

Solar Capital Ltd.  
Form 10-Q  
November 04, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the Quarter Ended September 30, 2014

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

**SOLAR CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

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**Maryland**  
(State of Incorporation)

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

Identification No.)

**500 Park Avenue**

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

**10022**  
(Zip Code)

**(212) 993-1670**

(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of November 3, 2014 was 42,465,162.

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**SOLAR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

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

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

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

(in thousands, except share amounts)

	September 30, 2014 (unaudited)	December 31, 2013
<b>Assets</b>		
Investments at fair value:		
Companies less than 5% owned (cost: \$766,404 and \$688,685, respectively)	\$ 759,557	\$ 680,720
Companies 5% to 25% owned (cost: \$8,511 and \$7,789, respectively)	7,235	7,789
Companies more than 25% owned (cost: \$341,202 and \$394,285, respectively)	367,775	399,890
Total investments (cost: \$1,116,117 and \$1,090,759, respectively)	1,134,567	1,088,399
Cash and cash equivalents	557,164	585,278
Foreign currency (cost: \$68 and \$1,702, respectively)	66	1,701
Interest receivable	5,372	5,623
Dividends receivable	8,153	8,605
Deferred financing costs	3,273	3,300
Derivatives (see note 7)		
Receivable for investments sold	7,714	14,870
Prepaid expenses and other assets	933	666
<b>Total assets</b>	<b>\$ 1,717,242</b>	<b>\$ 1,708,442</b>
<b>Liabilities</b>		
Revolving credit facilities (see note 6 and 8)	\$	\$
Unsecured senior notes (see note 8)	100,000	100,000
Senior secured notes (see note 6 and 8)	75,000	75,000
Term loan (see note 6 and 8)	50,000	50,000
Distributions payable	16,986	17,698
Payable for investments and cash equivalents purchased	514,684	454,887
Management fee payable (see note 3)	6,159	5,780
Performance-based incentive fee payable (see note 3)		4,633
Administrative services expense payable (see note 3)	1,622	2,085
Interest payable (see note 8)	2,595	1,499
Other liabilities and accrued expenses	1,492	1,223
<b>Total liabilities</b>	<b>\$ 768,538</b>	<b>\$ 712,805</b>
Commitments and contingencies (see note 12)		
<b>Net Assets</b>		
Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 42,465,162 and 44,244,195 shares issued and outstanding, respectively	\$ 425	\$ 442

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Paid-in capital in excess of par	1,071,484	1,110,545
Distributions in excess of net investment income	(18,885)	(17,344)
Accumulated net realized loss	(122,767)	(92,706)
Net unrealized appreciation (depreciation)	18,447	(5,300)
<b>Total net assets</b>	<b>\$ 948,704</b>	<b>\$ 995,637</b>
<b>Net Asset Value Per Share</b>	<b>\$ 22.34</b>	<b>\$ 22.50</b>

See notes to consolidated financial statements.

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

(in thousands, except share amounts)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
<b>INVESTMENT INCOME:</b>				
Interest:				
Companies less than 5% owned	\$ 18,897	\$ 28,128	\$ 60,932	\$ 83,081
Companies 5% to 25% owned	253	3,189	733	6,085
Companies more than 25% owned	817	3,184	2,594	7,736
Dividends:				
Companies 5% to 25% owned				5,565
Companies more than 25% owned	8,391	8,485	24,733	25,761
Total investment income	28,358	42,986	88,992	128,228
<b>EXPENSES:</b>				
Management fees (see note 3)	\$ 6,159	\$ 6,613	\$ 18,542	\$ 21,014
Performance-based incentive fees (see note 3)		5,407	3,213	16,601
Interest and other credit facility expenses (see note 8)	3,630	6,755	10,843	16,397
Administrative services expense (see note 3)	1,268	1,196	3,879	3,452
Other general and administrative expenses	941	1,387	2,599	4,361
Total expenses	11,998	21,358	39,076	61,825
Net investment income	\$ 16,360	\$ 21,628	\$ 49,916	\$ 66,403
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS, FOREIGN CURRENCIES AND DERIVATIVES:</b>				
Net realized gain (loss) on investments and cash equivalents:				
Companies less than 5% owned	\$	\$ 2,185	\$ 6	\$ 794
Companies 5% to 25% owned		(17,728)	1,176	(17,728)
Companies more than 25% owned	51		(25,233)	472
Net realized gain (loss) on investments and cash equivalents	51	(15,543)	(24,051)	(16,462)
Net realized loss on foreign currencies and derivatives:	(3,016)	(110)	(6,010)	(414)
Net realized loss	(2,965)	(15,653)	(30,061)	(16,876)
Net change in unrealized gain (loss) on investments and cash equivalents	(609)	5,904	20,810	(3,791)
Net change in unrealized gain (loss) on foreign currencies and derivatives	(18)	(1,309)	2,937	627
Net change in unrealized gain (loss)	(627)	4,595	23,747	(3,164)
Net realized and unrealized gain (loss) on investments, cash equivalents, foreign currencies and derivatives	(3,592)	(11,058)	(6,314)	(20,040)

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<b>NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ 12,768	\$ 10,570	\$ 43,602	\$ 46,363
<b>EARNINGS PER SHARE (see note 5)</b>	\$ 0.30	\$ 0.24	\$ 1.01	\$ 1.04

See notes to consolidated financial statements.

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

	Nine months ended September 30, 2014 (unaudited)	Year ended December 31, 2013
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 49,916	\$ 84,935
Net realized loss	(30,061)	(44,425)
Net change in unrealized gain (loss)	23,747	34,800
<b>Net increase in net assets resulting from operations</b>	<b>43,602</b>	<b>75,310</b>
<b>Distributions to stockholders:</b>		
From net investment income	(51,457)	(68,796)
From net realized gains		(20,652)
<b>Net distributions to stockholders</b>	<b>(51,457)</b>	<b>(89,448)</b>
<b>Capital transactions:</b>		
Net proceeds from common stock sold		146,857
Repurchases of common stock	(39,078)	(17,508)
Less offering costs		(61)
Reinvestment of distributions		2,214
<b>Net increase (decrease) in net assets resulting from capital transactions</b>	<b>(39,078)</b>	<b>131,502</b>
Total increase (decrease) in net assets	(46,933)	117,364
Net assets at beginning of period	995,637	878,273
Net assets at end of period <sup>(1)</sup>	\$ 948,704	\$ 995,637
<b>Capital stock activity:</b>		
Common stock sold		6,253,226
Common stock repurchased	(1,779,033)	(796,418)
Common stock issued from reinvestment of distributions		93,327
<b>Net increase (decrease) from capital stock activity</b>	<b>(1,779,033)</b>	<b>5,550,135</b>

(1) Includes undistributed (overdistributed) net investment income of (\$18,885) and (\$17,344), respectively.  
See notes to consolidated financial statements.

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

(in thousands)

	Nine months ended	
	September 30, 2014	September 30, 2013
<b>Cash Flows from Operating Activities:</b>		
<b>Net increase in net assets from operations</b>	\$ 43,602	\$ 46,363
Adjustments to reconcile net increase in net assets from operations:		
Net realized loss on investments and cash equivalents	24,051	16,462
Net realized loss on foreign currencies and derivatives	6,010	414
Net change in unrealized (gain) loss on investments and cash equivalents	(20,810)	3,791
Net change in unrealized (gain) loss on foreign currencies and derivatives	(2,937)	(627)
<b>(Increase) decrease in operating assets:</b>		
Purchase of investments	(579,059)	(227,497)
Proceeds from disposition of investments	529,394	446,542
Capitalization of payment-in-kind interest	(3,169)	(10,427)
Collections of payment-in-kind interest	352	33,508
Receivable for investments sold	7,156	(15,969)
Interest receivable	251	4,816
Dividend receivable	452	(8,080)
Prepaid expenses and other assets	(267)	(232)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments and cash equivalents purchased	59,797	(11,981)
Management fee payable	379	1
Performance-based incentive fees payable	(4,633)	(643)
Administrative services expense payable	(463)	392
Interest payable	1,096	184
Other liabilities and accrued expenses	269	(796)
<b>Net Cash Provided by Operating Activities</b>	61,471	276,221
<b>Cash Flows from Financing Activities:</b>		
Cash distributions paid	(52,169)	(74,991)
Common stock offering costs		(60)
Deferred financing costs	27	919
Net proceeds from common stock sold		146,857
Repurchase of common stock	(39,078)	(15,489)
Proceeds from borrowings		513,592
Repayments of borrowings		(778,044)
<b>Net Cash Used In Financing Activities</b>	(91,220)	(207,216)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(29,749)	69,005
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	586,979	15,039
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 557,230	\$ 84,044
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 9,747	\$ 16,213

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Cash paid for income taxes	\$	\$	690
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Non-cash financing activities consist of the reinvestment of distributions of \$0 and \$2,214 for the nine months ended September 30, 2014 and 2013, respectively.

See notes to consolidated financial statements.

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September 30, 2014

(in thousands)

Description	Industry	Interest <sup>(1)</sup>	Maturity	Acquisition Date	Par Amount	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans 64.0%</b>							
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	9.50%	8/24/2021	2/20/2014	\$ 25,000	\$ 24,702	\$ 25,000
Asurion, LLC	Insurance	8.50%	3/3/2021	2/27/2014	10,000	9,859	10,137
Argo Turboserve Corporation & Argo Tech, LLC	Air Freight & Logistics	8.49%	5/2/2016	5/2/2014	10,725	10,725	10,725
AviatorCap SII, LLC I <sup>(3)</sup>	Aerospace & Defense	12.00%	12/31/2014	5/31/2011	1,642	1,640	1,642
AviatorCap SII, LLC II <sup>(3)</sup>	Aerospace & Defense	11.00%	12/31/2014	8/23/2011	1,771	1,769	1,771
Bishop Lifting Products, Inc. <sup>(10)</sup>	Trading Companies & Distributors	9.00%	3/27/2022	3/24/2014	25,000	24,762	25,000
Blue Coat Systems, Inc.	Internet Software & Services	9.50%	6/28/2020	6/28/2013	20,500	20,322	20,500
Body Central Stores, Inc	Specialty Retail	8.24%	2/6/2017	2/6/2014	7,059	6,981	7,059
CAMP International Holding Company	Aerospace & Defense	8.25%	11/30/2019	12/2/2013	5,000	5,000	5,053
CT Technologies Intermediate Holdings, Inc	Health Care Technology	9.25%	10/5/2020	10/2/2013	9,500	9,378	9,500
Datapipe, Inc	IT Services	8.50%	9/15/2019	8/14/2014	22,000	21,566	21,560
Direct Buy Inc. <sup>(4)</sup>	Multiline Retail	12.00% PIK	10/31/2019	11/5/2012	8,511	8,511	7,235
Easyfinancial Services, Inc. <sup>(6)(7)</sup>	Consumer Finance	8.49%	10/4/2018	9/27/2012	C\$ 10,000	9,261	9,019
Emerging Markets Communications, LLC	Wireless Telecommunication Services	9.50%	11/20/2020	5/20/2014	\$ 27,000	26,547	26,527
Filtration Group Corp	Industrial Conglomerates	8.25%	11/21/2021	11/15/2013	6,000	5,945	6,022
Global Tel*Link Corporation	Communications Equipment	9.00%	11/23/2020	5/21/2013	13,500	13,266	13,428
Grakon, LLC <sup>(2)</sup>	Machinery	12.00%	12/31/2015	3/21/2011	9,524	8,709	9,524
Greystone Select Holdings LLC & Greystone & Co., Inc	Thriffs & Mortgage Finance	9.00%	3/26/2021	3/25/2014	9,950	9,896	9,950
Ikaria, Inc	Health Care Technology	8.75%	2/12/2022	2/4/2014	19,000	18,865	19,285
Inmar Acquisition Sub., Inc	Professional Services	8.00%	1/27/2022	1/27/2014	10,000	9,906	9,850
K2 Pure Solutions NoCal, L.P	Chemicals	10.00%	8/19/2019	8/19/2013	11,428	11,232	11,428
Kore Wireless Group Inc	Wireless Telecommunication Services	9.25%	3/12/2021	9/12/2014	45,500	44,595	44,590
Landslide Holdings, Inc	Software	8.25%	2/25/2021	2/25/2014	16,300	16,276	16,300
Pharmedium Healthcare Corp.	Health Care Providers & Services	7.75%	1/28/2022	1/28/2014	5,000	4,977	5,000
Pronutria, Inc.	Pharmaceuticals	9.66%	5/15/2018	5/15/2014	7,000	6,953	6,930
Quantum Foods, LLC**	Food Products	14.73%	8/20/2014				