

Solar Capital Ltd.  
Form 10-Q  
May 04, 2010  
[Table of Contents](#)

**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 March 31, 2010

.. **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 or Incorporation)

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

Identification No.)

**500 Park Avenue, 5<sup>th</sup> Floor**

**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 May 4, 2010 was 33,030,641.

**Table of Contents**

**SOLAR CAPITAL LTD.**

**FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2010**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1. <u>Report of Independent Registered Public Accounting Firm</u>	2
<u>FINANCIAL STATEMENTS</u>	3
<u>Consolidated Statements of Assets and Liabilities as of March 31, 2010 and December 31, 2009</u>	3
<u>Consolidated Statements of Operations for the three months ended March 31, 2010 and March 31, 2009</u>	4
<u>Consolidated Statements of Changes in Net Assets for the three months ended March 31, 2010 and the year ended December 31, 2009</u>	5
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2010 and March 31, 2009</u>	6
<u>Consolidated Schedule of Investments as of March 31, 2010</u>	7
<u>Consolidated Schedule of Investments as of December 31, 2009</u>	10
<u>Notes to Consolidated Financial Statements</u>	13
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4T. <u>Controls and Procedures</u>	39
<b>PART II. OTHER INFORMATION</b>	
Item 1. <u>Legal Proceedings</u>	40
Item 1A. <u>Risk Factors</u>	40
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
Item 3. <u>Defaults upon Senior Securities</u>	40
Item 4. <u>Reserved</u>	40
Item 5. <u>Other Information</u>	40
Item 6. <u>Exhibits</u>	41
<u>Signatures</u>	43

**Table of Contents**

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedules of investments, of Solar Capital Ltd. (the Company) as of March 31, 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the three month periods ended March 31, 2010 and 2009, and the financial highlights (included in Note 11) for the three month period ended March 31, 2010. These consolidated financial statements and financial highlights are the responsibility of the Company's management.

We conducted our reviews 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 accounting and reporting 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 reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order 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 accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital LLC as of December 31, 2009, and the related consolidated statement of net assets for the year ended December 31, 2009 and we expressed an unqualified opinion on them in our report dated March 1, 2010.

/s/ KPMG LLP

New York, New York

May 4, 2010

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

(in thousands, except shares)

	March 31, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Investments at value:		
Companies more than 25% owned (cost: \$10,000 and \$10,000, respectively)	\$ 9,000	\$ 9,000
Companies 5% to 25% owned (cost: \$28,939 and \$85,102, respectively)	20,583	93,423
Companies less than 5% owned (cost: \$936,354 and \$968,886, respectively)	809,373	760,717
Total investments (cost: \$975,293 and \$1,063,988, respectively)	838,956	863,140
Cash and cash equivalents	60,363	5,675
Receivable for investments sold	10,123	
Interest and dividends receivable	8,771	7,547
Deferred borrowing costs	4,593	914
Fee revenue receivable	4,260	5,824
Deferred offering costs	294	1,478
Derivative assets	276	294
Prepaid expenses and other receivables	1,107	549
<b>Total Assets</b>	<b>928,743</b>	<b>885,421</b>
<b>Liabilities</b>		
Senior unsecured notes payable	125,000	
Payable for investments purchased	43,650	
Dividends payable	11,196	
Credit facility payable		88,114
Distributions payable		75,136
Due to Solar Capital Partners LLC:		
Performance-based incentive fee payable	5,279	8,517
Investment advisory and management fee payable	4,366	8,663
Deferred fee revenue	2,136	3,532
Interest payable	1,692	153
Derivative liabilities	778	25
Due to Solar Capital Management LLC	745	912
Income taxes payable	688	535
Other accrued expenses and payables	2,834	1,931
<b>Total Liabilities</b>	<b>198,364</b>	<b>187,518</b>
<b>Net Assets</b>		
Partners' capital		697,903
Common stock, par value \$0.01 per share 32,928,257 shares issued and outstanding	329	
Paid in capital in excess of par	666,371	
Undistributed net investment income	4,000	
Accumulated net realized gain	1,792	
Net unrealized appreciation	57,887	
<b>Total Net Assets</b>	<b>\$ 730,379</b>	<b>\$ 697,903</b>

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Number of shares outstanding	32,928,257	32,860,454
<b>Net Asset Value Per Share</b>	<b>\$ 22.18</b>	<b>\$ 21.24</b>

See notes to consolidated financial statements.

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

(in thousands, except shares)

	Three months ended March 31, 2010 (unaudited)	Three months ended March 31, 2009 (unaudited)
<b>INVESTMENT INCOME:</b>		
Interest and dividends:		
Companies 5% to 25% owned	\$ 7,619	\$ 2,265
Other interest and dividend income	27,691	25,912
<b>Total interest and dividends</b>	<b>35,310</b>	<b>28,177</b>
<b>Total investment income</b>	<b>35,310</b>	<b>28,177</b>
<b>EXPENSES:</b>		
Performance-based incentive fee	5,279	4,274
Investment advisory and management fees	4,366	4,073
Interest and other credit facility expenses	2,951	731
Administrative service fee	453	604
Other general and administrative expenses	1,069	921
<b>Total operating expenses</b>	<b>14,118</b>	<b>10,603</b>
<b>Net investment income before income tax expense</b>	<b>21,192</b>	<b>17,574</b>
Income tax expense	81	479
<b>Net investment income</b>	<b>21,111</b>	<b>17,095</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FORWARD CONTRACTS AND FOREIGN CURRENCIES:</b>		
Net realized gain (loss):		
Investments:		
Companies 5% to 25% owned	16,397	
Companies less than 5% owned	(43,728)	(22,656)
<b>Net realized loss on investments</b>	<b>(27,331)</b>	<b>(22,656)</b>
Forward contracts	1,552	8,948
Foreign currency exchange	3,536	(29)
<b>Net realized loss</b>	<b>(22,243)</b>	<b>(13,737)</b>
Net change in unrealized gain (loss):		
Investments:		
Companies more than 25% owned		(2,900)
Companies 5% to 25% owned	(16,677)	(498)
Companies less than 5% owned	81,188	(19,434)
<b>Net unrealized gain (loss) on investments</b>	<b>64,511</b>	<b>(22,832)</b>

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Forward contracts	(771)	(5,700)
Foreign currency exchange	(604)	(408)
<b>Net change in unrealized gain (loss)</b>	63,136	(28,940)
<b>Net realized and unrealized gain (loss) on investments, forward contracts and foreign currencies</b>	40,893	(42,677)
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	\$ 62,004	\$ (25,582)
Earnings (loss) per share (see note 10)	\$ 1.90	\$ (0.78)

See notes to consolidated financial statements.



Table of Contents

## SOLAR CAPITAL LTD.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands)

	Three months ended March 31, 2010 (unaudited)	Year ended December 31, 2009
<b>Increase (Decrease) in net assets resulting from operations:</b>		
Net investment income	\$ 21,111	\$ 67,262
Net realized loss	(22,243)	(264,898)
Net change in unrealized gain	63,136	284,572
<b>Net increase in net assets resulting from operations</b>	<b>62,004</b>	<b>86,936</b>
<b>Dividends and distributions declared</b>	<b>(11,196)</b>	<b>(241,706)</b>
<b>Capital transactions:</b>		
Proceeds from shares sold	116,198	
Common stock offering costs	(9,530)	
Senior notes issued in Solar Capital Merger	(125,000)	
<b>Net increase in net assets resulting from capital transactions</b>	<b>(18,332)</b>	
<b>Net increase (decrease) in net assets</b>	<b>32,476</b>	<b>(154,770)</b>
Net assets at beginning of period	697,903	852,673
Net assets at end of period	\$ 730,379	\$ 697,903

See notes to consolidated financial statements.

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

(in thousands except shares)

	Three months ended March 31, 2010 (unaudited)	Three Months Ended March 31, 2009 (unaudited)
<b>Cash Flows from Operating Activities:</b>		
Net increase (decrease) in net assets from operations	\$ 62,004	\$ (25,582)
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash provided by operating activities:		
Net realized (gain) loss from investments	27,331	22,627
Net realized loss from foreign currency exchange	(3,536)	29
Net change in unrealized (gain) loss on investments	(64,511)	22,832
Net change in forward contracts	771	5,700
<b>(Increase) decrease in operating assets:</b>		
Purchase of investment securities	(53,170)	(8,526)
Proceeds from disposition of investment securities	114,534	5,865
Receivable for investments sold	(10,123)	
Interest and dividends receivable	(1,224)	1,576
Deferred borrowing costs	(3,679)	565
Fee revenue receivable	1,564	(95)
Deferred offering costs	1,184	(93)
Foreign tax receivable		101
Withholding tax receivable		(3,140)
Prepaid expenses and other receivables	(558)	(186)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments purchased	43,650	2,480
Performance-based incentive fee payable	(3,238)	(1,221)
Investment advisory and management fee payable	(4,297)	(1,231)
Deferred fee revenue	(1,396)	(209)
Interest payable	1,539	134
Due to Solar Capital Management LLC	(167)	(919)
Income taxes payable	153	(1,155)
Other accrued expenses and payables	903	36
<b>Net Cash Provided by Operating Activities</b>	<b>107,734</b>	<b>19,588</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from shares sold	116,198	
Common stock offering costs	(9,530)	
Cash distributions paid	(75,136)	(85,267)
Proceeds from borrowings on credit facility	88,000	13,000
Repayments of borrowings on credit facility	(172,578)	
<b>Net Cash Used in Financing Activities</b>	<b>(53,046)</b>	<b>(72,267)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>54,688</b>	<b>(52,679)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>5,675</b>	<b>65,841</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 60,363</b>	<b>\$ 13,162</b>

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**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$	1,011	\$
Cash paid for income taxes	\$	21	\$ 1,632
<b>Non-cash financing activity:</b>			
Dividends payable	\$	11,196	\$

See notes to consolidated financial statements.

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

March 31, 2010

(in thousands, except shares)

(unaudited)

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans</b>	<b>17.3%</b>					
Asurion Corporation	Insurance	6.73	7/3/2015	\$ 55,000	\$ 54,942	\$ 53,900
Classic Cruises Holdings <sup>(5)</sup>	Leisure, Motion Pictures, Entertainment	10.14	1/31/2015	26,000	25,382	21,450
Emdeon Business Services LLC	Healthcare, Education, and Childcare	5.26	5/16/2014	15,000	15,106	14,610
Fulton Holding Corp <sup>(16)</sup>	Retail Stores	12.50		45,000	43,650	43,650
Ram Energy Resources, Inc.	Oil & Gas	12.75	11/29/2012	12,916	12,862	12,397
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 153,916</b>	<b>\$ 151,942</b>	<b>\$ 146,007</b>
<b>Subordinated Debt/Corporate Notes</b>						
<b>76.5%</b>						
Allied Capital	Finance	6.00	4/1/2012	\$ 15,393	\$ 10,086	\$ 14,777
Allied Capital	Finance	6.63	7/15/2011	14,500	9,788	14,428
Adams Outdoor Advertising	Diversified/ Conglomerate Service	13.50	6/20/2011	40,000	39,523	37,200
Adams Outdoor Advertising	Diversified / Conglomerate Service	10.88	6/20/2011	17,668	17,763	15,936
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.26	6/13/2012	24,704	24,451	21,295
Booz Allen	Aerospace & Defense	13.00	7/31/2016	43,000	42,249	43,000
Casema B.V. <sup>(3)</sup>	Telecommunications	9.66	9/13/2016	7,579	7,720	7,510
Casema B.V. <sup>(3)</sup>	Telecommunications	9.67	9/13/2016	8,178	8,331	8,059
Direct Buy Inc.	Home and Office Furnishing, Consumer Products	16.00	5/30/2013	36,959	36,495	33,577
DS Waters	Beverage, Food, and Tobacco	14.00	4/24/2012	103,050	102,233	104,493
Earthbound	Beverage, Food, and Tobacco	15.25	7/20/2016	40,000	38,917	40,000
Fleetpride Corporation	Cargo Transport	11.50	10/1/2014	43,000	43,138	39,399
FreedomRoads	Automotive	16.00	6/20/2011	27,500	27,165	26,730
Grakon, LLC <sup>(12)</sup>	Machinery	12.00	6/19/2013	20,403	18,791	5,101
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.99	11/3/2016	4,927	4,909	4,522
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.54	11/3/2016	11,633	14,821	10,799
Learning Care Group No.2, Inc	Healthcare, Education, and Childcare	13.50	12/28/2015	31,368	31,005	31,368
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00	4/28/2014	19,064	18,373	16,205
ProSieben Sat.1 Media AG <sup>(3)(8)(12)</sup>	Broadcasting & Entertainment	7.96	3/6/2017	21,306	19,576	9,078
Rug Doctor L.P.	Personal, Food and Misc. Services	14.95	10/31/2014	48,609	46,385	47,151
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	11.18	12/29/2013	18,582	16,328	17,653
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	12.00	12/29/2013	7,045	5,283	6,270
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25	8/2/2013	22,617	22,499	18,094
Wastequip, Inc. <sup>(12)</sup>	Containers, Packaging and Glass	12.50	2/5/2015	15,745	14,559	
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	10.37	9/14/2016	13,485	16,338	10,451
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	9.83	5/7/2017	27,577	35,554	20,683
Wire Rope Corporation (nka WireCo World Group)	Diversified/Conglomerate Manufacturing	11.00	2/8/2015	39,000	38,336	38,220
<b>Total Subordinated Debt/Corporate Notes</b>				<b>\$ 722,892</b>	<b>\$ 710,616</b>	<b>\$ 641,999</b>

See notes to consolidated financial statements.



**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Preferred Equity 0.1%</b>						
Wyle Laboratories	Aerospace & Defense	8.00	7/17/2015	\$ 387	\$ 39	\$ 40
<b>Total Preferred Equity</b>				<b>\$ 387</b>	<b>\$ 39</b>	<b>\$ 40</b>
<b>Common Equity / Partnership Interests / Warrants 6.1%</b>						
Ark Real Estate Partners LP <sup>(9)(11)</sup>	Real Estate			28,939,454	\$ 28,939	\$ 20,583
Direct Buy Inc.	Home and Office Furnishing, Consumer Products			5,000,000	5,000	2,500
Global Garden Products <sup>(3)(6)</sup>	Farming & Agriculture			146,983		
Grakon, LLC	Machinery			1,714,286	1,714	
Great American Group Inc. <sup>(13)</sup>	Business Services			572,800	2,681	1,177
Great American Group Inc. <sup>(14)</sup>	Business Services			187,500	3	385
Great American Group Inc. <sup>(15)</sup>	Business Services			125,000		
National Specialty Alloys, LLC <sup>(10)</sup>	Mining, Steel and Nonprecious Metals			1,000,000	10,000	9,000
Nuveen Investments, Inc.	Finance			3,000,000	30,000	7,500
NXP Semiconductors Netherlands B.V. <sup>(3)</sup>	Electronics			944,628	31,058	7,995
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment			4,285,714	3,301	1,770
<b>Total Common Equity/Partnerships Interests / Warrants</b>					<b>\$ 112,696</b>	<b>\$ 50,910</b>
<b>Total Investments</b>					<b>\$ 975,293</b>	<b>\$ 838,956</b>

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act. Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.
- (2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2010.
- (3) The following entities are domiciled outside the United States: Casema B.V. and NXP Semiconductors Netherlands B.V. in The Netherlands; Iglo Birds Eye Group Limited, Global Garden Products and Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; and Seven Media Group Pty Limited in Australia. All other investments are domiciled in the United States.
- (4) Solar Capital Ltd. s investments in Iglo Birds Eye Group Limited are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (5) Solar Capital Ltd. s investments in Classic Cruises Holdings are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (6) Solar Capital Ltd. s investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (7) Solar Capital Ltd. s investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (8) Solar Capital Ltd. s investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (9) Solar Capital Ltd. has an unfunded commitment of \$15,812.
- (10) Denotes a Control Investment. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.
- (11) Denotes an Affiliate Investment. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.

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- (12) Investments are current on all obligations with cash interest payments being applied to principal.
- (13) Common Shares
- (14) Founders Shares
- (15) Contingent Founders Shares
- (16) Maturity will be 6 years from the closing date that is yet to be determined.

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****March 31, 2010****(unaudited)**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of March 31, 2010</b>
Beverage, Food, and Tobacco	23%
Aerospace & Defense	7%
Insurance	6%
Diversified / Conglomerate Service	6%
Personal, Food and Misc. Services	6%
Healthcare, Education, and Childcare	5%
Retail Stores	5%
Leisure, Motion Pictures, Entertainment	5%
Cargo Transport	5%
Diversified / Conglomerate Manufacturing	5%
Finance	4%
Home and Office Furnishing, Consumer Products	4%
Broadcasting & Entertainment	4%
Automotive	3%
Real Estate	3%
Hotels, Motels, Inns & Gaming	2%
Telecommunications	2%
Oil & Gas	1%
Mining, Steel, Iron, and Nonprecious Metals	1%
Electronics	1%
Machinery	1%
Business Services	1%
	100%

See notes to consolidated financial statements.



**Table of Contents****SOLAR CAPITAL LLC****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2009****(in thousands, except shares)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans 18.8%</b>						
Affinity 1st Lien	Printing, Publishing, Broadcasting	12.75	3/31/2010	\$ 18,771	\$ 18,372	\$ 18,489
Asurion Corporation	Insurance	6.73	7/3/2015	55,000	54,939	51,700
Classic Cruises Holdings <sup>(5)</sup>	Leisure, Motion Pictures, Entertainment	10.02	1/31/2015	26,000	25,350	20,800
Emdeon Business Services LLC	Healthcare, Education, and Childcare	5.29	5/16/2014	15,000	15,112	14,400
National Interest Security Corporation <sup>(11)</sup>	Aerospace & Defense	15.00	6/11/2013	25,182	24,740	26,152
Ram Energy Resources, Inc.	Oil & Gas	12.75	11/29/2012	12,827	12,769	12,058
Wyle Laboratories	Aerospace & Defense	15.00	1/17/2015	20,000	19,614	19,900
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 172,780</b>	<b>\$ 170,896</b>	<b>\$ 163,499</b>
<b>Subordinated Debt/Corporate Notes 74.4%</b>						
Allied Capital	Finance	6.00	4/1/2012	\$ 15,393	\$ 9,362	\$ 14,392
Allied Capital	Finance	6.63	7/15/2011	14,500	8,880	13,920
Adams Outdoor Advertising	Diversified / Conglomerate Service	13.50	6/20/2011	40,000	39,445	35,360
Adams Outdoor Advertising	Diversified / Conglomerate Service	10.88	6/20/2011	18,237	18,345	15,538
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.25	6/13/2012	24,383	24,106	20,433
Booz Allen	Aerospace & Defense	13.00	7/31/2016	43,000	42,220	43,000
Casema B.V. <sup>(3)</sup>	Telecommunications	9.73	9/13/2016	7,860	7,542	7,565
Casema B.V. <sup>(3)</sup>	Telecommunications	9.69	9/13/2016	8,478	8,135	8,109
Direct Buy Inc.	Home and Office Furnishing, Consumer Products	16.00	5/30/2013	36,593	36,092	31,104
DS Waters	Beverage, Food, and Tobacco	14.00	4/24/2012	99,565	98,664	95,085
Earthbound	Beverage, Food, and Tobacco	15.25	7/20/2016	40,000	38,875	39,800
Fleetpride Corporation	Cargo Transport	11.50	10/1/2014	43,000	43,145	38,754
FreedomRoads	Automotive	16.00	6/20/2011	27,500	27,076	25,603
Global Garden Products <sup>(3)(6)(12)</sup>	Farming & Agriculture	12.72	10/31/2016	19,674	20,136	
Grakon, LLC <sup>(13)</sup>	Machinery	12.00	6/19/2013	20,403	19,306	5,101
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.99	11/3/2016	5,230	4,908	4,942
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.52	11/3/2016	12,200	14,701	11,527
Jonathan Engineering Solutions Corp. <sup>(12)</sup>	Diversified/Conglomerate Manufacturing	16.50	6/29/2014	4,219	4,045	
Jonathan Engineering Solutions Corp. <sup>(12)</sup>	Diversified/Conglomerate Manufacturing	13.00	6/29/2014	10,641	10,614	
Learning Care Group No.2, Inc	Healthcare, Education, and Childcare	13.50	12/28/2015	31,173	30,797	27,276
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00	4/28/2014	19,064	18,327	13,345
National Interest Security Corporation <sup>(11)</sup>	Aerospace & Defense	15.00	6/11/2013	30,539	30,229	31,303
Pacific Crane Maintenance Company, L.P. <sup>(12)</sup>	Machinery	13.00	2/15/2014	9,045	8,920	
ProSieben Sat.1 Media AG <sup>(3)(8)(13)</sup>	Broadcasting & Entertainment	8.15	3/6/2017	21,437	19,804	5,505
Rug Doctor L.P.	Personal, Food and Misc. Services	14.94	10/31/2014	48,253	45,920	45,841
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	11.18	12/29/2013	18,086	16,328	16,278
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	12.00	12/29/2013	6,857	5,283	6,068
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25	8/2/2013	22,546	22,420	16,008
Wastequip, Inc. <sup>(13)</sup>	Containers, Packaging and Glass	12.00	2/5/2015	15,745	14,953	3,149
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	10.62	9/14/2016	13,627	16,335	9,879
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	9.83	5/7/2017	29,211	34,948	20,447
Wire Rope Corporation (nka WireCo World Group)	Diversified/Conglomerate Manufacturing	11.00	2/8/2015	39,000	38,302	36,660

<b>Total Subordinated Debt/Corporate Notes</b>	<b>\$</b>	<b>795,459</b>	<b>\$ 778,163</b>	<b>\$ 641,992</b>
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See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LLC****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2009****(in thousands, except shares)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Preferred Equity 0.1%</b>						
Wyle Laboratories	Aerospace & Defense	8.00	7/17/2015	\$ 39	\$ 39	\$ 40
<b>Total Preferred Equity</b>				<b>\$ 39</b>	<b>\$ 39</b>	<b>\$ 40</b>
<b>Common Equity / Partnership Interests / Warrants 6.7%</b>						
Ark Real Estate Partners LP <sup>(9)(11)</sup>	Real Estate			28,006,121	\$ 28,006	\$ 19,675
Direct Buy Inc.	Home and Office Furnishing, Consumer Products			5,000,000	5,000	1,040
Grakon, LLC	Machinery			1,714,286	1,714	
Great American Group Inc. <sup>(14)</sup>	Business Services			572,800	2,681	1,874
Great American Group Inc. <sup>(15)</sup>	Business Services			187,500	3	614
Great American Group Inc. <sup>(16)</sup>	Business Services			125,000		
National Interest Security Corporation <sup>(11)</sup>	Aerospace & Defense			2,265,023	2,125	16,293
National Specialty Alloys, LLC <sup>(10)</sup>	Mining, Steel and Nonprecious Metals			1,000,000	10,000	9,000
Nuveen Investments, Inc.	Finance			3,000,000	30,000	6,000
NXP Semiconductors Netherlands B.V. <sup>(3)</sup>	Electronics			944,628	31,060	1,697
Pacific Crane Maintenance Company, L.P.	Machinery			10,000	1,000	
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment			4,285,714	3,301	1,416
<b>Total Common Equity/Partnerships Interests / Warrants</b>					<b>\$ 114,890</b>	<b>\$ 57,609</b>
<b>Total Investments</b>					<b>\$ 1,063,988</b>	<b>\$ 863,140</b>

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act. Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.

(2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2009.

(3) The following entities are domiciled outside the United States: Casema B.V. and NXP Semiconductors Netherlands B.V. in The Netherlands; Iglo Birds Eye Group Limited, Global Garden Products and Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; and Seven Media Group Pty Limited in Australia. All other investments are domiciled in the United States.

(4) Solar Capital LLC's investments in Iglo Birds Eye Group Limited are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(5) Solar Capital LLC's investments in Classic Cruises Holdings are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(6) Solar Capital LLC's investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(7) Solar Capital LLC's investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(8) Solar Capital LLC's investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(9) Solar Capital LLC has an unfunded commitment of \$16,745.

(10) Denotes a Control Investment. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.

(11) Denotes an Affiliate Investment. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.

(12) Investment is on non-accrual status.

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- (13) Investments are current on all obligations with interest payments being applied to principal.
- (14) Common Shares
- (15) Founders Shares
- (16) Contingent Founders Shares

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LLC****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2009**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2009</b>
Beverage, Food, and Tobacco	21%
Aerospace & Defense	17%
Diversified / Conglomerate Service	6%
Insurance	6%
Personal, Food and Misc. Services	5%
Healthcare, Education, and Childcare	5%
Leisure, Motion Pictures, Entertainment	4%
Cargo Transport	4%
Diversified / Conglomerate Manufacturing	4%
Finance	4%
Home and Office Furnishing, Consumer Products	4%
Broadcasting & Entertainment	3%
Automotive	3%
Real Estate	2%
Telecommunications	2%
Hotels, Motels, Inns & Gaming	2%
Printing, Publishing, Broadcasting	2%
Oil & Gas	1%
Mining, Steel, Iron, and Nonprecious Metals	1%
Machinery	1%
Containers, packaging and glass	1%
Business Services	1%
Electronics	1%
	100%

See notes to consolidated financial statements.

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**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

**Note 1. Organization**

Solar Capital Ltd. ( Solar Capital , the Company or we ), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for tax purposes the Company intends to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended.

On February 9, 2010 Solar Capital Ltd. 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, management purchased an additional 600,000 shares through a private placement, also at \$18.50 per share.

Immediately prior to the 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 million 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 books and records of Solar Capital LLC have become the books and records of the surviving entity.

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.

The Company s investment objective is to generate both current income and capital appreciation through debt and equity investments. The Company invests primarily in middle-market companies in the form of mezzanine and senior secured loans, each of which may include an equity component, and, to a lesser extent, by making direct equity investments in such companies.

**Note 2. Significant Accounting Policies**

**Basis of Presentation** The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America ( GAAP ), and include the accounts of the Company and its wholly-owned subsidiary, Solar Capital Luxembourg I S.a.r.l., which was incorporated under the laws of the Grand Duchy of Luxembourg on April 26, 2007. 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.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2010.

Certain prior period amounts have been reclassified to conform to current period presentation. As required by ASC 260-10, the number of shares used to calculate weighted average shares for use in computations on a per

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

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.

**Accounting Standards Codification** The FASB established the Accounting Standards Codification<sup>SM</sup> (ASC) on July 2, 2009 as the single source of authoritative GAAP to be applied by nongovernmental entities. The ASC supersedes all existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the ASC is no longer authoritative.

Following the ASC, the FASB no longer issues new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it issues Accounting Standards Updates, which serve to update the ASC, provide background information about the guidance and provide the basis for conclusions on the changes to the ASC. GAAP was not changed as a result of the FASB's codification project, but the codification project changes the way guidance is organized and presented. As a result, these changes have a significant impact on how we reference GAAP in our financial statements for interim and annual periods.

**Investments** The Company applies fair value accounting in accordance with GAAP. Securities transactions are accounted for on trade date. Securities for which market quotations are readily available on an exchange are valued at such price as of the closing price on the valuation date. The Company may also obtain quotes with respect to certain of its investments from pricing services or brokers or dealers in order to value assets. When doing so, the Company determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, the Company uses the quote obtained.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of the Company's investment adviser (the Adviser) or Board of Directors (the Board), does not represent fair value, shall each be valued as follows:

- 1) The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with senior management;
- 3) Third-party valuation firms are engaged by, or on behalf of, the Board to conduct independent appraisals and review management's preliminary valuations and make their own independent assessment, for all material assets; and
- 4) The Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of our investment adviser (note 4) and, where appropriate, the respective independent valuation firms.

Valuation methods, among other measures and as applicable, may include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, and other relevant factors.





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**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the private equity valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of the investments may differ significantly from the values that would have been used had a readily available market value existed for such investments, and the differences could be material.

Investments of sufficient credit quality purchased within 60 days of maturity are valued at cost plus accreted discount, or minus amortized premium, which approximates fair value.

**Cash and Cash Equivalents** Cash and cash equivalents include investments in money market accounts or investments with original maturities of three months or less.

**Revenue Recognition** The Company's revenue recognition policies are as follows:

*Sales:* Gains or losses on the sale of investments are calculated by using the specific identification method.

*Interest Income:* Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as part of interest income. The Company has loans in its portfolio that contain a payment-in-kind ( PIK ) provision. PIK interest is accrued at the contractual rates and added to the loan principal on the reset dates.

*Non-accrual:* Loans are placed on non-accrual status when principal or interest payments are past due 30 days or more or when there is reasonable doubt that principal or interest will be collected. Accrued interest is generally reversed when a loan is placed on non-accrual status. Interest payments received on non-accrual loans may be recognized as income or applied to principal depending upon management's judgment. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

**U.S. Federal Income Taxes** The Company intends to elect to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal income taxes.

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend 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 dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the three months ended March 31, 2010, no amount was recorded for U.S. Federal excise tax.

The Company is also subject to taxes in Luxembourg, through Solar Capital Luxembourg I S.a.r.l., a wholly-owned subsidiary. Under the laws of Luxembourg, the Company pays a corporate income tax and a municipal business tax on its subsidiary's taxable income.



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**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

**Capital Accounts** Certain capital accounts including undistributed net investment income, accumulated net realized gain or loss, net unrealized appreciation or depreciation, and paid in capital in excess of par, are adjusted, at least annually, for permanent differences between book and tax. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from accounting principles generally accepted in the United States of America.

**Dividends** Dividends and distributions to common stockholders are recorded on the ex-dividend date. The amount to be paid out as a dividend is determined by the board of directors each quarter and is generally based upon the earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although we may decide to retain such capital gains for investment.

We have adopted a dividend reinvestment plan that provides for reinvestment of any distributions we declare in cash on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our board of directors authorizes, and we declare, a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividend. While we generally use newly issued shares to implement the plan (especially if our shares are trading at a premium to net asset value), we may purchase shares in the open market in connection with our obligations under the plan. In particular, if our shares are trading at a significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan.

**Foreign Currency Translation** The accounting records of the Company are maintained in U.S. dollars. All 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's investments in foreign securities may involve certain risks such as 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 and therefore the earnings of the Company.

**Derivative Instruments and Hedging Activity** In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities at their fair value on its Consolidated Statements of Assets and Liabilities. At this time, the Company does not document formal hedge relationships because the hedged items are recorded at fair value with realized and unrealized gains and losses recognized in current earnings. Realized and unrealized gains and losses from derivatives are also recorded in current earnings. Realized gains or losses from derivatives are recognized when contracts are settled. The Company primarily uses foreign exchange forward contracts in order to economically hedge its foreign currency risk. Foreign exchange forward contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market exchange rate. The fair values of foreign exchange forward contracts are recognized in either derivative assets or derivative liabilities in the Company's Consolidated Statements of Assets and Liabilities. The Company may also borrow in foreign currencies on its multicurrency credit lines to reduce foreign currency exposure. The changes in market values of assets and liabilities denominated in the same foreign currency offset in earnings providing a natural foreign currency hedge.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

**Deferred Offering Costs** Offering costs consist of fees paid in relation to legal, accounting, regulatory and printing work completed in connection with offerings of our common stock.

**Use of Estimates in the Preparation of Financial Statements** The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reported period. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially.

**Subsequent Events Evaluation** The Company has evaluated the need for disclosures and/or adjustments resulting from subsequent events through the date the financial statements were issued and determined that none are required.

**Note 3. Investments**

Investments consisted of the following as of March 31, 2010 and December 31, 2009:

	<b>March 31, 2010</b>		<b>December 31, 2009</b>	
	<b>Cost</b>	<b>Fair Value</b>	<b>Cost</b>	<b>Fair Value</b>
Bank Debt / Senior Secured Loans	\$ 151,942	\$ 146,007	\$ 170,896	\$ 163,499
Subordinated Debt / Corporate Notes	710,616	641,999	778,163	641,992
Preferred Equity	39	40	39	40
Common Equity / Partnership Interests / Warrants	112,696	50,910	114,890	57,609
<b>Total</b>	<b>\$ 975,293</b>	<b>\$ 838,956</b>	<b>\$ 1,063,988</b>	<b>\$ 863,140</b>

**Note 4. Agreements**

Solar Capital has an Investment Advisory and Management Agreement with Solar Capital Partners LLC (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%. 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 dividends 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 computed net of all realized capital losses and unrealized capital 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

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1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. Solar Capital pays

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**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

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 and adjusted for any share issuances or repurchases during the relevant quarter. 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 Investment Advisory and Management Agreement, as of the termination date), commencing on February 12, 2007, 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 capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the advisor.

Solar Capital has also entered into an Administration Agreement with Solar Capital Management, LLC (the Administrator) under which the Administrator provides administrative services for 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.

**Note 5. Derivatives**

The Company is exposed to foreign exchange risk through its investments denominated in foreign currencies. The Company mitigates this risk through the use of foreign currency forward contracts. As an investment company, all changes in the fair value of assets, including changes caused by foreign currency fluctuation, flow through current earnings. The forward contracts serve as an economic hedge with their realized and unrealized gains and losses also recorded in current earnings. The Company has no derivatives designated as hedging instruments. During the three months ended March 31, 2010 we entered into 21 foreign currency forward contracts with durations of 1 month and the average U.S. dollar value of foreign currency forward contracts was \$11,192. During the year ended December 31, 2009, we entered into 81 foreign currency forward contracts with durations of 1 to 3 months and the average U.S. dollar value of foreign currency forward contracts was \$29,757.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

As of March 31, 2010, there were three open forward foreign currency contracts denominated in Euro, Australian Dollar and British Pounds, all of which terminate on April 8, 2010. As of December 31, 2009, there were nine open forward foreign currency contracts denominated in Euro, Australian Dollar and British Pounds, six of which terminated on January 15, 2010 and three of which terminated on February 16, 2010. At March 31, 2010 and December 31, 2009, there was no fixed collateral held by counterparties for the open contracts and no credit-related contingent features associated with any of the open forward contracts. The contract details are as follows:

Purchase:	Counterparty	March 31, 2010 (unaudited)			December 31, 2009		
		Local Currency	USD Value	Unrealized appreciation (depreciation)	Local Currency	USD Value	Unrealized appreciation (depreciation)
USD / AUD	SunTrust Bank	29,945	\$ 27,124	\$ (347)	(734)	\$ 658	\$ 1
USD / AUD	SunTrust Bank				734	669	10
USD / AUD	SunTrust Bank				734	655	(1)
USD / EURO	SunTrust Bank	26,518	36,096	276	(317)	461	(7)
USD / EURO	SunTrust Bank				317	463	10
USD / EURO	SunTrust Bank				6,317	9,185	135
USD / GBP	SunTrust Bank	35,620	53,627	(431)	(825)	1,351	(17)
USD / GBP	SunTrust Bank				825	1,342	8
USD / GBP	SunTrust Bank				6,825	11,165	130
Total			\$ 116,847	\$ (502)		\$ 25,949	\$ 269

The following tables show the fair value and effect of the derivative instruments on the Consolidated Statements of Assets and Liabilities and the Consolidated Statements of Operations:

**Fair Values of Derivative Instruments**

	March 31, 2010 (unaudited)		December 31, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments <sup>(a)</sup>				
Foreign exchange contracts	Derivative assets	\$ 276	Derivative assets	\$ 294
Total derivative assets		\$ 276		\$ 294

**Derivative Liabilities****December 31, 2009**

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March 31, 2010  
(unaudited)

	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments <sup>(a)</sup>				
Foreign exchange contracts	Derivative liabilities	\$ 778	Derivative liabilities	\$ 25
Total derivative liabilities		\$ 778		\$ 25



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)****Effect of Derivative Instruments on the Consolidated Statements of Operations**  
**Location of Gain or (Loss)**

Derivatives not designated as hedging instruments <sup>(a)</sup>	Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		Three months ended March 31, 2010 (unaudited)	Three months ended March 31, 2009 (unaudited)
Foreign exchange contracts	Realized gain (loss): Forward contracts	\$ 1,552	\$ 8,948
Foreign exchange contracts	Unrealized gain (loss): Forward contracts	(771)	(5,700)
Total		\$ 781	\$ 3,248

(a) See Note 2 for additional information on the Company's purpose for entering into derivatives not designated as hedging instruments and its overall risk management strategy.

**Note 6. Borrowing Facility and Senior Unsecured Notes**

On February 12, 2010, Solar Capital Ltd. amended and restated Solar Capital LLC's Senior Secured Revolving Credit Facility (the "Credit Facility"), extending the maturity to February 2013 and increasing the total facility size to \$270 million. The facility size may be increased up to \$600 million with the addition of new lenders or the increase in commitments of current lenders. Per the newly amended agreement, borrowings shall bear interest at a rate per annum equal to the base rate plus 3.25% and alternate base rate plus 2.25%. The commitment fee on unused balances is 0.375%. The amendment reduced the advance rates permitted on certain asset types and added a covenant that limited the secured borrowing amount to no more than 30% of total assets.

On February 9, 2010, through a series of transactions, Solar Capital LLC was merged with and into Solar Capital Ltd., a Maryland corporation, leaving Solar Capital Ltd. as the surviving entity. An aggregate of approximately 26.65 million shares of common stock and \$125 million in senior unsecured notes (the "Senior Unsecured Notes") of Solar Capital Ltd. were issued in connection with the merger. The Senior Unsecured Notes mature in February 2014 and have a coupon of 8.75%, payable quarterly in cash beginning May 1, 2010. The Senior Unsecured Notes are redeemable at any time, in whole or in part, at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Further, Solar Capital Ltd. must use the net cash proceeds from the issuance of any other senior notes either to redeem or make an offer to purchase the outstanding Senior Unsecured Notes at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. The Senior Unsecured Notes subject Solar Capital Ltd. to customary covenants, including, among other things, (i) a requirement to maintain an asset coverage ratio of 2.00 to 1.00; (ii) a requirement that in the event of a change of control (as defined in the agreement governing the Senior Unsecured Notes) Solar Capital Ltd. will be required to offer to repurchase the Senior Unsecured Notes at a price of 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase; and (iii) a restriction on incurring any debt on a junior lien basis, or any debt that is contractually subordinated in right of payment to any other debt unless it is also subordinated to the Senior Unsecured Notes on substantially identical terms. The agreement under which the Senior Unsecured Notes will be issued will contain customary events of default.

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The weighted average annualized interest cost for all borrowings for the three months ended March 31, 2010 and 2009 was 6.59% and 1.82%, respectively. These costs are exclusive of commitment fees and for other

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

prepaid expenses related to establishing the Credit Facility and Senior Unsecured Notes. This weighted average annualized interest cost reflects the average interest cost for all borrowings. The average debt outstanding for the three months ended March 31, 2010 and for the year ended December 31, 2009 were \$142,854 and \$29,035, respectively. The maximum amounts borrowed on the Credit Facility during the three months ended March 31, 2010 and year ended December 31, 2009 were \$172,882 and \$122,065, respectively. There was nothing drawn on the Credit Facility as of March 31, 2010 and \$81,114 outstanding as of December 31, 2009. At March 31, 2010 and December 31, 2009, the Company was in compliance with all financial and operational covenants required by the Credit Facility and Senior Unsecured Notes.

**Note 7. 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 valuation techniques 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:

GAAP fair value measurement guidance classifies the inputs used to measure these fair values into the following hierarchy:

**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 (examples include active exchange-traded equity securities, exchange-traded derivatives, and most U.S. Government and agency securities).

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

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); 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 own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain of our private debt and equity investments) and long-dated or

complex derivatives (including certain equity and currency derivatives).

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

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). Therefore gains and losses for such 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). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Levels 1 and 2 financial instruments entered into by the Company that economically hedge certain exposures to the Level 3 positions.

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. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2010 and December 31, 2009:

**Fair Value Measurements****As of March 31, 2010****(unaudited)**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$	\$	\$ 146,007	\$ 146,007
Subordinated Debt / Corporate Notes		69,176	572,823	641,999
Preferred Equity			40	40
Common Equity / Partnership Interests / Warrants		1,562	49,348	50,910
Derivative assets forward contracts		276		276
<b>Liabilities:</b>				
Derivative liabilities forward contracts		778		778

**Fair Value Measurements****As of December 31, 2009**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$	\$	\$ 163,499	\$ 163,499
Subordinated Debt / Corporate Notes		65,961	576,031	641,992
Preferred Equity			40	40
Common Equity / Partnership Interests / Warrants		2,488	55,121	57,609

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Derivative assets	forward contracts	294	294
<b>Liabilities:</b>			
Derivative liabilities	forward contracts	25	25

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2010 and the year ended December 31, 2009, 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, 2010 and December 31, 2009:

**Fair Value Measurements Using Level 3 Inputs****As of March 31, 2010****(unaudited)**

	<b>Bank Debt/Senior Secured Loans</b>	<b>Subordinated Debt/ Corporate Notes</b>	<b>Preferred Equity</b>	<b>Common Equity/ Partnership Interests/Warrants</b>
<b>Fair value, January 1, 2010</b>	\$ 163,499	\$ 576,031	\$ 40	\$ 55,121
Total gains or losses included in earnings:				
Net realized loss	487	(43,215)		15,442
Net change in unrealized gain (loss)	1,462	66,236		(3,581)
Purchases, sales, issuances, and settlements (net)	(19,441)	(26,229)		(17,634)
Transfers into Level 3				
<b>Fair value, March 31, 2010</b>	\$ 146,007	\$ 572,823	\$ 40	\$ 49,348

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):	\$ 3,279	\$ 26,349	\$	\$ 8,660
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The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the year.

**Fair Value Measurements Using Level 3 Inputs****As of December 31, 2009**

	<b>Bank Debt/Senior Secured Loans</b>	<b>Subordinated Debt/ Corporate Notes</b>	<b>Preferred Equity</b>	<b>Common Equity/ Partnership Interests/Warrants</b>
<b>Fair value, January 1, 2009</b>	\$ 97,665	\$ 509,416	\$ 6,145	\$ 67,752
Total gains or losses included in earnings:				
Net realized loss	(50,032)	(75,837)	(61,101)	(61,081)
Net change in unrealized gain (loss)	82,880	58,509	54,957	48,941

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Purchases, sales, issuances, and settlements (net)	(770)	83,943	39	(491)
Transfers into Level 3	33,756			
<b>Fair value, December 31, 2009</b>	<b>\$ 163,499</b>	<b>\$ 576,031</b>	<b>\$ 40</b>	<b>\$ 55,121</b>

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):	\$ 34,333	\$ 23,128	\$ 2	\$ (9,480)
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The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the year.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)****Note 9. Stockholders Equity**

The table below illustrates the effect of certain transactions on our capital accounts for the three months ended March 31, 2010:

	Common Stock			Paid in Capital in Excess of Par	Undistributed Net Investment Income	Accumulated Net Realized Gain	Net Unrealized Appreciation	Total Stockholders Equity
	Shares	Par Amount	Partners Capital					
Balance at December 31, 2009		\$	\$ 697,903	\$	\$	\$	\$	\$ 697,903
Solar Capital Merger <sup>(1)</sup>	26,647	266	(697,903)	572,637				(125,000)
Issuances of common stock <sup>(2)</sup>	6,281	63		106,605				106,668
Net increase in stockholders equity resulting from operations					21,111	(22,243)	63,136	62,004
Dividends declared (\$0.34 per share)					(11,196)			(11,196)
Permanent tax differences				(12,871)	(5,915)	24,035	(5,249)	
Balance at March 31, 2010	32,928	\$ 329	\$	\$ 666,371	\$ 4,000	\$ 1,792	\$ 57,887	\$ 730,379

(1) Immediately prior to the initial public offering, through a series of transactions Solar Capital Ltd. merged with Solar Capital LLC, leaving Solar Capital Ltd. as the surviving entity. Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125 million in Senior Unsecured Notes to the existing Solar Capital LLC unit holders in connection with the Merger.

(2) On February 9, 2010 Solar Capital Ltd. 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, management purchased an additional 600,000 shares through a private placement, also at \$18.50 per share.

**Note 10. Earnings Per Share**

The following information sets forth the computation of basic and diluted net increase (decrease) in shareholders capital per share resulting from operations for the three months ended March 31, 2010 and 2009:

Three months ended March 31, 2010 (unaudited)	Three months ended March 31, 2009 (unaudited)
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Numerator for basic and diluted earnings per share:	\$	62,004	\$	(25,582)
Denominator for basic and diluted weighted average share:		32,553,322		32,860,454
Basic and diluted net increase (decrease) in share holders equity resulting from operations per share:	\$	1.90	\$	(0.78)

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****March 31, 2010****(in thousands, except shares)****(unaudited)**

As required by ASC 260-10, 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 only from the Merger.

**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the three months ended March 31, 2010:

	<b>Three months ended March 31, 2010 (unaudited)</b>
<b>Per Share Data:<sup>(a)</sup></b>	
Net asset value, beginning of period	\$ 21.24
Net investment income	0.64
Net realized and unrealized gain (loss)	1.26
Net increase (decrease) in net assets resulting from operations	1.90
Effect of dilution	(0.33)
Offering costs	(0.29)
Dividends to shareholders declared	(0.34)
Net asset value, end of period	\$ 22.18
Total return, market value	14.27%
Net assets, end of period	\$ 730,379
Per share market value at end of period	21.14
Shares outstanding end of period	32,928,257
Ratio to average net assets	
Expenses without incentive fees <sup>(b)</sup>	5.07%
Incentive fees	0.74%
Total expenses	5.81%
Net investment income without incentive fees <sup>(b)</sup>	14.99%

(a) Calculated using the average shares outstanding method

(b) Annualized

**Note 12. New Accounting Pronouncements and Accounting Standards Updates*****Fair Value Measurements and Disclosures***

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In January 2010, the FASB issued an update to ASC 820, Fair Value Measurements and Disclosures Topic, which will require additional disclosures about inputs into valuation techniques, disclosures about significant transfers into or out of Levels 1 and 2, and disaggregation of purchases, sales, issuances, and settlements in the

**Table of Contents**

**SOLAR CAPITAL LTD.**

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

**March 31, 2010**

**(in thousands, except shares)**

**(unaudited)**

Level 3 rollforward disclosure. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

**Note 13. Related Parties**

From July 2006 through approximately the first quarter of 2009, Mr. Gross, the Company's chairman and chief executive officer, was a partner in Magnetar Capital Partners LP. Mr. Spohler, our chief operating officer together with Solar Capital Partners LLC's other investment professionals, advised Magnetar Financial LLC (Magnetar) on certain investments which coincide with those of Solar Capital. Certain entities affiliated with Magnetar own as of March 31, 2010 and December 31, 2009, either directly or indirectly, approximately 23.88% and 42.84%, respectively, of our outstanding equity.

**Table of Contents****SOLAR CAPITAL LTD.****SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**

(unaudited)

(in thousands, except shares)

**Schedule 12-14**

Portfolio Company	Investment	As of March 31, 2010 Number of Shares/ Principal Amount	Period ended March 31, 2010		As of March 31, 2010 Fair Value
			Amount of dividends and interest included in income	Amount of equity in net profit and loss	
<b>Investments Owned Greater than 25%</b>					
National Specialty Alloys, LLC	Equity	1,000,000	\$	\$	\$ 9,000
<b>Total Investments Owned Greater than 25%</b>			\$	\$	\$ 9,000
<b>Investments Owned Greater than 5% and Less than 25%</b>					
National Interest Security Corp.	Senior Debt	\$	\$ 3,544	\$	\$
National Interest Security Corp.	Subordinated	\$	4,075		
National Interest Security Corp.	Equity				
Ark Real Estate Partners LP	Equity	28,939,454			20,583
<b>Total Investments Owned Greater than 5% and Less than 25%</b>			\$ 7,619	\$	\$ 20,583

The table below represents the balance at the beginning of the period, December 31, 2009 and any gross additions and reductions and net unrealized gain (loss) made to such investments as well as the ending fair value as of March 31, 2010.

Gross additions represent increases in the investment from additional investments, payments in kind of interest or dividends.

Gross reductions represent decreases in the investment from sales of investments or repayments.

	Beginning Fair Value December 31, 2009	Gross additions	Gross reductions	Change in Unrealized Gain (Loss)	Fair Value as of March 31, 2010
National Specialty Alloys, LLC	\$ 9,000	\$	\$	\$	\$ 9,000
National Interest Security Corp.	26,152		(24,740)	(1,412)	
National Interest Security Corp.	31,303		(30,230)	(1,073)	
National Interest Security Corp.	16,293		(2,126)	(14,167)	
Ark Real Estate Partners LP	19,675	933		(25)	20,583

**Table of Contents****Schedule 12-14****Schedule 12-14**

Portfolio Company	Investment	As of December 31, 2009 Number of Shares Principal Amount	Year ended December 31, 2010		As of December 31, 2009 Fair Value
			Amount of dividends and interest included in income	Amount of equity in net profit and loss	
<b>Investments Owned Greater than 25%</b>					
National Specialty Alloys, LLC	Equity	1,000,000	\$	\$	\$ 9,000
<b>Total Investments Owned Greater than 25%</b>			\$	\$	\$ 9,000
<b>Investment Owned Greater than 5% and Less than 25%</b>					
National Interest Security Corp.	Senior Debt	\$ 25,182	\$ 4,163	\$	26,152
National Interest Security Corp.	Subordinated	\$ 30,539	5,027		31,303
National Interest Security Corp.	Equity	2,265,029			16,293
Ark Real Estate Partners LP	Equity	28,006,121			19,675
<b>Total Investments Owned Greater than 5% and Less than 25%</b>			\$ 9,109	\$	\$ 93,423

The table below represents the balance at the beginning of the period, December 31, 2008 and any gross additions and reductions and net unrealized gain (loss) made to such investments as well as the ending fair value as of December 31, 2009.

Gross additions represent increases in the investment from additional investments, payments in kind of interest or dividends.

Gross reductions represent decreases in the investment from sales of investments or repayments.

	Beginning Fair Value December 31, 2008	Gross additions	Gross reductions	Change in Unrealized Gain (Loss)	Fair Value as of December 31, 2009
National Specialty Alloys, LLC	\$ 12,900	\$	\$	\$ (3,900)	\$ 9,000
505 Capital Partners GP	30		30		
National Interest Security Corp.	24,679	171	19	1,321	26,152
National Interest Security Corp.	27,180	186	29	3,966	31,303
National Interest Security Corp.	12,951			3,342	16,293
Ark Real Estate Partners LP	24,619			(4,944)	19,675

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## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto contained elsewhere in this report.

#### *Overview*

Solar Capital Ltd. ( Solar Capital , the Company or we ), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for tax purposes the Company intends to elect 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 Ltd. priced its initial public offering selling 5.68 million shares, including the underwriters' over-allotment, at a price of \$18.50 per share. Net of underwriting fees the Company raised a total of \$97.7 million and its shares began to trade on the NASDAQ Global Select Market under the ticker SLRC . In addition, Solar Capital Ltd. sold 0.60 million shares at \$18.50 in a concurrent private placement to management.

Immediately prior to our initial public offering, through a series of transactions Solar Capital LLC merged with and into Solar Capital Ltd., leaving Solar Capital Ltd. as the surviving entity (the Solar Capital Merger ). Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125 million in senior unsecured notes ( Senior Unsecured Notes ) to the existing Solar Capital LLC unit holders in connection with the Solar Capital Merger. Solar Capital LLC, a Maryland limited liability company, was formed in February 2007 and conducted a private placement of units of membership interest ( units ) in March 2007. Solar Capital Ltd. had no assets or operations prior to completion of the Solar Capital Merger and as a result, the books and records of Solar Capital LLC have become the books and records of the surviving entity.

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, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded. Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$20 million and \$100 million each, although we expect that this investment size will vary proportionately with the size of our capital base. We are managed by Solar Capital Partners LLC. Solar Capital Management LLC 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, 2010, our long term investments totaled \$839.0 million and our net asset value was \$730.4 million. Our portfolio was comprised of debt and equity investments in 33 portfolio companies and our income producing assets, which represented 92.2% of our total portfolio, had a weighted average annualized yield on fair value of approximately 13.9%.

#### *Recent Developments*

##### *Dividend*

On May 4, 2010, our board of directors declared a quarterly dividend of \$0.60 per share payable on July 2, 2010 to holders of record as of June 17, 2010. We expect the dividend to be paid from taxable earnings with specific tax characteristics reported to stockholders after the end of the calendar year.



**Table of Contents**

*Critical Accounting Policies*

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting policies ( 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 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.

*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