from the Approved Amendment List. If Solar and Deerfield do not mutually agree on a reasonable course of action to address such Credit Event within four (4) business days after which Deerfield is provided with appropriate materials to make such a decision, including all reasonable materials requested by Deerfield, then Solar and Deerfield will, together, request that a representative from PIMCO having involvement with a PIMCO affiliate which is a Member of the Company (the "PIMCO Appointee") be selected and be deemed a Manager under this Agreement in place of Deerfield solely for purposes of addressing the Credit Event in accordance with this Section 6.13(e) and Section 6.13(f).

(f) Subject to the limitations set forth in Section 6.13(g), the following are agreements and actions with respect to an Investment that can be approved pursuant to the procedures described in this Section 6.13 upon the occurrence of a Credit Event (the “Approved Amendment List”):

- (i) The exercise of any remedies under the relevant documentation including forbearance and restructuring upon an event of default by such issuer;
- (ii) Any amendment(s) to the relevant documentation to waive a default or event of default or any event that, with the passage of time, could reasonably be expected to cause a default or an event of default by such issuer;
- (iii) Any amendment(s) to the relevant documentation where the Company is granted a lien on intellectual property or other material additional collateral;
- (iv) Any amendment(s) to the relevant documentation that would result in a change to any amortization schedule described therein as a response to (A) the Portfolio Company’s failure to meet any key milestone or (B) a material increase in the cash burn rate applicable to the borrower thereunder; and
- (v) Any determination that a material adverse effect has occurred with respect to the Portfolio Company under the relevant governing documentation.

(g) Any agreement or action obligating the Company to make an Investment, increase its investment in, or restore the principal balance of, a Portfolio Company, or that adversely affects Deerfield’s interest in an Investment in a materially disproportionate manner compared to any other Member is not permitted under the Approved Amendment List. Furthermore, if a Conflict exists and the Deerfield Manager does not provide consent for purposes of Manager Approval to the Company investing in a debtor-in-possession financing facility for the applicable Portfolio Company, then Solar may, notwithstanding this Section 6.13, pursue and consummate such financing independently of the Company (an “Independent Financing”), provided that Solar shall offer Deerfield the right to participate as a lender in such Independent Financing, pro rata in accordance with relative percentage interests in the Company held by Solar and Deerfield as of the date of the consummation of such Independent Financing.

Section 6.14 Exculpation of Managers.

(a) No Manager shall be liable to the Company or any other Manager for any loss, damage or claim incurred by reason of any action taken or omitted to be taken by such Manager in good-faith reliance on the provisions of this Agreement, so long as such action or omission does not constitute, gross negligence, fraud or intentional misconduct by such Manager.

(b) A Manager shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements (including financial statements and information, opinions, reports or statements as to the value or amount of the assets, liabilities, Profits or Losses of the Company or any facts pertinent to the existence and amount of assets from which distributions might properly be paid) of the following Persons or groups: (i) another Manager; (ii) one or more officers or employees of the Company or the Servicer; (iii) any attorney, independent accountant, appraiser or other expert or professional employed or engaged by or on behalf of the Company or the Servicer; or (iv) any other Person selected in good faith by or on behalf of the Company, in each case as to matters that such relying Person reasonably believes to be within such other Person’s professional or expert competence. The preceding sentence shall in no way limit any Person’s right to rely on information to the extent provided in § 18-406 of the Delaware Act.

Section 6.15 Liabilities and Duties of the Members and Managers.

(a) Except as otherwise provided herein, this Agreement is not intended to, and does not, create or impose any fiduciary duty on any Member or Manager with respect to the Company. Furthermore, each of the Members, Managers and the Company hereby waives any and all fiduciary duties that, absent such waiver, may be implied by the Act or other applicable law, and in doing so, acknowledges and agrees that the duties and obligations of each Member and Manager to each other and to the Company are only as expressly set forth in this Agreement. Notwithstanding the forgoing, this Agreement is not intended to limit any fiduciary duty that any Member or Manager may have with respect to any other entity. The provisions of this Agreement, to the extent that they restrict the duties and liabilities of a Member or a Manager otherwise existing at law or in equity, are agreed by the Members and the Managers to replace such other duties and liabilities of such Member or Manager.

(b) Whenever in this Agreement a Member or a Manager is permitted or required to make a decision (including a decision that is in such Manager's "discretion" or under a grant of similar authority or latitude), such Member or Manager shall be entitled to consider only such interests and factors as such Member or Manager desires, including its own interests, and shall have no duty or obligation to give any consideration to any interest of or factors affecting the Company or any other Person other than those required by applicable law, rule, regulation or order. Whenever in this Agreement a Member or Manager is permitted or required to make a decision in such Manager's "good faith", the Member or the Manager, as applicable, shall act under such express standard and shall not be subject to any other or different standard imposed by this Agreement, the Act or any other applicable law.

Section 6.16 Indemnification.

(a) Subject to the limitations and conditions as provided in this Section 6.16, each Person who was or is made a party or is threatened to be made a party to or is involved in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative, investigative or arbitral or in the nature of an alternative dispute resolution in lieu of any of the foregoing (hereinafter a "Proceeding"), or any appeal in such a Proceeding or any inquiry or investigation that could lead to such a Proceeding, by reason of the fact that such Person, or a Person of which such Person is the legal representative, is or was a Member or a Manager or a representative thereof, shall be indemnified by the Company to the fullest extent permitted by applicable law including, but not limited to, the Act, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Company to provide broader indemnification rights than said law permitted the Company to provide prior to such amendment) against all liabilities and expenses (including judgments, penalties (including excise and similar taxes and punitive damages), losses, fines, settlements and reasonable expenses (including, without limitation, reasonable attorneys' and experts' fees)) actually incurred by such Person in connection with such Proceeding, appeal, inquiry or investigation (each a "Loss"), unless such Loss shall have been primarily the result of gross negligence, fraud or intentional misconduct by the Person seeking indemnification hereunder, in which case such indemnification shall not cover such Loss to the extent resulting from such gross negligence, fraud or intentional misconduct. Indemnification under this Section 6.16 shall continue as to a Person who has ceased to serve in the capacity which initially entitled such Person to indemnity hereunder. The rights granted pursuant to this Section 6.16 shall be deemed contract rights, and no amendment, modification or repeal of this Section 6.16 shall have the effect of limiting or denying any such rights with respect to actions taken or Proceedings, appeals, inquiries or investigations arising prior to any amendment, modification or repeal. To the fullest extent permitted by law, no Person entitled to indemnification under this Section 6.16 shall be liable to the Company or any Member for any act or omission performed or omitted by or on behalf of the Company; provided that such act or omission has not been fully adjudicated to constitute fraud, intentional misconduct or gross negligence. In addition, any Person entitled to indemnification under this Section 6.16 may consult with legal counsel selected with reasonable care and shall incur no liability to the Company or any Member to the extent that such Person acted or refrained from acting in good faith in reliance upon the opinion or advice of such counsel.

(b) The right to indemnification conferred in Section 6.16(a) shall include the right to be paid or reimbursed by the Company for the reasonable expenses incurred by a Person entitled to be indemnified under Section 6.16(a) who was, is or is threatened to be made a named defendant or respondent in a Proceeding in advance of the final disposition of the Proceeding and without any determination as to the Person's ultimate entitlement to indemnification; provided, however, that the payment of such expenses incurred by any such Person in advance of the final disposition of a Proceeding shall be made only upon delivery to the Company of a written undertaking by such Person to repay all amounts so advanced if it shall be finally adjudicated that such indemnified Person is not entitled to be indemnified under this Section 6.16 or otherwise.

(c) The Company, with Manager Approval, may indemnify and advance expenses to an employee or agent of the Company to the same extent and subject to the same conditions under which it may indemnify and advance expenses to a Member or Manager under Sections 6.16(a) and 6.16(b).

(d) The right to indemnification and the advancement and payment of expenses conferred in this Section 6.16 shall not be exclusive of any other right that a Member or other Person indemnified pursuant to this Section 6.16 may have or hereafter acquire under any law (common or statutory), contract or provision of this Agreement.

(e) The indemnification rights provided by this Section 6.16 shall inure to the benefit of the heirs, executors, administrators, successors, and assigns of each Person indemnified pursuant to this Section 6.16.

Section 6.17 Tax Matters Member.

(a) SLRC (or any Affiliate designated by SLRC as its replacement) is hereby designated, and shall serve as, the "tax matters partner" (as defined in Section 6231 of the Code) or, after the effective date of Section 1101 of the Bipartisan Budget Act of 2015 (or any successor or similar provision of federal, state or local law) (the "New Partnership Audit Rules"), the "partnership representative" ("Tax Matters Member"). Except as provided in this Section 6.17, the Tax Matters Member shall be authorized and required to make any determination, decision or election related to its capacity as Tax Matters Member, in its sole discretion, and to represent the Company (at the Company's expense) in connection with all examinations of the Company's affairs by any relevant governmental agency, including resulting administrative and judicial proceedings and to expend Company funds for professional services and costs associated therewith. The settlement of any material tax examination or proceeding by the Tax Matters Member shall be subject to the prior written consent of Deerfield, which shall not be unreasonably withheld, conditioned or delayed. The Tax Matters Member shall have the right to retain professional assistance in respect of any audit of the Company and all reasonable, documented out-of-pocket expenses and fees incurred by the Tax Matters Member on behalf of the Company as Tax Matters Member shall be reimbursed by the Company. Each Member shall be a "notice partner" within the meaning of Section 6231(a)(8) of the Code.

(b) For taxable years beginning after December 31, 2017 or later date, if applicable, the Tax Matters Member (i) except as agreed to by all of the Members, shall make an election under Section 6221 of the New Partnership Audit Rules, to the extent available under applicable law; and (ii) shall be permitted to make an election under Section 6226 of the New Partnership Audit Rules, in each case as and when permitted by applicable law; provided, that in the course of deciding whether to make the election described in clause (ii), the Tax Matters Member shall take into account the potential tax impact to each Member of such election. For purposes of the preceding sentence, the Tax Matters Member shall not be liable for making (or not making) such election after taking into account the potential tax impact of such election. If the Company is subject to any tax liabilities under Section 6225 of the New Partnership Audit Rules, the Tax Matters Member shall, in its reasonable discretion exercised in good faith, allocate among the Members any tax liability imposed under Section 6225 of the New Partnership Audit Rules, to the extent applicable, after applying the procedures set forth under Section 6225(c) by reducing amounts otherwise distributable to the Members hereunder in a fair and equitable manner (it being understood that any tax liabilities so allocated shall be treated as distributed to the applicable Members in accordance with Section 5.3).

(c) Notwithstanding anything to the contrary in this Section 6.17, the Tax Matters Partner shall at all times act at the lawful direction of the Board.

ARTICLE 7

TRANSFERS OF COMPANY INTERESTS; WITHDRAWALS

Section 7.1 Transfers by Members.

(a) The interest of a Member in the Company and any Interim Loans held by a Member may not be assigned, pledged or otherwise hypothecated without Manager Approval, provided, that, a Member shall be permitted to transfer or assign (with or without consideration) some or all of its membership interests in the Company (and all or any portion of its remaining Capital Commitments) or Interim Loans to one or more Affiliates of such Member without Manager Approval so long as no such transfer or assignment will adversely impact any other Member. Any purported assignment in violation of this Section 7.1(a) shall be void *ab initio*.

(b) In connection with the permitted transfer of any equity in the Company, each transferee shall execute a joinder to this Agreement in the form as determined by the Managers. Upon execution of such joinder by the transferee, the transferring Member shall be released from all rights, obligations, and liabilities arising from and after the date thereof with respect to the transferred interest, as applicable, including the right to vote on any matters relating to the Company. Upon such a transfer, the transferee shall assume the economic obligations and liabilities (and all economic rights and benefits) including, without limitation, the Capital Commitment of the transferring Member with respect to such transferred interest and shall become a party to this Agreement and be treated as Member hereunder.

Section 7.2 Withdrawal by Members.

Members may withdraw from the Company only as provided by this Agreement.

(a) Notwithstanding any provision contained herein to the contrary, if a Member shall obtain an opinion of counsel to the effect that, as a result of any other Member's ownership of an interest in the Company, the Company would be required to register as an investment company under the Investment Company Act of 1940, as amended, such other Member or Members shall at their election, upon written notice from such first Member, either (i) withdraw from the Company or (ii) all Members shall reduce on a pro rata basis (in accordance with the provisions of clause (d) below) their respective interest in the Company (including their respective Capital Commitment) to the extent such first Member has determined, based upon such opinion of counsel, to be necessary in order for the Company not to be required to so register. Each Member shall, upon written request from any of the other Members, promptly furnish to the other Members such information as the other Members may reasonably request from time to time in order to make a determination pursuant to this Section 7.2(a), but in no event later than ten (10) business days after such request.

(b) Notwithstanding any provision herein to the contrary, if a Member shall breach such Member's obligation under the immediately following sentence, or if any of the other Members shall obtain an opinion of counsel to the effect that any contribution or payment by a Member to the Company would cause the Company or the other Member to be in violation of, or to the effect that such Member is in violation of, the United States Bank Secrecy Act, the United States Money Laundering Act of 1986, the United States International Money Laundering Abatement and Anti-Terrorist Financing Act of 2001, the USA Patriot Act or any other similar law or regulation to which the Company, a Member, or such Member's investment in the Company may be subject from time to time (collectively, "Investor Laws"), such Member shall, upon written notice from any of the other Members, withdraw from the Company in accordance with the provisions of clause (c) below. Each Member shall, upon written request from the other Members, promptly furnish to the other Members such information as the other Members may reasonably request from time to time in order to make a determination pursuant to this Section 7.2(b), but in no event later than ten (10) business days after such request.

(c) Notwithstanding any provision contained herein to the contrary, if any Member obtains an opinion of counsel or its independent auditor, as applicable, to the effect that (i) its investment in the Company is not or

ceases to be a permitted investment for such Member under applicable laws or (ii) pursuant to GAAP the financial statements of the Company must be consolidated for accounting purposes on the books of such Member, such Member may, at its option, upon written notice to the other Members, withdraw from the Company in accordance with the provisions of clause (d) below. Each Member shall, upon written request from any other Member, promptly furnish to such other Member any information as it may reasonably request from time to time in order to make a determination pursuant to this Section 7.2(c), but in no event later than ten (10) business days after such request.

(d) If a Member withdraws its interest in the Company pursuant to this Section 7.2, the Members shall work together in good faith to negotiate the manner and timing of such withdrawal. Upon the withdrawal of any Member, the Company shall be wound down in accordance with Section 8.3.

ARTICLE 8

TERM, DISSOLUTION AND LIQUIDATION OF COMPANY

Section 8.1 Term. Except as provided in Section 8.2, the Company shall continue without dissolution until all Investments are liquidated by the Company and the proceeds thereof are distributed to the Members. Upon liquidation or termination of all Investments by the Company, any Member shall have the right to elect the dissolution of the Company by providing written notice to the other Members.

Section 8.2 Dissolution. The Company shall be dissolved and its affairs wound up upon the occurrence of any of the following events:

(a) the expiration of the term of the Company pursuant to Section 8.1;

(b)(i) a determination by the SEC or its staff to subject Solar's participation in the Company to an accounting or reporting treatment or other consequence which Solar, in its sole discretion, determines to be materially adverse to it, or (ii) a change by the SEC or its staff of their position with respect to the ability of a business development company to participate in entities like the Company in the manner described in this Agreement which Solar, in its sole discretion, determines to be materially adverse to it, in each case at the election of Solar by providing written notice of such election to the other Members, and in each such case the Members shall work together in good faith regarding the timing and manner of such dissolution;

(c) the entry of a decree of judicial dissolution pursuant to the Act, in which event the provisions of Section 8.3, as modified by said decree, shall govern the winding up of the Company's affairs;

(d) the election of a Member to terminate its Capital Commitment pursuant to Section 3.1(c); provided that, the Company shall not be dissolved and wound up if SCP PIMCO elects to terminate its Capital Commitment on or prior to the SCP PIMCO Threshold Date; or

(e) a withdrawal of a Member pursuant to Section 7.2.

Section 8.3 Wind-down.

(a) Upon the dissolution of the Company, the Company shall be liquidated in accordance with this Article and the Act. The liquidation shall be conducted and supervised by the Members in the same manner provided by Article 6 with respect to the operation of the Company during its term.

(b) From and after the date on which an event set forth in Section 8.2 becomes effective, the Company shall cease to make Investments after that date, except for (i) Investments which the Company was committed to make in whole or in part (as evidenced by a binding commitment letter, term sheet or letter of intent, or definitive legal

documents under which less than all advances have been made) on or before such effective date, and (ii) at the election of all Members within three (3) business days after receipt by the Members of written notice of the availability of such election from any Member, any Investment in a Portfolio Company in which the Company then has an Investment. Capital calls against the Capital Commitment of the Members shall cease from and after such effective date of dissolution; provided that capital calls against the Capital Commitment of the Members may continue to fund the allocable share of Investments in which the Company continues to participate (as set forth in the immediately preceding sentence), Expenses and all other obligations of the Company including, for the avoidance of doubt, protective advances required under the Investments. Subject to the foregoing, the Members shall continue to bear an allocable share of Expenses and other obligations of the Company until all Investments in which the Company participates are repaid or otherwise disposed of in the normal course of the Company's activities.

(c) Distributions to the Members during the winding down of the Company shall be made no less frequently than quarterly to the extent consisting of a Member's allocable share of cash and cash equivalents, after taking into account reasonable reserves deemed appropriate by Manager Approval, to fund Investments in which the Company continues to participate (as set forth in the immediately preceding paragraph), Expenses and all other obligations (including without limitation contingent obligations) of the Company. Unless waived by Manager Approval, the Company also may withhold ten percent (10%) of distributions in any calendar year, which withheld amount shall be distributed within sixty (60) days after the completion of the annual audit covering such year. A Member shall remain a member of the Company until all Investments in which the Company participates are repaid or otherwise disposed of, the Member's allocable share of all Expenses and all other obligations (including without limitation contingent obligations) of the Company are paid, and all distributions are made hereunder, at which time the Member shall have no further rights under this Agreement.

(d) Upon dissolution of the Company, final allocations of all items of Company Profit and Loss shall be made in accordance with Section 4.2. Upon dissolution of the Company, the assets of the Company shall be applied in the following order of priority:

(i) To creditors (other than Members) in satisfaction of liabilities of the Company (whether by payment or by the making of reasonable provision for payment thereof), including to establish any reasonable reserves which the Board may, in its reasonable judgment, deem necessary or advisable for any contingent, conditional or unmatured liability of the Company;

(ii) To establish any reserves which the Board may, in its reasonable judgment, deem necessary or advisable for any contingent, conditional or unmatured liability of the Company to Members; and

(iii) The balance, if any, to the Members in accordance with their respective positive Capital Account balances.

(e) In the event that an audit or reconciliation relating to the fiscal year in which a Member receives a distribution under this Section 8.3 reveals that such Member received a distribution in excess of that to which such Member was entitled, each of the other Members may, in its discretion, seek repayment of such distribution to the extent that such distribution exceeded what was due to such Member.

(f) Each Member shall be furnished with a statement prepared by the Company's accountant, which shall set forth the assets and liabilities of the Company as at the date of complete liquidation, and each Member's share thereof. Upon compliance with the distribution plan set forth in this Section 8.3, the Members shall cease to be such, and any Member may execute, acknowledge and cause to be filed a certificate of cancellation of the Company.

Section 8.4 Cause Event. If there is a Cause Event during the term of the Company, then:

(a) the Reinvestment Period shall terminate automatically;

(b) in the case of a Cause Event resulting from the conduct of SLRC and/or SUNS, then any amendment to an existing Investment shall be deemed to be an Excluded Amendment and the Deerfield Manager shall have the option to:

(i) on a going-forward basis, approve the actions set forth in Section 6.10(a), (b), (c), (d)(ii), (g) (subject to the limitation in clause (ii) of this Section 8.4(b)), (i), (m), (o) and any action under clause (u) that applies to the foregoing provisions, without the vote or approval of the Solar Managers; and/or

(ii) require Solar, in its capacity as Servicer, to consent to the appointment of a new Servicer reasonably acceptable to Solar within fifteen (15) business days' notice to Solar from Deerfield, to fulfill the Servicer's obligations, and receive its rights and benefits, under the Servicing Agreement; and

(c) in the case of a Cause Event resulting from the conduct of Deerfield, then the Solar Managers shall have the option to approve the actions set forth in Section 6.10(a), (b), (c), (d)(ii), (i), (m), (o) and any action under clause (u) that applies to the foregoing provisions, without the vote or approval of the Deerfield Manager.

In the event that the remedy listed in clause (b)(i) or (c) of this Section 8.4 is exercised, then the Member exercising such remedy shall owe a fiduciary duty as a Manager serving on the Board (and exercising Manager Approval) to each Member of the Company as set forth in this Agreement (and shall provide a written acknowledgement of such fiduciary duty to the Members).

In the event that a new Servicer is appointed pursuant to clause (b)(ii) of this Section 8.4, such Servicer shall be responsible for the duties and obligations to the Company and its Members to the same extent set forth in the Servicing Agreement in effect as of the date of such appointment.

ARTICLE 9

ACCOUNTING, REPORTING AND VALUATION PROVISIONS

Section 9.1 Books and Accounts.

(a) Complete and accurate books and accounts shall be maintained for the Company at its principal office. Such books and accounts shall be kept on the accrual basis method of accounting and shall include separate Capital Accounts for each Member. Capital Accounts for financial reporting purposes and for purposes of this Agreement shall be maintained in accordance with Section 4.1 and, for federal income tax purposes, the Servicer shall maintain the Members' Capital Accounts pursuant to the Servicing Agreement and in accordance with the Code and applicable Treasury Regulations. Each Member or its duly authorized representative, at its own expense, shall at all reasonable times and upon reasonable prior written notice to the Servicer have access to, and may inspect, such books and accounts and any other records of the Company for any purpose reasonably related to its interest in the Company.

(b) All funds received by the Company shall be deposited in the name of the Company in such bank account or accounts or with such custodian, and securities owned by the Company may be deposited with such custodian, as may be designated by Manager Approval from time to time and withdrawals therefrom shall be made upon such signature or signatures on behalf of the Company as may be designated by Manager Approval from time to time.

Section 9.2 Financial Reports; Tax Return.

(a) Within thirty (30) days after the end of each calendar month, pursuant to the Servicing Agreement, the Members shall cause the Servicer to prepare (or supervise the preparation of) and deliver, by any of the methods described in Section 10.6, to each Member (i) high-level summary financial information of the Company and (ii) any material information concerning new Investments made during such month or any defaults or potential defaults in investments discovered during such month.

(b) Within forty-five (45) days after the end of each calendar quarter, pursuant to the Servicing Agreement, the Servicer shall prepare (or supervise the preparation of) and deliver, by any of the methods described in Section 10.6, to each Member unaudited financial statements for such quarter-end (including schedule of Investments, balance sheet, income statement, statement of changes in net assets and financial highlights and ratios) of the Company.

(c) Within forty-five (45) days after the end of each calendar quarter, pursuant to the Servicing Agreement, the Servicer shall prepare (or supervise the preparation of) and deliver to the Company a summary of expenses by category in addition to a high level summary around how any such reimbursable expenses were allocated to the Company.

(d) Within ninety (90) days after the end of each calendar year, pursuant to the Servicing Agreement, the Servicer shall prepare (or supervise the preparation of) and deliver, by and of the methods described in Section 10.6, to each Member, audited financial statements for such calendar year.

(e) The Company's auditor shall at all times be the same auditor as engaged by Solar, which as of the date of this Agreement is KPMG LLP.

(f) The Servicer shall prepare or supervise the preparation and timely filing after the end of each fiscal year of the Company all federal and state income tax returns of the Company for such fiscal year.

Section 9.3 Tax Elections. Company may, by Manager Approval, but shall not be required to, make any election required or permitted to be made by or with respect to the Company (including, an election pursuant to the provisions of Section 754 or 1045 of the Code).

Section 9.4 Confidentiality.

(a) Each Member agrees to maintain the confidentiality of the Company's records, reports and affairs, and all information and materials furnished to such Member by the Company, the Servicer or their Affiliates with respect to their respective businesses and activities; each Member agrees not to provide to any other Person copies of any financial statements, tax returns or other records or reports, or other information or materials, provided or made available to such Member; and each Member agrees not to disclose to any other Person any information contained therein (including any information respecting Portfolio Companies), without the express prior written consent of the disclosing party; provided that any Member may provide financial statements, tax returns and other information contained therein (i) to such Member's accountants, internal and external auditors, legal counsel, financial advisors and other fiduciaries and representatives (who may be Affiliates of such Member) as long as such Member instructs such Persons to maintain the confidentiality thereof and not to disclose to any other Person any information contained therein, (ii) to any permitted transferees of such Member's Company interest that agree in writing, for the benefit of the Company, to maintain the confidentiality thereof, but only after reasonable advance notice to the Company, (iii) if and to the extent required by law (including judicial or administrative order and the rules and regulations of the SEC, including if required, filing a copy of this Agreement); provided that, to the extent legally permissible, the Company is given prior notice to enable it to seek a protective order or similar relief, (iv) to representatives of any governmental regulatory agency or authority with jurisdiction over such Member, or as otherwise may be necessary to comply with regulatory

requirements applicable to such Member and (v) in order to enforce rights under this Agreement. Notwithstanding the foregoing, the following shall not be considered confidential information for purposes of this Agreement: (A) information generally known to the public in the absence of any breach of this Section 9.4(a); (B) information obtained by a Member from a third party who is not prohibited from disclosing the information; (C) information in the possession of a Member prior to its disclosure by the Company, the Servicer or their Affiliates; or (D) information which a Member can show by written documentation was developed independently of disclosure by the Company, the Servicer or their Affiliates. Deerfield acknowledges that Solar and its affiliates are subject to reporting obligations under the Securities Exchange Act of 1934, as amended, which will require, among other things, the filing and disclosure of this Agreement and details regarding the Investments of the Company.

(b) Notwithstanding the foregoing, absent the prior written consent of Deerfield, Solar and its Affiliates shall not make any press release, public announcement, internet posting, other mass communication that contains the Company's or its Affiliates' identity as a client of the Servicer or any information concerning the composition of the assets of the Company or its Affiliates, except (i) to the extent set forth in Section 9.4(a)(iii) and (ii) for ordinary course marketing information regarding Investments including tombstone advertisements that do not reference Deerfield or its Affiliates. To the extent permitted by applicable law, and notwithstanding the provisions of this Article 9, each of the Company, the Servicer or any of their Affiliates may, in its reasonable discretion, keep confidential from any Member information to the extent such Person reasonably determines that disclosure of such information to such Member likely would have a material adverse effect upon the Company or a Portfolio Company due to an actual or likely conflict of business interests between such Member and one or more other parties or an actual or likely imposition of additional statutory or regulatory constraints upon the Company, the Servicer, its Affiliates or a Portfolio Company. Notwithstanding the foregoing, each of the Company, the Servicer or any of their Affiliates shall promptly provide to each Member all relevant information and documents related to any notice or request (whether written or oral) received from any governmental or regulatory agency involving any pending or threatened Proceeding in connection with the activities or operations of the Company.

(c) The Members: (i) acknowledge that the Company, the Servicer, its Affiliates, and their respective direct or indirect members, managers, officers, directors and employees are expected to acquire confidential third-party information (e.g., through Portfolio Company directorships held by such Persons) that, pursuant to fiduciary, contractual, legal or similar obligations, cannot be disclosed to the Company or the Members; and (ii) agree that none of such Persons shall be in breach of any duty under this Agreement or the Act as a result of acquiring, holding and/or failing to disclose such information to the Company or the Members; provided that, without the prior written consent of Deerfield, in its sole discretion, Solar shall use, and shall cause the Servicer to use, reasonable best efforts to (x) cause each such Persons (if applicable) enumerated in item (i) to avoid incurring any such obligations which would restrict the sharing of such information with the Company, the Managers or the Members as a result of such fiduciary, contractual, legal or similar obligations, (y) to not disclose any material non-public information regarding any Portfolio Company or potential Portfolio Company to Deerfield or the Deerfield Manager without the prior consent of such recipient, and (z) cooperate with Deerfield's compliance department to assist with Deerfield's compliance with respect to internal trade restriction policies.

Section 9.5 Valuation.

(a) Valuations shall be made as required under this Agreement and as of the end of each fiscal quarter and on an annual basis, in accordance with Accounting Standards Codification 820 (or any successor guidance regarding determination of fair value of assets) and the following provisions:

(i) Within forty-five (45) days after the end of each fiscal quarter of each fiscal year, the Board shall determine the valuation of the assets of the Company using valuations provided to the Board by Servicer within thirty (30) business days after the date as of which such valuation is to be made (which valuations shall be made in accordance with the valuation guidelines set forth on Exhibit A hereto). In the event that

Solar does not provide valuations to the Board within thirty (30) business days of the end of any fiscal quarter, Deerfield shall have the right, at the Company's expense, to hire an independent appraiser or other valuation expert with the requisite experience in valuing investments to determine the value of the Company's assets (with such independent appraiser or valuation expert being reasonably acceptable to Solar), which valuation shall be binding on the Company and deemed approved by the Board in accordance with Section 9.5(b). The Board shall promptly deliver any such Board-approved valuations to the Servicer for delivery to the Members.

(ii) In the event that an Investment held by the Company is also held by another investment vehicle managed by the investment adviser to SLRC or SUNS or any Affiliate of such investment adviser (a "Common Investment"), it is expected that the valuation of such Common Investment shall be determined by Solar in a consistent manner. In the event that Solar provides the Board with a valuation of a Common Investment that is different from the valuation provided to another investment vehicle managed by Solar, Solar shall disclose such discrepancy to the Board, and the Deerfield Manager shall have the right to require the Company to hire an independent appraiser or other valuation expert with the requisite experience in valuing investments mutually acceptable to the Members, which acceptance shall not be unreasonably withheld, at the Company's expense to determine the value of the applicable asset which is the subject of the discrepancy. The determination made by such appraiser or expert shall be binding on the Company and the Members in accordance with Section 9.5(b) below.

(iii) To the extent a valuation is required under this Agreement at a time other than the end of a fiscal quarter or as of a Distribution Date hereunder, Solar shall determine the valuation of the assets of the Company as of the relevant date in accordance with the Company's valuation guidelines then in effect.

(iv) Anything in this Section 9.5 to the contrary notwithstanding, the Deerfield Manager shall have the right to object to the Servicer's valuation of the Company's assets and may require the Company to hire an independent appraiser or other valuation expert with the requisite experience in valuing investments mutually acceptable to the Members, which acceptance shall not be unreasonably withheld, at the Company's expense to determine the value of the applicable asset which is the subject of the objection; provided that any such objection is provided to the Servicer by the Deerfield Manager in writing within fifteen (15) business days of its receipt. Such objection shall be made automatically in relation to any valuation provided in connection with any in-kind distribution under this Agreement. The determination made by such appraiser or expert shall be binding on the Company and the Members in accordance with Section 9.5(b) below.

(b) All valuations shall be made in accordance with the foregoing and shall be final and binding on all Members, absent actual and apparent error.

(c) For the avoidance of doubt, the market value of all of the outstanding equity tranche of the Company shall equal the net asset value (or shareholder's equity) calculated in accordance with GAAP.

ARTICLE 10

MISCELLANEOUS PROVISIONS

Section 10.1 Power of Attorney. Each Member irrevocably constitutes and appoints Solar the true and lawful attorney-in-fact of such Member to execute, acknowledge, swear to and file, on behalf of the Company such ministerial acts or documents (including regulatory, administrative or corporate filings) as Solar may determine, in its reasonable discretion, are appropriate in connection with the operation of the Company. The power of attorney granted hereunder is not intended to be a general grant of power to independently exercise discretionary judgment on behalf of the Company or the Members.

Section 10.2 Determination of Disputes. Any dispute or controversy among the Members (other than a suit brought against a Defaulting Member) arising in connection with (i) this Agreement or any amendment hereof, (ii) the breach or alleged breach hereof, (iii) the actions of any of the Members, or (iv) the formation, operation or dissolution and liquidation of the Company, shall be determined and settled by arbitration in New York, New York, by a panel of three members who shall be selected, and such arbitration shall be conducted, in accordance with the commercial rules of the American Arbitration Association. Any award rendered therein shall be final and binding upon the Members and the Company and judgment upon any such award rendered by said arbitrators may be entered in any court having jurisdiction thereof. The party or parties against which an award is made shall bear its or their own expenses and those of the prevailing party or parties, including reasonable fees and disbursements of attorneys, accountants, and financial experts, and shall bear all arbitration fees and expenses of the arbitrators.

Section 10.3 Other Documents.

(a) The Members agree to execute such other instruments and documents as may be required by law or which a Member deems necessary or appropriate to carry out the intent of this Agreement.

(b) Each Member shall directly bear all of its own fees and expenses associated with the preparation, negotiation, execution and delivery of this Agreement and the other documents contemplated hereby, except for documents used in the formation of the Company which shall constitute an Organizational Expense.

Section 10.4 Force Majeure. Whenever any act or thing is required of the Company or a Member hereunder to be done within any specified period of time, the Company and such Member shall be entitled to such additional period of time to do such act or thing as shall equal any period of delay resulting from causes beyond the reasonable control of the Company or such Member, including, without limitation, bank holidays, and actions of governmental agencies, and excluding, without limitation, economic hardship; provided that this provision shall not have the effect of relieving the Company or such Member from the obligation to perform any such act or thing.

Section 10.5 Applicable Law. This Agreement shall be governed by, and construed in accordance with, the internal law of the State of Delaware, except to the extent that the provisions of the Act are mandatorily applicable.

Section 10.6 Waivers.

(a) No waiver of the provisions hereof shall be valid unless in writing and then only to the extent therein set forth. Any right or remedy of the Members hereunder may be waived by unanimous agreement of the Members, and any such waiver shall be binding on all Members. Except as specifically herein provided, no failure or delay by any party in exercising any right or remedy hereunder shall operate as a waiver thereof, and a waiver of a particular right or remedy on one occasion shall not be deemed a waiver of any other right or remedy or a waiver on any subsequent occasion.

(b) Except as otherwise provided in this Agreement, any approval or consent of the Members may be given by unanimous approval of the Members, and any such approval or consent shall be binding on all Members.

Section 10.7 Notices. All notices, demands, solicitations of consent or approval, and other communications hereunder shall be in writing or by electronic mail (with or without attached PDFs), and shall be sufficiently given if personally delivered or sent by postage prepaid, registered or certified mail, return receipt requested, or sent by electronic mail, overnight courier or facsimile transmission, addressed as follows: if intended for the Company, to the Company's principal office determined pursuant to Section 2.3; and if intended for any Member, to the address of such Member set forth on the Company's records, or to such other address as any Member may designate by written notice. Notices shall be deemed to have been given (i) when personally

delivered, (ii) if sent by registered or certified mail, on the earlier of (A) three days after the date on which deposited in the mails or (B) the date on which received, or (iii) if sent by electronic mail, overnight courier or facsimile transmission, on the date on which received; provided that notices of a change of address shall not be deemed given until the actual receipt thereof. The provisions of this Section shall not prohibit the giving of written notice in any other manner; any such written notice shall be deemed given only when actually received.

Section 10.8 Construction.

(a) The captions used herein are intended for convenience of reference only and shall not modify or affect in any manner the meaning or interpretation of any of the provisions of this Agreement.

(b) As used herein, the singular shall include the plural, the masculine gender shall include the feminine and neuter, and the neuter gender shall include the masculine and feminine, unless the context otherwise requires.

(c) The words “hereof,” “herein,” and “hereunder,” and words of similar import, when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement.

(d) References in this Agreement to Articles and Sections are intended to refer to Articles and Sections of this Agreement unless otherwise specifically stated.

(e) Nothing in this Agreement shall be deemed to create any right in or benefit for any creditor of the Company that is not a party hereto, and this Agreement shall not be construed in any respect to be for the benefit of any creditor of the Company that is not a party hereto.

Section 10.9 Amendments.

(a) This Agreement may be amended at any time and from time to time by Manager Approval. Any amendment which adversely impacts any individual Member vis-à-vis the other Members will require the consent of the Member adversely impacted and no amendment may increase a Member’s Capital Commitment or otherwise increase its obligation to make Capital Contributions without such Member’s consent.

(b) Notwithstanding the foregoing, a Member may amend this Agreement and the Member List at any time and from time to time to reflect the admission or withdrawal of any Member or the change in any Member’s Capital Commitment, as contemplated by this Agreement.

Section 10.10 Legal Counsel. Solar has engaged Akin Gump Strauss Hauer & Feld LLP (“Company Counsel”), as legal counsel to the Company, Solar and the Servicer. Moreover, Company Counsel has previously represented and/or concurrently represents the interests of Solar, the Servicer and/or parties related thereto in connection with matters other than the preparation of this Agreement and may represent such Persons in the future. Each Member:

(a) approves Company Counsel’s representation of the Company, Solar and the Servicer in the preparation of this Agreement; and (b) acknowledges that Company Counsel has not been engaged by any other Member to protect or represent the interests of such Member vis-à-vis the Company or the preparation of this Agreement, and that actual or potential conflicts of interest may exist among the Members in connection with the preparation of this Agreement. In addition, each Member: (i) acknowledges the possibility of a future conflict or dispute among Members or between any Member or Members and the Company or the Servicer; and (ii) acknowledges the possibility that, under the laws and ethical rules governing the conduct of attorneys, Company Counsel may be precluded from representing the Company and/or Solar and/or the Servicer (or any equity holder thereof) in connection with any such conflict or dispute. Nothing in this Section 10.9 shall preclude the Company from selecting different legal counsel to represent it at any time in the future, and no Member shall be deemed by virtue of this Section 10.9 to have waived its right to object to any conflict of interest relating to matters arising from and after the date hereof whether or not arising out of this Agreement or the transactions contemplated hereunder.

Section 10.11 Execution. This Agreement may be executed in any number of counterparts and all such counterparts together shall constitute one agreement binding on all Members. This Agreement and any amendments, waivers, consents or supplements may be executed by facsimile or portable document format (.pdf), which shall be valid for all purposes.

Section 10.12 Binding Effect. This Agreement shall be binding upon and shall inure to the benefit of the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto; provided that this provision shall not be construed to permit any assignment or transfer which is otherwise prohibited hereby.

Section 10.13 Severability. If any one or more of the provisions contained in this Agreement, or any application thereof, shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and all other applications thereof shall not in any way be affected or impaired thereby.

Section 10.14 Computation of Time. In computing any period of time under this Agreement, the day of the act, event, or default from which the designated period of time begins to run shall not be included. The last day of the period so computed shall be included, unless it is a Saturday, Sunday or legal holiday on which banks in New York are closed, in which event the period shall run until the end of the next day which is not a Saturday, Sunday or such a legal holiday. Any reference to "business day" shall refer to any day which is not a Saturday, Sunday or such a legal holiday. Any references to time of day shall refer to New York time.

Section 10.15 Entire Agreement. This Agreement and the Subscription Agreements entered into between the Company and each Member in connection with the Members' subscription of interests in the Company set forth the entire understanding among the parties relating to the subject matter hereof, any and all prior correspondence, conversations, memoranda or other writings being merged herein and replaced and being without effect hereon. No promises, covenants or representations of any character or nature other than those expressly stated herein, in such Subscription Agreements, or in any such other agreement have been made to induce any party to enter into this Agreement.

[Remainder of page left blank]

IN WITNESS WHEREOF, the Members have caused this Agreement to be executed and delivered as of date first above written.

SOLAR CAPITAL LTD.

By: /s/ Michael S. Gross
Name: Michael S. Gross
Title: Chief Executive Officer

SOLAR SENIOR CAPITAL LTD.

By: /s/ Michael S. Gross
Name: Michael S. Gross
Title: Chief Executive Officer

DEERFIELD SOLAR HOLDINGS, LLC

By: Deerfield Mgmt, L.P.
Its Manager

By: J.E. Flynn Capital, LLC
General Partner

By: /s/ David J. Clark
Name: David J. Clark
Title: Authorized Signatory

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Michael S. Gross, Chief Executive Officer of Solar Capital Ltd., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Solar Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 2nd day of May, 2017

/s/ MICHAEL S. GROSS

Michael S. Gross

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Richard L. Peteka, Chief Financial Officer of Solar Capital Ltd., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Solar Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this 2nd day of May, 2017

/s/ RICHARD L. PETEKA

Richard L. Peteka

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2017 (the "Report") of Solar Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, MICHAEL S. GROSS, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ MICHAEL S. GROSS

Name: Michael S. Gross

Date: May 2, 2017

CERTIFICATION OF CHIEF FINANCIAL OFFICER

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)

In connection with the Quarterly Report on Form 10-Q for the period ended March 31, 2017 (the "Report") of Solar Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, RICHARD L. PETEKA, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ RICHARD L. PETEKA

Name: Richard L. Peteka
Date: May 2, 2017