

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,<br>2014<br>(unaudited) | December 31,<br>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,<br>2014 | September 30,<br>2013 | September 30,<br>2014 | September 30,<br>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                |
| <b>Total investment income</b>  | <b>28,358</b>         | <b>42,986</b>         | <b>88,992</b>         | <b>128,228</b>        |
| <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                 |
| <b>Total expenses</b>   | <b>11,998</b>         | <b>21,358</b>         | <b>39,076</b>         | <b>61,825</b>         |
| <b>Net investment income</b>  | <b>\$ 16,360</b>      | <b>\$ 21,628</b>      | <b>\$ 49,916</b>      | <b>\$ 66,403</b>      |
| <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                   |
| <b>Net realized gain (loss) on investments and cash equivalents</b>   | <b>51</b>             | <b>(15,543)</b>       | <b>(24,051)</b>       | <b>(16,462)</b>       |
| <b>Net realized loss on foreign currencies and derivatives:</b>   | <b>(3,016)</b>        | <b>(110)</b>          | <b>(6,010)</b>        | <b>(414)</b>          |
| <b>Net realized loss</b>  | <b>(2,965)</b>        | <b>(15,653)</b>       | <b>(30,061)</b>       | <b>(16,876)</b>       |
| <b>Net change in unrealized gain (loss) on investments and cash equivalents</b>                                     | <b>(609)</b>          | <b>5,904</b>          | <b>20,810</b>         | <b>(3,791)</b>        |
| <b>Net change in unrealized gain (loss) on foreign currencies and derivatives</b>                                   | <b>(18)</b>           | <b>(1,309)</b>        | <b>2,937</b>          | <b>627</b>            |
| <b>Net change in unrealized gain (loss)</b>   | <b>(627)</b>          | <b>4,595</b>          | <b>23,747</b>         | <b>(3,164)</b>        |
| <b>Net realized and unrealized gain (loss) on investments, cash equivalents, foreign currencies and derivatives</b> | <b>(3,592)</b>        | <b>(11,058)</b>       | <b>(6,314)</b>        | <b>(20,040)</b>       |

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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<br>September 30, 2014<br>(unaudited) | Year ended<br>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 |
|----------------------------|----|----|-----|

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.

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

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  | 2/20/2014        | 8,961      | 7,198     | 2,600      |
| Radius Health, Inc. <sup>(7)</sup>                   | Pharmaceuticals                     | 10.01%                  | 5/30/2018  | 5/30/2014        | 12,500     | 12,324    | 12,500     |
| Rug Doctor, LLC <sup>(3)</sup>                       | Diversified Consumer Services       | 11.25%                  | 6/30/2017  | 12/23/2013       | 9,111      | 8,650     | 8,929      |
| Syndax Pharmaceuticals, Inc                          | Pharmaceuticals                     | 8.95%                   | 6/13/2018  | 9/25/2014        | 5,000      | 4,953     | 4,953      |
| Southern Auto Finance Company <sup>(7)(8)</sup>      | Consumer Finance                    | 11.00%                  | 12/4/2018  | 10/19/2011       | 25,000     | 24,589    | 25,500     |
| SOINT, LLC <sup>(3)</sup>                            | Aerospace & Defense                 | 15.00%                  | 6/30/2016  | 6/8/2012         | 9,976      | 9,872     | 9,976      |
| T2 Biosystems, Inc                                   | Health Care Equipment & Supplies    | 7.21%                   | 7/1/2019   | 7/11/2014        | 8,333      | 8,311     | 8,292      |
| Tecomet, Inc   | Health Care Equipment & Supplies    | 9.75%                   | 6/19/2020  | 12/19/2013       | 61,400     | 59,896    | 62,014     |

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|                                      |                                    |        |            |           |        |            |            |
|--------------------------------------|------------------------------------|--------|------------|-----------|--------|------------|------------|
| TMK Hawk Parent, Corp. (TriMark)     | Trading Companies and Distributors | 8.50%  | 10/1/2022  | 9/26/2014 | 20,000 | 19,800     | 19,800     |
| The Robbins Company TLA              | Construction & Engineering         | 11.74% | 5/31/2017  | 5/31/2013 | 12,704 | 13,129     | 13,129     |
| The Robbins Company TLB              | Construction & Engineering         | 11.74% | 4/25/2015  | 5/31/2013 | 4,193  | 4,138      | 4,277      |
| U.S. Anesthesia Partners, Inc TL     | Health Care Providers & Services   | 6.00%  | 12/31/2019 | 9/24/2014 | 20,000 | 19,900     | 19,900     |
| U.S. Anesthesia Partners, Inc TLB    | Health Care Providers & Services   | 9.00%  | 9/24/2020  | 9/24/2014 | 30,000 | 29,700     | 29,700     |
| Varilease Finance, Inc               | Multi-Sector Holdings              | 9.25%  | 8/24/2020  | 8/22/2014 | 28,000 | 27,517     | 27,510     |
| Xand Operations, LLC                 | IT Services                        | 8.50%  | 5/13/2020  | 5/13/2014 | 25,500 | 25,255     | 25,500     |
| Total Bank Debt/Senior Secured Loans |                                    |        |            |           |        | \$ 606,875 | \$ 607,615 |

See notes to consolidated financial statements.

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

September 30, 2014

(in thousands except share/unit amounts)

| Description  | Industry                           | Interest <sup>(1)</sup>                    | Maturity   | Acquisition Date | Par Amount | Cost       | Fair Value |
|--|------------------------------------|--|------------|------------------|------------|------------|------------|
| <b>Subordinated Debt/Corporate Notes 16.5%</b>             |                                    |  |            |                  |            |            |            |
| Adams Outdoor Advertising                                  | Media                              | 17.00%                                     | 12/8/2015  | 12/8/2010        | \$ 42,500  | \$ 42,274  | \$ 42,500  |
| Alegeus Technologies Holdings Corp.                        | Health Care Technology             | 12.00%                                     | 2/15/2019  | 6/24/2012        | 28,200     | 27,722     | 27,354     |
| Grakon Holdings LLC Sr <sup>(2)</sup>                      | Machinery                          | 14.00% PIK                                 | 12/31/2015 | 3/21/2011        | 2,319      | 2,319      | 2,319      |
| Grakon Holdings LLC Jr <sup>(2)</sup>                      | Machinery                          | 12.00% PIK                                 | 12/31/2015 | 3/21/2011        | 11,414     | 10,906     | 11,414     |
| Richelieu Foods, Inc.                                      | Food Products                      | 13.75%(12% Cash & 1.75%PIK) <sup>(5)</sup> | 5/18/2016  | 11/18/2010       | 23,843     | 23,613     | 23,843     |
| WireCo. Worldgroup Inc.                                    | Building Products                  | 9.00%                                      | 5/15/2017  | 6/28/2012        | 48,000     | 47,708     | 48,720     |
| Total Subordinated Debt/Corporate Notes                    |                                    |  |            |                  |            | \$ 154,542 | \$ 156,150 |
| <b>Shares/Units</b>  |                                    |  |            |                  |            |            |            |
| <b>Preferred Equity 2.4%</b>                               |                                    |  |            |                  |            |            |            |
| SOAGG LLC <sup>(3)(7)(9)</sup>                             | Aerospace & Defense                | 8.27% <sup>(5)</sup>                       | 6/30/2018  | 12/14/2010       | 12,913     | \$ 12,913  | \$ 13,204  |
| SOINT, LLC <sup>(3)(7)(9)</sup>                            | Aerospace & Defense                | 15.00%                                     | 6/30/2018  | 6/8/2012         | 86,667     | 8,667      | 9,533      |
| Wyle Laboratories*   | Aerospace & Defense                | 8.00%                                      | 7/17/2015  | 6/26/2009        | 387        | 39         | 56         |
| Total Preferred Equity                                     |                                    |  |            |                  |            | \$ 21,619  | \$ 22,793  |
| <b>Common Equity/Partnership Interests/ Warrants 36.7%</b> |                                    |  |            |                  |            |            |            |
| Ark Real Estate Partners LP <sup>(2)(3)*</sup>             | Diversified Real Estate Activities |  |            | 3/12/2007        | 2,059,476  | \$ 1,389   | \$ 914     |
| Ark Real Estate Partners II LP <sup>(2)(3)*</sup>          | Diversified Real Estate Activities |  |            | 10/23/2012       | 48,034     | 22         | 22         |
| Crystal Financial LLC <sup>(3)(7)(11)</sup>                | Diversified Financial Services     |  |            | 12/28/2012       |            | 275,000    | 300,000    |
| Direct Buy Inc. <sup>(4)*</sup>                            | Multiline Retail                   |  |            | 11/5/2012        | 76,999     |            |            |
| Grakon, LLC <sup>(2)*</sup>                                | Machinery                          |  |            | 3/21/2011        | 1,714,286  | 1,714      | 339        |
| Grakon, LLC Warrants <sup>(2)*</sup>                       | Machinery                          |  |            | 3/21/2011        | 3,518,001  |            | 696        |
| Great American Group Inc. <sup>(7)*</sup>                  | Research & Consulting Services     |  |            | 3/16/2007        | 38,015     | 2,684      | 304        |
| Nuveen Investments, Inc. (MDCP Co-Investors, L.P.)*        | Asset Management & Custody Banks   |  |            | 11/13/2007       |            | 30,884     | 23,476     |
| RD Holdco Inc. (Rug Doctor) <sup>(3)*</sup>                | Diversified Consumer Services      |  |            | 12/23/2013       | 231,177    | 15,683     | 16,263     |
| RD Holdco Inc. (Rug Doctor) Class B <sup>(3)*</sup>        | Diversified Consumer Services      |  |            | 12/23/2013       | 522        | 5,216      | 5,216      |
| RD Holdco Inc. (Rug Doctor) Warrants <sup>(3)*</sup>       | Diversified Consumer Services      |  |            | 12/23/2013       | 30,370     | 381        | 305        |
| Radius Health, Inc.*                                       | Pharmaceuticals                    |  |            | 5/30/2014        | 20,435     | 98         | 429        |
| Radius Health, Inc. Warrants <sup>(7)*</sup>               | Pharmaceuticals                    |  |            | 7/10/2014        | 4,706      | 10         | 45         |
| Total Common Equity/Partnership Interests/Warrants         |                                    |  |            |                  |            | \$ 333,081 | \$ 348,009 |

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|   |               |                   |                     |                     |
|---|---------------|-------------------|---------------------|---------------------|
| <b>Total Investments</b>                        | <b>119.6%</b> |                   | <b>\$ 1,116,117</b> | <b>\$ 1,134,567</b> |
|   |               | <b>Par Amount</b> |                     |                     |
| <b>Cash Equivalents</b>                         | <b>51.6%</b>  |                   |                     |                     |
| U.S. Treasury Bill                              | Government    | 0.01%             | 10/30/2014          | 9/30/2014           |
|   |               |                   | 490,000             | 489,996             |
|   |               |                   | 489,996             | 489,996             |
| <b>Total Investments &amp; Cash Equivalents</b> |               |                   | <b>1,606,113</b>    | <b>1,624,563</b>    |
| <b>Liabilities in Excess of Other Assets</b>    |               |                   |                     | <b>(675,859)</b>    |
|   |               |                   |                     | <b>(71.2%)</b>      |
| <b>Net Assets</b>                               | <b>100.0%</b> |                   |                     |                     |
|   |               |                   | <b>\$ 948,704</b>   |                     |

- (1) Floating rate debt investments typically bear interest at a rate determined by reference to the London Interbank Offered Rate ( LIBOR ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of September 30, 2014.
- (2) Investments are held in taxable subsidiaries. Ark Real Estate Partners is held through SLRC ADI Corp. and our equity investments in Grakon LLC are held through Grakon TL Holding, Inc.

See notes to consolidated financial statements.

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

September 30, 2014

(in thousands)

- (3) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 ( 1940 Act ), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the nine months ended September 30, 2014 in these controlled investments are as follows:

| Name of Issuer                             | Fair Value at<br>December<br>31, 2013 | Gross<br>Additions | Gross<br>Reductions | Realized Gain<br>(Loss) | Interest/Dividend<br>Income | Fair Value at<br>September<br>30, 2014 |
|--|---------------------------------------|--------------------|---------------------|-------------------------|-----------------------------|--|
| ARK Real Estate Partners LP                | \$ 19,565                             | \$                 | \$ 18,579           | \$ (25,190)             | \$                          | \$ 914                                 |
| ARK Real Estate Partners II LP             | 456                                   |                    | 433                 | (43)                    |                             | 22                                     |
| AviatorCap SII, LLC I                      | 2,272                                 |                    | 630                 |                         | 183                         | 1,642                                  |
| AviatorCap SII, LLC II                     | 2,945                                 |                    | 1,173               |                         | 206                         | 1,771                                  |
| AviatorCap SII, LLC III                    | 696                                   |                    | 696                 |                         | 16                          |  |
| Crystal Financial LLC                      | 305,000                               |                    |                     |                         | 22,900                      | 300,000                                |
| RD Holdco Inc. (Rug Doctor, common equity) | 15,683                                |                    |                     |                         |                             | 16,263                                 |
| RD Holdco Inc. (Rug Doctor, class B)       | 5,216                                 |                    |                     |                         |                             | 5,216                                  |
| RD Holdco Inc. (Rug Doctor, warrants)      | 381                                   |                    |                     |                         |                             | 305                                    |
| Rug Doctor LLC                             | 8,747                                 |                    |                     |                         | 896                         | 8,929                                  |
| SOAGG LLC                                  | 16,719                                | 382                | 4,129               |                         | 863                         | 13,204                                 |
| SOINT, LLC                                 | 11,592                                |                    | 1,617               |                         | 1,260                       | 9,976                                  |
| SOINT, LLC (preferred equity)              | 9,533                                 |                    |                     |                         | 970                         | 9,533                                  |
| USAW 767                                   | 1,085                                 |                    | 1,085               |                         | 33                          |  |
|  | \$ 399,890                            | \$ 382             | \$ 28,342           | \$ (25,233)             | \$ 27,327                   | \$ 367,775                             |

- (4) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the nine months ended September 30, 2014 in these affiliated investments are as follows:

| Name of Issuer                         | Fair Value at<br>December 31, 2013 | Gross<br>Additions | Gross<br>Reductions | Realized Gain<br>(Loss) | Interest/Dividend<br>Income | Fair Value at<br>September 30, 2014 |
|--|------------------------------------|--------------------|---------------------|-------------------------|-----------------------------|-------------------------------------|
| Direct Buy Inc. (common equity)        | \$                                 | \$                 | \$                  | \$                      | \$                          | \$                                  |
| Direct Buy Inc. (senior secured loan)  | 7,789                              | 722                |                     |                         | 733                         | 7,235                               |
| DSW Group Holdings LLC                 |                                    |                    |                     | 928                     |                             |                                     |
| National Interest Security Corporation |                                    |                    |                     | 248                     |                             |                                     |
|  | \$ 7,789                           | \$ 722             | \$                  | \$ 1,176                | \$ 733                      | \$ 7,235                            |

- (5) A portion of the coupon may be payable in kind (PIK).

- (6) The following entity is domiciled outside the United States and the investments are denominated in Canadian Dollars: Easyfinancial Services, Inc. in Canada.

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- (7) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended.
- (8) Includes an unfunded commitment of \$4,888.
- (9) Solar Capital Ltd.'s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (10) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
- (11) Investment represents the operating company after consolidation of the holding company Crystal Capital Financial Holdings LLC.
- \* Non-income producing security.
- \*\* Investment is on non-accrual status.

See notes to consolidated financial statements.



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

September 30, 2014

| <b>Industry Classification</b>       | <b>Percentage of Total<br/>Investments (at fair value) as<br/>of September 30, 2014</b> |
|--------------------------------------|---|
| Diversified Financial Services       | 26.4%   |
| Health Care Providers & Services     | 7.0%  |
| Wireless Telecommunications Services | 6.3%  |
| Health Care Equipment & Supplies     | 6.2%  |
| Health Care Technology               | 5.0%  |
| Building Products                    | 4.3%  |
| IT Services                          | 4.2%  |
| Trading Companies & Distributors     | 4.0%  |
| Media                                | 3.8%  |
| Aerospace & Defense                  | 3.6%  |
| Consumer Finance                     | 3.0%  |
| Diversified Consumer Services        | 2.7%  |
| Multi-Sector Holdings                | 2.4%  |
| Food Products                        | 2.3%  |
| Pharmaceuticals                      | 2.2%  |
| Machinery                            | 2.1%  |
| Asset Management & Custody Banks     | 2.1%  |
| Internet Software & Services         | 1.8%  |
| Construction & Engineering           | 1.5%  |
| Software                             | 1.4%  |
| Communications Equipment             | 1.2%  |
| Chemicals                            | 1.0%  |
| Air Freight & Logistics              | 1.0%  |
| Insurance                            | 0.9%  |
| Thriffs & Mortgage Finance           | 0.9%  |
| Professional Services                | 0.9%  |
| Multiline Retail                     | 0.6%  |
| Specialty Retail                     | 0.6%  |
| Industrial Conglomerates             | 0.5%  |
| Diversified Real Estate Activities   | 0.1%  |
| Research & Consulting Services       | 0.0%  |
| Total Investments                    | 100.0%  |

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2013****(in thousands)**

| Description <sup>(1)</sup>                      | Industry                         | Interest <sup>(2)</sup>                | Maturity   | Acquisition Date | Par Amount | Cost              | Fair Value        |
|---|----------------------------------|--|------------|------------------|------------|-------------------|-------------------|
| <b>Bank Debt/Senior Secured Loans</b>           |                                  |  |            |                  |            |                   |                   |
| <b>44.6%</b>                                    |                                  |  |            |                  |            |                   |                   |
| Active Media Services, Inc                      | Media                            | 9.74%                                  | 2/1/2018   | 9/6/2013         | \$ 10,000  | \$ 9,741          | \$ 10,000         |
| AviatorCap SII, LLC I <sup>(4)</sup>            | Aerospace & Defense              | 12.00%                                 | 12/31/2014 | 5/31/2011        | 2,272      | 2,262             | 2,272             |
| AviatorCap SII, LLC II <sup>(4)</sup>           | Aerospace & Defense              | 11.00%                                 | 12/31/2014 | 8/23/2011        | 2,945      | 2,929             | 2,945             |
| AviatorCap SII, LLC III <sup>(4)</sup>          | Aerospace & Defense              | 13.00%                                 | 12/31/2014 | 7/19/2011        | 696        | 691               | 696               |
| Blue Coat Systems, Inc.                         | Internet Software & Services     | 9.50%                                  | 6/28/2020  | 6/28/2013        | 20,500     | 20,305            | 20,910            |
| CAMP International Holding Company              | Aerospace & Defense              | 8.25%                                  | 11/30/2019 | 12/2/2013        | 5,000      | 5,000             | 5,109             |
| CT Technologies Intermediate Holdings, Inc      | Healthcare Technology            | 9.25%                                  | 10/5/2020  | 10/2/2013        | 9,500      | 9,362             | 9,500             |
| Direct Buy Inc. <sup>(5)</sup>                  | Multiline Retail                 | 12.00% PIK                             | 10/31/2019 | 11/5/2012        | 7,789      | 7,789             | 7,789             |
| Easyfinancial Services, Inc. <sup>(7)(8)</sup>  | Consumer Finance                 | 9.98%                                  | 10/4/2017  | 9/27/2012        | C\$ 10,000 | 9,737             | 9,415             |
| Filtration Group Corp                           | Industrial Conglomerates         | 8.25%                                  | 11/21/2021 | 11/15/2013       | \$ 6,000   | 5,940             | 6,150             |
| Genex Services, Inc                             | Insurance                        | 9.25%                                  | 1/26/2019  | 7/26/2013        | 15,000     | 14,862            | 15,000            |
| Global Tel*Link Corporation                     | Communications Equipment         | 9.00%                                  | 11/23/2020 | 5/21/2013        | 13,500     | 13,245            | 12,926            |
| Grakon, LLC <sup>(3)</sup>                      | Machinery                        | 12.00%                                 | 12/31/2015 | 3/21/2011        | 9,524      | 8,304             | 9,524             |
| Interactive Health Solutions, Inc.              | Health Care Services             | 11.50%                                 | 10/4/2016  | 10/4/2011        | 17,813     | 17,544            | 17,813            |
| Isotoner Corporation                            | Specialty Retail                 | 10.75%                                 | 1/8/2018   | 7/8/2011         | 45,000     | 44,126            | 45,000            |
| K2 Pure Solutions NoCal, L.P                    | Chemicals                        | 10.00%                                 | 8/19/2019  | 8/19/2013        | 11,500     | 11,280            | 11,270            |
| MYI Acquiror Corporation <sup>(8)</sup>         | Insurance                        | 13% (12% Cash & 1% PIK) <sup>(6)</sup> | 3/13/2017  | 9/13/2011        | 26,035     | 25,702            | 26,296            |
| Quantum Foods, LLC                              | Food Products                    | 11.74%                                 | 2/6/2018   | 2/1/2013         | 32,813     | 32,813            | 32,813            |
| Renaissance Learning, Inc                       | Education Services               | 8.75%                                  | 5/14/2021  | 10/16/2013       | 8,000      | 7,881             | 8,095             |
| Rug Doctor, LLC <sup>(4)</sup>                  | Diversified Consumer Services    | 11.25%                                 | 6/30/2017  | 6/7/2012         | 9,111      | 8,551             | 8,747             |
| SMG   | Commercial Services & Supplies   | 10.75%                                 | 12/7/2018  | 10/19/2011       | 25,000     | 24,618            | 25,000            |
| Southern Auto Finance Company <sup>(8)(9)</sup> | Consumer Finance                 | 11.00%                                 | 12/4/2018  | 12/4/2018        | 25,000     | 24,551            | 25,000            |
| SOINT, LLC <sup>(4)</sup>                       | Aerospace & Defense              | 15.00%                                 | 6/30/2016  | 6/8/2012         | 11,592     | 11,430            | 11,592            |
| Spencer Spirit Holdings, Inc.                   | Specialty Retail                 | 11.00%                                 | 5/1/2017   | 4/11/2011        | 10,000     | 10,000            | 10,825            |
| Tecomet, Inc                                    | Health Care Equipment & Supplies | 9.75%                                  | 6/19/2020  | 12/19/2013       | 45,000     | 43,767            | 43,762            |
| The Robbins Company TLA                         | Construction & Engineering       | 11.74%                                 | 5/31/2017  | 5/31/2013        | 15,057     | 14,897            | 15,057            |
| The Robbins Company TLB                         | Construction & Engineering       | 11.74%                                 | 4/25/2015  | 5/31/2013        | 4,561      | 4,429             | 4,561             |
| TravelClick, Inc.                               | Hotels, Restaurants & Leisure    | 9.75%                                  | 3/26/2018  | 3/25/2013        | 20,000     | 19,831            | 20,000            |
| Trinet HR Corporation                           | Professional Services            | 8.75%                                  | 2/20/2021  | 8/14/2013        | 25,000     | 24,514            | 25,250            |
| USAW 767 <sup>(4)</sup>                         | Aerospace & Defense              | 14.50%                                 | 6/30/2014  | 12/14/2010       | 1,085      | 1,083             | 1,085             |
| <b>Total Bank Debt/Senior Secured Loans</b>     |                                  |  |            |                  |            | <b>\$ 437,184</b> | <b>\$ 444,402</b> |

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| <b>Subordinated Debt/Corporate Notes</b>         |                        |  |            |            |     |        |                   |                   |  |
|--|------------------------|--|------------|------------|-----|--------|-------------------|-------------------|--|
| <b>25.5%</b>                                     |                        |  |            |            |     |        |                   |                   |  |
| Adams Outdoor Advertising                        | Media                  | 17.00%                                     | 12/8/2015  | 12/8/2010  | \$  | 42,500 | \$ 42,153         | \$ 44,200         |  |
| Alegeus Technologies Holdings Corp.              | Health Care Technology | 12.00%                                     | 2/15/2019  | 6/24/2012  |     | 28,200 | 27,663            | 28,200            |  |
| Asurion Holdco                                   | Insurance              | 11.00%                                     | 3/2/2019   | 2/16/2012  |     | 12,000 | 11,713            | 12,390            |  |
| Earthbound Farm                                  | Food Products          | 14.25%                                     | 6/21/2017  | 12/21/2010 |     | 58,947 | 58,137            | 60,127            |  |
| Grakon Holdings LLC Sr <sup>(3)</sup>            | Machinery              | 14.00% PIK                                 | 12/31/2015 | 3/21/2011  |     | 2,091  | 2,091             | 2,091             |  |
| Grakon Holdings LLC Jr <sup>(3)</sup>            | Machinery              | 12.00% PIK                                 | 12/31/2015 | 3/21/2011  |     | 13,693 | 12,544            | 11,639            |  |
| Granite Global Solutions Corp. <sup>(7)(8)</sup> | Insurance              | 13.50%                                     | 11/30/2016 | 5/31/2011  | C\$ | 25,714 | 25,833            | 24,210            |  |
| Richelieu Foods, Inc.                            | Food Products          | 13.75%(12% Cash & 1.75%PIK) <sup>(6)</sup> | 5/18/2016  | 11/18/2010 | \$  | 23,470 | 23,149            | 23,235            |  |
| WireCo. Worldgroup Inc.                          | Building Products      | 11.75%                                     | 5/15/2017  | 6/28/2012  |     | 48,000 | 47,640            | 48,000            |  |
| <b>Total Subordinated Debt/Corporate Notes</b>   |                        |  |            |            |     |        | <b>\$ 250,923</b> | <b>\$ 254,092</b> |  |

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2013****(in thousands, except share/unit amounts)**

| Description <sup>(1)</sup>                                | Industry                           | Interest <sup>(2)</sup> | Maturity  | Acquisition Date | Shares/<br>Units  | Cost                | Fair Value          |
|---|------------------------------------|-------------------------|-----------|------------------|-------------------|---------------------|---------------------|
| <b>Preferred Equity 2.7%</b>                              |                                    |                         |           |                  |                   |                     |                     |
| SOAGG LLC <sup>(4)(8)(10)</sup>                           | Aerospace & Defense                | 8.53% <sup>(6)</sup>    | 6/30/2018 | 12/14/2010       | 16,659            | \$ 16,659           | \$ 16,719           |
| SOINT, LLC <sup>(4)(8)(10)</sup>                          | Aerospace & Defense                | 15.00%                  | 6/30/2018 | 6/8/2012         | 86,667            | 8,667               | 9,533               |
| Wyle Laboratories*  | Aerospace & Defense                | 8.00%                   | 7/17/2015 | 6/26/2009        | 387               | 39                  | 55                  |
| <b>Total Preferred Equity</b>                             |                                    |                         |           |                  |                   | <b>\$ 25,365</b>    | <b>\$ 26,307</b>    |
| <b>Common Equity/Partnership Interests/Warrants 36.5%</b> |                                    |                         |           |                  |                   |                     |                     |
| Ark Real Estate Partners LP <sup>(3)(4)*</sup>            | Diversified Real Estate Activities |                         |           | 3/12/2007        | 45,905,653        | \$ 45,235           | \$ 19,565           |
| Ark Real Estate Partners II LP <sup>(3)(4)*</sup>         | Diversified Real Estate Activities |                         |           | 10/23/2012       | 1,070,679         | 498                 | 456                 |
| Crystal Financial LLC <sup>(4)(8)(11)</sup>               | Diversified Financial Services     |                         |           | 12/28/2012       |                   | 275,000             | 305,000             |
| Direct Buy Inc. <sup>(5)*</sup>                           | Multiline Retail                   |                         |           | 11/5/2012        | 76,999            |                     |                     |
| Grakon, LLC <sup>(3)*</sup>                               | Machinery                          |                         |           | 3/21/2011        | 1,714,286         | 1,714               |                     |
| Grakon, LLC Warrants <sup>(3)*</sup>                      | Machinery                          |                         |           | 3/21/2011        | 3,518,001         |                     |                     |
| Great American Group Inc. <sup>(8)*</sup>                 | Research & Consulting Services     |                         |           | 3/16/2007        | 572,800           | 2,681               | 160                 |
| Great American Group Inc. <sup>(8)(12)*</sup>             | Research & Consulting Services     |                         |           | 3/16/2007        | 187,500           | 3                   | 53                  |
| Nuveen Investments, Inc (MDCP Co-Investors, L.P.)*        | Asset Management & Custody Banks   |                         |           | 11/13/2007       |                   | 30,876              | 17,084              |
| RD Holdco Inc. (Rug Doctor) <sup>(4)*</sup>               | Diversified Consumer Services      |                         |           | 12/23/2013       | 231,177           | 15,683              | 15,683              |
| RD Holdco Inc. (Rug Doctor) Class B <sup>(4)*</sup>       | Diversified Consumer Services      |                         |           | 12/23/2013       | 522               | 5,216               | 5,216               |
| RD Holdco Inc. (Rug Doctor) Warrants <sup>(4)*</sup>      | Diversified Consumer Services      |                         |           | 12/23/2013       | 30,370            | 381                 | 381                 |
| <b>Total Common Equity/Partnership Interests/Warrants</b> |                                    |                         |           |                  |                   | <b>\$ 377,287</b>   | <b>\$ 363,598</b>   |
| <b>Total Investments 109.3%</b>                           |                                    |                         |           |                  |                   | <b>\$ 1,090,759</b> | <b>\$ 1,088,399</b> |
|   |                                    |                         |           |                  | <b>Par Amount</b> |                     |                     |
| <b>Cash Equivalents 45.2%</b>                             |                                    |                         |           |                  |                   |                     |                     |
| U.S. Treasury Bill  | Government                         | 0.000%                  | 1/09/2014 | 12/23/2013       | \$ 200,000        | \$ 200,000          | \$ 200,000          |
| U.S. Treasury Bill  | Government                         | 0.005%                  | 1/23/2014 | 12/23/2013       | 250,000           | 249,999             | 249,999             |
| <b>Total Cash Equivalents</b>                             |                                    |                         |           |                  |                   | <b>\$ 449,999</b>   | <b>\$ 449,999</b>   |
| <b>Total Investments &amp; Cash Equivalents 154.5%</b>    |                                    |                         |           |                  |                   | <b>\$ 1,540,758</b> | <b>\$ 1,538,398</b> |
| Liabilities in Excess of Other Assets <sup>(54.5%)</sup>  |                                    |                         |           |                  |                   |                     | (542,761)           |

Net Assets 100.0%

\$ 995,637

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (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) Floating rate debt investments typically bear interest at a rate determined by reference to the London Interbank Offered Rate ( LIBOR ), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2013.
- (3) Investments are held in taxable subsidiaries. Ark Real Estate Partners LP is held through SLRC ADI Corp. and our equity investment in Grakon LLC is held through Grakon TL Holding, Inc.

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2013****(in thousands)**

- (4) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 ( 1940 Act ), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2013 in these controlled investments are as follows:

| <b>Name of Issuer</b>                          | <b>Fair Value at<br/>December 31, 2012</b> | <b>Gross<br/>Additions</b> | <b>Gross<br/>Reductions</b> | <b>Realized Gain<br/>(Loss)</b> | <b>Interest/<br/>Dividend<br/>Income</b> | <b>Fair Value at<br/>December 31, 2013</b> |
|--|--|----------------------------|-----------------------------|---------------------------------|--|--|
| AREP Embassy Row LLC                           | \$   | \$ 37,442                  | \$ 37,820                   | \$                              | \$ 2,045                                 | \$   |
| AREP Fifty-Seventh LLC                         | 24,215                                     | 3,965                      | 29,248                      |                                 | 3,676                                    |  |
| ARK Real Estate Partners II LP                 | 7,866                                      |                            | 8,187                       |                                 | 1,366                                    |  |
| ARK Real Estate Partners LP                    | 35,095                                     |                            |                             |                                 |  | 19,565                                     |
| ARK Real Estate Partners II LP (common equity) | 824  |                            |                             |                                 |  | 456  |
| AviatorCap SII, LLC I                          | 3,044                                      |                            | 771                         |                                 | 335                                      | 2,272                                      |
| AviatorCap SII, LLC II                         | 4,390                                      |                            | 1,446                       |                                 | 432                                      | 2,945                                      |
| AviatorCap SII, LLC III                        | 4,006                                      |                            | 3,310                       |                                 | 302                                      | 696  |
| Crystal Financial LLC                          | 275,000                                    |                            |                             |                                 | 31,750                                   | 305,000                                    |
| National Specialty Alloys, LLC                 |  |                            |                             | 472                             |  |  |
| RD Holdco Inc. (Rug Doctor, common equity)     |  | 15,683                     |                             |                                 |  | 15,683                                     |
| RD Holdco Inc. (Rug Doctor, Class B)           |  | 5,216                      |                             |                                 |  | 5,216                                      |
| RD Holdco Inc. (Rug Doctor, warrants)          |  | 381                        |                             |                                 |  | 381  |
| Rug Doctor LLC                                 |  | 8,548                      |                             |                                 | 30                                       | 8,747                                      |
| SOAGG LLC                                      |  | 16,659                     |                             |                                 | 397                                      | 16,719                                     |
| SOCAY Limited                                  | 14,490                                     | 412                        | 14,327                      |                                 | 866                                      |  |
| SODO Corp                                      | 2,371                                      | 58                         | 2,208                       |                                 | 131                                      |  |
| SOINT, LLC                                     | 15,766                                     |                            | 4,496                       |                                 | 2,227                                    | 11,592                                     |
| SOINT, LLC (preferred equity)                  | 8,667                                      |                            |                             |                                 | 1,300                                    | 9,533                                      |
| USAW 767                                       | 3,076                                      |                            | 1,991                       |                                 | 315                                      | 1,085                                      |
|  | \$ 398,810                                 | \$ 88,364                  | \$ 103,804                  | \$ 472                          | \$ 45,172                                | \$ 399,890                                 |

- (5) Denotes investments in which we are an Affiliated Person but not exercising a controlling influence, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% but less than 25% of the outstanding voting securities of the investment. Transactions during the year ended December 31, 2013 in these affiliated investments are as follows:

| <b>Name of Issuer</b>  | <b>Fair Value at<br/>December 31, 2012</b> | <b>Gross<br/>Additions</b> | <b>Gross<br/>Reductions</b> | <b>Realized Gain<br/>(Loss)</b> | <b>Interest/<br/>Dividend<br/>Income</b> | <b>Fair Value at<br/>December 31,<br/>2013</b> |
|--|--|----------------------------|-----------------------------|---------------------------------|--|--|
| Direct Buy Inc. (common equity)  | \$   | \$                         | \$                          | \$                              | \$                                       | \$   |
| Direct Buy Inc.  | 7,700                                      | 955                        | 866                         |                                 | 976                                      | 7,789  |
| DS Waters of America, Inc.<br>Participating Preferred Units of DSW Group<br>Holdings LLC | 32,095                                     | 737                        | 33,016                      | (14,273)                        | 5,357                                    |  |
|  | 125,611                                    | 5,628                      | 121,149                     |                                 | 5,565                                    |  |

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### Senior Preferred 15% Units of DSW Group Holdings LLC

|    |         |    |       |    |         |    |          |    |        |    |       |
|----|---------|----|-------|----|---------|----|----------|----|--------|----|-------|
| \$ | 165,406 | \$ | 7,320 | \$ | 155,031 | \$ | (14,273) | \$ | 11,898 | \$ | 7,789 |
|----|---------|----|-------|----|---------|----|----------|----|--------|----|-------|

- (6) A portion of the coupon may be payable in kind (PIK).
- (7) The following entities are domiciled outside the United States and the investments are denominated in Canadian Dollars: Granite Global Solutions Corp. and Easyfinancial Services, Inc. in Canada.
- (8) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended.
- (9) Includes an unfunded commitment of \$4,888.
- (10) Solar Capital Ltd.'s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
- (11) Investment represents the operating company after consolidation of the holding company Crystal Capital Financial Holdings LLC.
- (12) Founders' Shares.
- \* Non-income producing security.

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2013**

| <b>Industry Classification</b>     | <b>Percentage of Total<br/>Investments (at fair value) as<br/>of December 31, 2013</b> |
|------------------------------------|--|
| Diversified Financial Services     | 28.0%  |
| Food Products                      | 10.7%  |
| Insurance                          | 7.2%   |
| Specialty Retail                   | 5.1%   |
| Media                              | 5.0%   |
| Aerospace & Defense                | 4.6%   |
| Building Products                  | 4.4%   |
| Health Care Equipment & Supplies   | 4.0%   |
| Health Care Technology             | 3.5%   |
| Consumer Finance                   | 3.2%   |
| Diversified Consumer Services      | 2.8%   |
| Professional Services              | 2.3%   |
| Commercial Services & Supplies     | 2.3%   |
| Machinery                          | 2.1%   |
| Internet Software & Services       | 1.9%   |
| Diversified Real Estate Activities | 1.8%   |
| Hotels, Restaurants & Leisure      | 1.8%   |
| Construction & Engineering         | 1.8%   |
| Health Care Services               | 1.6%   |
| Asset Management & Custody Banks   | 1.6%   |
| Communications Equipment           | 1.2%   |
| Chemicals                          | 1.0%   |
| Education Services                 | 0.8%   |
| Multiline Retail                   | 0.7%   |
| Industrial Conglomerates           | 0.6%   |
| Research & Consulting Services     | 0.0%   |
| <b>Total Investments</b>           | <b>100.0%</b>  |

See notes to consolidated financial statements.



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**SOLAR CAPITAL LTD.**

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

**September 30, 2014**

**(in thousands, except share amounts)**

**Note 1. Organization**

Solar Capital LLC, a Maryland limited liability company, was formed in February 2007 and commenced operations on March 13, 2007 with initial capital of \$1,200,000 of which 47.04% was funded by affiliated parties.

Immediately prior to our initial public offering, through a series of transactions, Solar Capital Ltd. merged with Solar Capital LLC, leaving Solar Capital Ltd. as the surviving entity (the Merger). Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125,000 in senior unsecured notes to the existing Solar Capital LLC unit holders in connection with the Merger. Solar Capital Ltd. had no assets or operations prior to completion of the Merger and as a result, the historical books and records of Solar Capital LLC have become the books and records of the surviving entity. The number of shares used to calculate weighted average shares for use in computations on a per share basis have been decreased retroactively by a factor of approximately 0.4022 for all periods prior to February 9, 2010. This factor represents the effective impact of the reduction in shares resulting from the Merger.

Solar Capital Ltd. ( Solar Capital , the Company 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 ). Furthermore, as the Company is an investment company, it continues to apply the guidance in FASB Accounting Standards Codification ( ASC ) Topic 946. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 9, 2010, Solar Capital priced its initial public offering, selling 5.68 million shares, including the underwriters over-allotment, at a price of \$18.50 per share. Concurrent with this offering, management purchased an additional 600,000 shares through a private placement, also at \$18.50 per share.

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**

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 subsidiaries. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts may have been reclassified to conform to the current period presentation.

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

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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

periods. Changes in the economic environment, financial markets and any other parameters used in determining these estimates could cause actual results to differ materially. The current period's results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending on December 31, 2014.

In the opinion of management, all adjustments, which are of a normal recurring nature, considered necessary for the fair presentation of financial statements, have been included.

The significant accounting policies consistently followed by the Company are:

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

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

- (1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;
  
- (2) preliminary valuation conclusions are then documented and discussed with senior management of the Investment Adviser;
  
- (3) independent valuation firms engaged by our Board conduct independent appraisals and review the Investment Adviser's preliminary valuations and make their own independent assessment;

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- (4) the audit committee of the Board reviews the preliminary valuation of the Investment Adviser and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and
- (5) the Board discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the audit committee.

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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the nine months ended September 30, 2014, there has been no change to the Company's valuation techniques and the nature of the related inputs considered in the valuation process.

ASC Topic 820 classifies the inputs used to measure these fair values into the following hierarchy:

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

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

Level 3: Unobservable inputs for the asset or liability.

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

- (c) Gains or losses on investments are calculated by using the specific identification method.
- (d) The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Loan origination fees, original issue discount, and market discounts are capitalized and we amortize such amounts into income using the interest method or on a straight-line basis, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring and other fees for services rendered are recorded as income when earned.
- (e) The Company intends to comply with the applicable provisions of the Internal Revenue Code pertaining to regulated investment companies to make distributions of taxable income sufficient to relieve it of substantially all Federal income taxes. The Company, at its discretion, may carry forward taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on such estimated excess taxable income as appropriate. As of September 30, 2014 the accrual for excise tax was \$0.



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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

- (f) Book and tax basis differences relating to stockholder distributions and other permanent book and tax differences are typically reclassified among the Company's capital accounts annually. In addition, the character of income and gains to be distributed is determined in accordance with income tax regulations that may differ from GAAP.
- (g) Distributions to common stockholders are recorded as of the record date. The amount to be paid out as a distribution is determined by the Board. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X and ASC Topic 810 *Consolidation*, the Company will generally consolidate its interest in investment company subsidiaries, financing subsidiaries and certain wholly-owned holding companies that serve to facilitate investment in portfolio companies. In addition, the Company may also consolidate any controlled operating companies substantially all of whose business consists of providing services to the Company.
- (i) The accounting records of the Company are maintained in U.S. dollars. Any assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company will not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations would be included with the net unrealized gain or loss from investments. The Company's investments in foreign securities, if any, may involve certain risks, including without limitation: foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments in terms of U.S. dollars and therefore the earnings of the Company.
- (j) The Company has made an irrevocable election to apply the fair value option of accounting to its senior secured credit facility (the Credit Facility) and its senior secured notes (the Senior Secured Notes), in accordance with ASC 825-10. The Company uses an independent third-party valuation firm to assist in measuring their fair value.
- (k) The Company records origination and other expenses related to its other debt issuances as prepaid assets. These expenses are deferred and amortized using either the effective interest method or the straight-line method over the stated life. The straight-line method may be used on revolving facilities and when it approximates the effective yield method.
- (l) The Company may enter into forward exchange contracts in order to hedge against foreign currency risk. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled.
- (m) The Company records expenses related to shelf filings and applicable equity offering costs as prepaid assets. These expenses are charged as a reduction of capital upon utilization, in accordance with ASC 946-20-25.

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- (n) Investments that are expected to pay regularly scheduled interest in cash are generally placed on non-accrual status when principal or interest cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining principal and interest obligations. Cash interest payments received on investments may be recognized as income or applied to principal depending on management's judgment.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

- (o) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of issue would qualify, with limited exceptions. The Company believes that certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities would qualify as cash equivalents.

**Note 3. Agreements**

Solar Capital has an Investment Advisory and Management Agreement with the Investment Adviser, under which the Investment Adviser will manage the day-to-day operations of, and provide investment advisory services to, Solar Capital. For providing these services, the Investment Adviser receives a fee from Solar Capital, consisting of two components – a base management fee and an incentive fee. The base management fee is determined by taking the average value of Solar Capital’s gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Solar Capital’s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus Solar Capital’s operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and distributions paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains 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 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 the Investment Adviser an incentive fee with respect to Solar Capital’s pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Solar Capital’s pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Solar Capital’s pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Solar Capital’s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro-rated for any period of less than three months.

The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date), and will equal 20% of Solar Capital’s cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all net capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For financial statement purposes, the second part of the incentive fee is accrued based upon 20% of cumulative net realized gains and net unrealized capital appreciation. No accrual was required for the three and nine months ended September 30, 2014 and 2013.

For the three and nine months ended September 30, 2014, the Company recognized \$6,159 and \$18,542, respectively, in base management fees and \$0 and \$3,213, respectively, in performance-based incentive fees. For the three and nine months ended September 30, 2013, the Company recognized \$6,613 and \$21,014, respectively, in base management fees and \$5,407 and \$16,601, respectively, in performance-based incentive fees.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

Solar Capital has also entered into an Administration Agreement with Solar Capital Management, LLC (the Administrator) under which the Administrator provides administrative services to Solar Capital. For providing these services, facilities and personnel, Solar Capital reimburses the Administrator for Solar Capital's allocable portion of overhead and other expenses incurred by the Administrator in performing its obligations under the Administration Agreement, including rent. The Administrator will also provide, on Solar Capital's behalf, managerial assistance to those portfolio companies to which Solar Capital is required to provide such assistance.

For the three and nine months ended September 30, 2014, the Company recognized expenses under the Administration Agreement of \$1,268 and \$3,879, respectively. For the three and nine months ended September 30, 2013, the Company recognized expenses under the Administration Agreement of \$1,196 and \$3,452, respectively. No managerial assistance fees were accrued or collected for the three and nine months ended September 30, 2014 and 2013.

**Note 4. Net Asset Value Per Share**

At September 30, 2014, the Company's total net assets and net asset value per share were \$948,704 and \$22.34, respectively. This compares to total net assets and net asset value per share at December 31, 2013 of \$995,637 and \$22.50, respectively.

**Note 5. Earnings Per Share**

The following table sets forth the computation of basic and diluted net increase in net assets per share resulting from operations, pursuant to ASC 260-10, for the three and nine months ended September 30, 2014 and 2013:

|   | <b>Three months ended September 30,</b> |             | <b>Nine months ended September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2014</b>                             | <b>2013</b> | <b>2014</b>                            | <b>2013</b> |
| <b><u>Earnings per share (basic &amp; diluted)</u></b>          |   |             |  |             |
| Numerator net increase in net assets resulting from operations: | \$ 12,768                               | \$ 10,570   | \$ 43,602                              | \$ 46,363   |
| Denominator weighted average shares:                            | 42,465,162                              | 44,741,537  | 43,030,805                             | 44,676,970  |
| Earnings per share:   | \$ 0.30                                 | \$ 0.24     | \$ 1.01                                | \$ 1.04     |

**Note 6. Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to 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:

**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.

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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

**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;
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

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

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

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

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2014 and December 31, 2013:

**Fair Value Measurements**

**As of September 30, 2014**

|                | Level<br>1 | Level 2 | Level 3 | Total |
|----------------|------------|---------|---------|-------|
| <b>Assets:</b> |            |         |         |       |

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|  |     |           |            |            |
|--|-----|-----------|------------|------------|
| Bank Debt/Senior Secured Loans               | \$  | \$ 74,425 | \$ 533,190 | \$ 607,615 |
| Subordinated Debt/Corporate Notes            |     |           | 156,150    | 156,150    |
| Preferred Equity                             |     |           | 22,793     | 22,793     |
| Common Equity/Partnership Interests/Warrants | 733 |           | 347,276    | 348,009    |
| Total Investments                            | 733 | 74,425    | 1,059,409  | 1,134,567  |
| <b>Liabilities:</b>                          |     |           |            |            |
| Credit Facility and Senior Secured Notes     | \$  | \$        | \$ 125,000 | \$ 125,000 |

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

September 30, 2014

(in thousands, except share amounts)

**Fair Value Measurements****As of December 31, 2013**

|   | Level 1 | Level 2   | Level 3    | Total      |
|---|---------|-----------|------------|------------|
| <b>Assets:</b>  |         |           |            |            |
| Bank Debt/Senior Secured Loans  | \$      | \$ 87,940 | \$ 356,462 | \$ 444,402 |
| Subordinated Debt/Corporate Notes                                     |         | 12,390    | 241,702    | 254,092    |
| Preferred Equity  |         |           | 26,307     | 26,307     |
| Common Equity/Partnership Interests/Warrants                          | 213     |           | 363,385    | 363,598    |
| Total Investments   | 213     | 100,330   | 987,856    | 1,088,399  |
| Derivative assets - interest rate caps and foreign exchange contracts |         |           |            |            |
| <b>Liabilities:</b>   |         |           |            |            |
| Credit Facility and Senior Secured Notes                              | \$      | \$        | \$ 125,000 | \$ 125,000 |

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the nine months ended September 30, 2014 and the year ended December 31, 2013 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 September 30, 2014 and December 31, 2013:

**Fair Value Measurements Using Level 3 Inputs**

|   | Bank Debt/<br>Senior<br>Secured<br>Loans | Subordinated<br>Debt/<br>Corporate<br>Notes | Preferred Equity | Common<br>Equity/<br>Partnership<br>Interests/<br>Warrants |
|---|--|---|------------------|--|
| <b>Fair value, December 31, 2013</b>                | \$ 356,462                               | \$ 241,702                                  | \$ 26,307        | \$ 363,385   |
| Total gains or losses included in earnings:         |  |   |                  |  |
| Net realized gain (loss)                            | (468)                                    |   |                  | (25,310)   |
| Net change in unrealized gain (loss)                | (6,363)                                  | (3,375)                                     | 232              | 28,194   |
| Purchase of investment securities                   | 415,695                                  | 2,678                                       | 383              | 19   |
| Proceeds from dispositions of investment securities | (249,796)                                | (84,855)                                    | (4,129)          | (19,012)   |
| Transfers in/out of Level 3                         | 17,660                                   |   |                  |  |
| <b>Fair value, September 30, 2014</b>               | \$ 533,190                               | \$ 156,150                                  | \$ 22,793        | \$ 347,276   |

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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): | \$ (1,296) | \$ (519) | \$ 232 | \$ 26,917 |
|---------------------------------------|------------|----------|--------|-----------|

During the nine months ended September 30, 2014, investments with a fair value of \$17,660 were transferred from Level 2 to Level 3. These transfers were a result of changes in the quantity and quality of information used as valuation inputs by the Investment Adviser. There were no other transfers between levels.

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the nine months ended September 30, 2014:

|   |            |
|---|------------|
| Beginning fair value at December 31, 2013 | \$ 125,000 |
| Net realized (gain) loss                  |            |
| Net change in unrealized (gain) loss      |            |
| Borrowings                                |            |
| Repayments                                |            |
| Transfers in/out of Level 3               |            |
| Ending fair value at September 30, 2014   | \$ 125,000 |

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility and the Senior Secured Notes, in accordance with ASC 825-10. On September 30, 2014, there were borrowings of \$50,000 and \$75,000, respectively, on the Credit Facility and the Senior Secured Notes. The Company used an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility and Senior Secured Notes.

**Fair Value Measurements Using Level 3 Inputs**

|   | <b>Bank Debt/<br/>Senior Secured<br/>Loans</b> | <b>Subordinated<br/>Debt/<br/>Corporate<br/>Notes</b> | <b>Preferred Equity</b> | <b>Common<br/>Equity/<br/>Partnership<br/>Interests/<br/>Warrants</b> |
|---|--|---|-------------------------|---|
| <b>Fair value, December 31, 2012</b>  | \$ 444,568                                     | \$ 413,752  | \$ 151,190              | \$ 321,378  |
| Total gains or losses included in earnings:   |  |   |                         |   |
| Net realized gain (loss)  | (3,185)  | (29,153)  | (14,273)                |   |
| Net change in unrealized gain (loss)  | (3,605)  | 10,654  | 4,318                   | 20,727  |
| Purchase of investment securities   | 232,819  | 4,130   | 22,756                  | 21,280  |
| Proceeds from dispositions of investment securities   | (314,135)                                      | (157,681)   | (137,684)               |   |
| Transfers in/out of Level 3   |  |   |                         |   |
| <b>Fair value, December 31, 2013</b>  | \$ 356,462                                     | \$ 241,702  | \$ 26,307               | \$ 363,385  |
| 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):   | \$ (342)                                       | \$ 4,457  | \$ 930                  | \$ 20,727   |

During the fiscal year December 31, 2013, there were no transfers in and out of Levels 1 and 2.



Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

The following table shows a reconciliation of the beginning and ending balances for fair valued liabilities measured using significant unobservable inputs (Level 3) for the year ended December 31, 2013:

|   |            |
|---|------------|
| Beginning fair value at December 31, 2012 | \$ 389,452 |
| Net realized (gain) loss                  | (517)      |
| Net change in unrealized (gain) loss      | 517        |
| Borrowings                                | 513,592    |
| Repayments                                | (778,044)  |
| Transfers in/out of Level 3               |            |
| Ending fair value at December 31, 2013    | \$ 125,000 |

The Company has made an irrevocable election to apply the fair value option of accounting to the Credit Facility and the Senior Secured Notes, in accordance with ASC 825-10. On December 31, 2013, there were borrowings of \$50,000 and \$75,000, respectively, on the Credit Facility and the Senior Secured Notes. The Company used an independent third-party valuation firm to assist in measuring the fair value of the Credit Facility and Senior Secured Notes.

Quantitative Information about Level 3 Fair Value Measurements

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

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

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of September 30, 2014 is summarized in the table below:

|                                  | Asset or Liability | Fair Value at September 30, 2014 | Principal Valuation Technique/Methodology | Unobservable Input | Range (Weighted Average) |
|----------------------------------|--------------------|----------------------------------|---|--------------------|--------------------------|
| Bank Debt/Senior Secured Loans   | Asset              | \$ 530,590                       | Yield Analysis                            | Market Yield       | 6.2% 16.1% (10.3%)       |
|                                  |                    | \$ 2,600                         | Collateral Analysis                       | Collateral Value   | NA                       |
| Subordinated Debt/Corporate Note | Asset              | \$ 156,150                       | Yield Analysis                            | Market Yield       | 9.5% 17.0% (13.4%)       |
| Preferred Equity                 | Asset              | \$ 22,793                        | Yield Analysis                            | Market Yield       | 8.0% 15.0%(11.1%)        |



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|  |           |    |         |                  |                  |        |              |
|--|-----------|----|---------|------------------|------------------|--------|--------------|
| Common Equity/Partnership Interests/Warrants | Asset     | \$ | 47,276  | Enterprise Value | EBITDA Multiple  | 3.8x   | 16.0x (8.3x) |
|  |           | \$ | 300,000 | Enterprise Value | Return on Equity | 5.5%   | 9.9% (11.3%) |
| Credit Facility                              | Liability | \$ | 50,000  | Yield Analysis   | Market Yield     | L+0.5% | L+5.5%       |
|  |           |    |         |                  |                  |        | (L+2.6%)     |
| Senior Secured Notes                         | Liability | \$ | 75,000  | Yield Analysis   | Market Yield     | 5.8%   | 6.0%(5.9%)   |

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2013 is summarized in the table below:

|  | Asset or Liability | Fair Value at December 31, 2013 | Principal Valuation Technique/Methodology | Unobservable Input | Range (Weighted Average) |               |
|--|--------------------|---------------------------------|---|--------------------|--------------------------|---------------|
| Bank Debt/Senior Secured Loans               | Asset              | \$ 356,462                      | Yield Analysis                            | Market Yield       | 9.2%                     | 16.1% (11.9%) |
| Subordinated Debt/Corporate Note             | Asset              | \$ 241,702                      | Yield Analysis                            | Market Yield       | 12.0%                    | 15.4% (13.6%) |
| Preferred Equity                             | Asset              | \$ 26,307                       | Yield Analysis                            | Market Yield       | 8.0%                     | 15.0%(10.9%)  |
| Common Equity/Partnership Interests/Warrants | Asset              | \$ 58,385                       | Enterprise Value                          | Enterprise Value   | 6.8x                     | 16.8x (9.4x)  |
|  |                    | \$ 305,000                      | Enterprise Value                          | Return on Equity   | 5.1%                     | 10.4%(12.3%)  |
| Credit Facility                              | Liability          | \$ 50,000                       | Yield Analysis                            | Market Yield       | L+0.5%                   | L+5.5%        |
|  |                    |                                 |   |                    |                          | (L+2.6%)      |
| Senior Secured Notes                         | Liability          | \$ 75,000                       | Yield Analysis                            | Market Yield       | 4.1%                     | 8.2%(6.2%)    |

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

**Note 7. Derivatives**

The Company is exposed to interest rate risk both as a lender and a borrower. The Company's borrowing facilities and term loan bear interest at a floating rate, which means that rising interest rates would increase our cost of borrowing. To partially mitigate this risk, in 2011, the Company purchased two interest rate cap contracts with Wells Fargo as the counterparty, which effectively limited the interest rate payable on \$150,000 of LIBOR based borrowings. On January 13, 2014, the \$100,000 interest rate cap contract expired. On May 4, 2014, the \$50,000 interest rate cap contract expired.

There are no interest rate caps outstanding as of September 30, 2014. The following table highlights the interest rate caps outstanding as of December 31, 2013:

| Index Rate    | Cap Rate | Notional Amount | Expiration | Cost     | Fair Value | Unrealized Depreciation |
|---------------|----------|-----------------|------------|----------|------------|-------------------------|
| 3 Month Libor | 1.0%     | \$ 100,000      | 1/13/2014  | \$ 1,950 | \$         | \$ (1,950)              |
| 3 Month Libor | 1.0%     | 50,000          | 5/4/2014   | 988      |            | (988)                   |
|               |          | \$ 150,000      |            | \$ 2,938 | \$         | \$ (2,938)              |

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

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As of September 30, 2014 and December 31, 2013, there were no open forward foreign currency contracts outstanding. The Company also had no derivatives designated as hedging instruments at September 30, 2014 and December 31, 2013.

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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

**Note 8. Debt**

*Unsecured Senior Notes*

On November 16, 2012, the Company and U.S. Bank National Association entered into an Indenture and a First Supplemental Indenture relating to the Company's issuance, offer and sale of \$100,000 aggregate principal amount of its 6.75% Unsecured Senior Notes due 2042 (the "Unsecured Notes"). The Unsecured Notes will mature on November 15, 2042 and may be redeemed in whole or in part at the Company's option at any time or from time to time on or after November 15, 2017 at a redemption price of \$25 per security plus accrued and unpaid interest. The Unsecured Notes bear interest at a rate of 6.75% per year payable quarterly on February 15, May 15, August 15 and November 15 of each year, commencing on February 15, 2013. The Unsecured Notes are direct senior unsecured obligations of the Company.

*Revolving and Term Loan Facility*

In July 2013, the Company amended its Credit Facility, composed of \$440,000 of revolving credit and \$50,000 in term loans. Subsequently, in December 2013, a commitment increase was executed providing an additional \$50,000 of revolving credit, bringing the total revolving credit capacity to \$490,000. Borrowings generally bear interest at a rate per annum equal to the base rate plus 2.25% or the alternate base rate plus 1.25%. The Credit Facility has no LIBOR floor requirement. The Credit Facility matures in June 2018 and includes ratable amortization in the final year. The Credit Facility may be increased up to \$800,000 with additional new lenders or an increase in commitments from current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Credit Facility contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder's equity and a minimum asset coverage ratio. The Company also pays issuers of funded term loans quarterly in arrears a commitment fee at the rate of 0.25% per annum on the average daily outstanding balance. At September 30, 2014, outstanding USD equivalent borrowings under the Credit Facility totaled \$50,000 in term loans.

*Senior Secured Notes*

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

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

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

The average annualized interest cost for all borrowings for the nine months ended September 30, 2014 and the year ended December 31, 2013 was 5.53% and 4.83%, respectively. These costs are exclusive of other credit facility expenses such as unused fees, agency fees and other prepaid expenses related to establishing and/or amending the Credit Facility, the Unsecured Notes, and the Senior Secured Notes (collectively the "Credit Facilities"), if any. The maximum amounts borrowed on the Credit Facilities during the nine months ended September 30, 2014 and the year ended December 31, 2013 were \$225,000 and \$503,888, respectively.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)****Note 9. Financial Highlights and Senior Securities Table**

The following is a schedule of financial highlights for the nine months ended September 30, 2014 and for the year ended December 31, 2013:

|   | Nine months ended<br>September 30, 2014<br>(unaudited) | Year ended<br>December 31,<br>2013 |
|---|--|------------------------------------|
| Per Share Data <sup>(a)</sup> :                           |  |                                    |
| Net asset value, beginning of year                        | \$ 22.50   | \$ 22.70                           |
| Net investment income                                     | 1.16   | 1.91                               |
| Net realized and unrealized loss                          | (0.14)   | (0.22)                             |
| Net increase in net assets resulting from operations      | 1.02   | 1.69                               |
| Distributions to stockholders from net investment income. | (1.20)   | (1.55)                             |
| Distributions to stockholders from net realized gains.    |  | (0.46)                             |
| Anti-dilution   | 0.02   | 0.12                               |
| Net asset value, end of period                            | \$ 22.34   | \$ 22.50                           |
| Per share market value, end of period                     | \$ 18.68   | \$ 22.55                           |
| Total Return <sup>(b,c)</sup>                             | (12.27)%   | 2.82%                              |
| Net assets, end of period                                 | \$ 948,704   | \$ 995,637                         |
| Shares outstanding, end of period                         | 42,465,162   | 44,244,195                         |
| Ratios to average net assets <sup>(c)</sup> :             |  |                                    |
| Net investment income                                     | 5.16%  | 8.43%                              |
| Operating expenses  | 2.92%  | 5.82%                              |
| Interest and other credit facility expenses               | 1.12%  | 1.99%                              |
| Total expenses  | 4.04%  | 7.81%                              |
| Average debt outstanding                                  | \$ 225,000   | \$ 318,186                         |
| Portfolio turnover ratio                                  | 33.8%  | 25.6%                              |

(a) Calculated using the average shares outstanding method.

(b) Total return is based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with the dividend reinvestment plan.

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



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)**

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

| <b>Class and Year</b>                    | <b>Total<br/>Amount<br/>Outstanding <sup>(1)</sup></b> | <b>Asset<br/>Coverage<br/>Per Unit<br/><sup>(2)</sup></b> | <b>Involuntary<br/>Liquidating<br/>Preference<br/>Per Unit<br/><sup>(3)</sup></b> | <b>Average<br/>Market Value<br/>Per Unit <sup>(4)</sup></b> |
|--|--|---|---|---|
| <b>Revolving Credit Facilities</b>       |  |   |   |   |
| Fiscal 2014 (through September 30, 2014) | \$ 0   | \$ 0  |   | N/A   |
| Fiscal 2013                              | 0  | 0   |   | N/A   |
| Fiscal 2012                              | 264,452  | 1,510   |   | N/A   |
| Fiscal 2011                              | 201,355  | 3,757   |   | N/A   |
| Fiscal 2010                              | 400,000  | 2,668   |   | N/A   |
| Fiscal 2009                              | 88,114   | 8,920   |   | N/A   |
| <b>Unsecured Senior Notes</b>            |  |   |   |   |
| Fiscal 2014 (through September 30, 2014) | \$ 100,000   | \$ 2,318  |   | \$ 936  |
| Fiscal 2013                              | 100,000  | 2,411   |   | 934   |
| Fiscal 2012                              | 100,000  | 571   |   | 923   |
| <b>Senior Secured Notes</b>              |  |   |   |   |
| Fiscal 2014 (through September 30, 2014) | \$ 75,000  | \$ 1,739  |   | N/A   |
| Fiscal 2013                              | 75,000   | 1,808   |   | N/A   |
| Fiscal 2012                              | 75,000   | 428   |   | N/A   |
| <b>Term Loans</b>                        |  |   |   |   |
| Fiscal 2014 (through September 30, 2014) | \$ 50,000  | \$ 1,159  |   | N/A   |
| Fiscal 2013                              | 50,000   | 1,206   |   | N/A   |
| Fiscal 2012                              | 50,000   | 285   |   | N/A   |
| Fiscal 2011                              | 35,000   | 653   |   | N/A   |
| Fiscal 2010                              | 35,000   | 233   |   | N/A   |

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

(2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period.

(3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.

(4) Not applicable except for the Unsecured Senior Notes which are publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit.





**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****September 30, 2014****(in thousands, except share amounts)****Note 10. Crystal Financial LLC**

On December 28, 2012, we completed the acquisition of Crystal Capital Financial Holdings LLC ( Crystal Financial ), a commercial finance company focused on providing asset-based and other secured financing solutions, from SSP Energy Ltd., Quartz Managers LLC and Quantum Strategic Partners Ltd. (the Crystal Acquisition ) pursuant to a definitive agreement entered into on December 17, 2012. We invested \$275,000 in cash to effect the Crystal Acquisition. Crystal Financial owns approximately 98% of the outstanding ownership interest in Crystal Financial LLC. The remaining financial interest is held by various employees of Crystal Financial LLC, through their investment in Crystal Management LP. Crystal Financial LLC had a diversified portfolio of 23 loans having a total par value of approximately \$400,000 at November 30, 2012 and a \$275,000 committed revolving credit facility. On January 27, 2014 the revolving credit facility was expanded to \$300,000. On March 31, 2014, we exchanged \$137,500 of our equity interest in Crystal Financial in exchange for \$137,500 in floating rate senior secured notes in Crystal Financial bearing interest at LIBOR plus 9.50%, maturing on March 31, 2019. Our financial statements, including our schedule of investments, reflect our investments in Crystal Financial on a consolidated basis.

As of September 30, 2014, Crystal Financial LLC had 29 funded commitments to 25 different issuers with a total par value of approximately \$411,042 on total assets of \$449,385. As of December 31, 2013, total par value and total assets were \$465,496 and \$499,054, respectively. All loans were floating rate with the largest loan outstanding totaling \$30,000. The average exposure per issuer was \$16,442. Crystal Financial LLC's credit facility, which is non-recourse to Solar Capital, had approximately \$164,437 and \$200,400 of borrowings outstanding at September 30, 2014 and December 31, 2013, respectively. For the three months ended September 30, 2014 and September 30, 2013, Crystal Financial LLC had net income of \$8,345 and \$6,860 on gross income of \$13,738 and \$13,128, respectively. For the nine months ended September 30, 2014 and September 30, 2013, Crystal Financial LLC had net income of \$21,133 and \$22,733 on gross income of \$40,566 and \$39,479, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

**Note 11. Stock Repurchase Program**

On July 31, 2013, the Company's board of directors authorized a program for the purpose of repurchasing up to \$100,000 of the Company's common stock. Under the repurchase program, the Company may, but is not obligated to, repurchase its outstanding common stock in the open market from time to time provided that the Company complies with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in Rule 10b-18 and 10b-5 of the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. On December 5, 2013, the Company's board of directors extended the repurchase program to be in place until the earlier of July 31, 2014 or until \$100,000 of the Company's outstanding shares of common stock have been repurchased. On July 31, 2014, the Company's stock repurchase program expired. During the fiscal year through July 31, 2014, the Company repurchased 1,779,033 shares at an average price of approximately \$21.97 per share, inclusive of commissions. The total dollar amount of shares repurchased in this period is \$39,078. During the year ended December 31, 2013, the Company repurchased 796,418 shares at an average price of approximately \$21.98 per share, inclusive of commissions, for a total dollar amount of \$17,508.

**Note 12. Commitments and Contingencies**

The Company had unfunded equity and debt commitments to various revolving and delayed draw loans. The total amount of these unfunded commitments as of September 30, 2014 and December 31, 2013 is \$120,108 and \$15,000, respectively.

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**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**September 30, 2014**

**(in thousands, except share amounts)**

**Note 13. Senior Secured Unitranche Loan Program**

On September 2, 2014, the Company entered into a limited liability company agreement with an affiliate (the Investor) of a fund managed by Pacific Investment Management Company LLC (PIMCO) to co-invest in middle market senior secured unitranche loans sourced by the same origination platform used by the Company. Initial funding commitments to the unitranche strategy total \$600,000, consisting of direct equity investments and co-investment commitments as described below. The joint venture vehicle known as the Senior Secured Unitranche Loan Program (SSLP) is structured as an unconsolidated Delaware limited liability company. The Company and the Investor have initially made equity commitments to the SSLP of \$300,000 and \$43,250, respectively. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and PIMCO (with approval from a representative of each required). As of September 30, 2014, SSLP has not commenced operations.

**Note 14. Subsequent Events**

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

On November 4, 2014, our Board declared a quarterly distribution of \$0.40 per share payable on January 5, 2015 to holders of record as of December 18, 2014.

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**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 schedule of investments, of Solar Capital Ltd. (the Company) as of September 30, 2014, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2014 and 2013, the consolidated statement of changes in net assets for the nine-month period ended September 30, 2014, and the related consolidated statements of cash flows for the nine month periods ended September 30, 2014 and 2013. These consolidated financial statements 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 and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd., as of December 31, 2013, and the related consolidated statement of changes in net assets for the year ended December 31, 2013; and in our report dated February 25, 2014, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

November 4, 2014

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

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

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

our future operating results;

our business prospects and the prospects of our portfolio companies;

the impact of investments that we expect to make;

our contractual arrangements and relationships with third parties;

the dependence of our future success on the general economy and its impact on the industries in which we invest;

the ability of our portfolio companies to achieve their objectives;

our expected financings and investments;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

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

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

**Overview**

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

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 (the Senior Unsecured Notes) to the existing Solar Capital LLC unit holders in connection with the Merger. Solar Capital Ltd. had no assets or operations prior to completion of the Merger and as a result, the historical books and records of Solar

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Capital LLC have become the books and records of the surviving entity. The number of shares used to calculate weighted average shares for use in computations on a per share basis have been decreased retroactively by a factor of approximately 0.4022 for all periods prior to February 9, 2010. This factor represents the effective impact of the reduction in shares resulting from the Merger. As of December 17, 2010, the Senior Unsecured Notes have been repaid from proceeds of a private placement transaction that we completed on November 30, 2010 and from borrowings under a credit facility established in December 2010.

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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 ). Furthermore, as the Company is an investment company, it continues to apply the guidance in FASB Accounting Standards Codification ( ASC ) Topic 946. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ).

On February 9, 2010, we priced our initial public offering, selling 5.68 million shares of our common stock. Concurrent with our initial public offering, Michael S. Gross, our chairman and chief executive officer, and Bruce Spohler, our chief operating officer, collectively purchased an additional 0.6 million shares of our common stock through a private placement transaction exempt from registration under the Securities Act (the Concurrent Private Placement ).

We invest primarily in U.S. middle-market companies, where we believe the supply of primary capital is limited and the investment opportunities are most attractive. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in leveraged middle-market companies in the form of senior secured loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded. Our business is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$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 (the Investment Adviser ). Solar Capital Management, LLC (the Administrator ) provides the administrative services necessary for us to operate.

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

As of September 30, 2014, the Investment Adviser has invested approximately \$4.5 billion in more than 170 different portfolio companies since it was founded in 2006. Over the same period, the Investment Adviser completed transactions with more than 100 different financial sponsors.

## **Recent Developments**

On November 4, 2014, our Board declared a quarterly distribution of \$0.40 per share payable on January 5, 2015 to holders of record as of December 18, 2014.

## ***Investments***

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

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### ***Revenue***

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

### ***Expenses***

All investment professionals of the Investment Adviser and their staff, when and to the extent engaged in providing investment advisory and management services to us, and the compensation and routine overhead expenses of that personnel which is allocable to those services are provided and paid for by the Investment Adviser. We bear all other costs and expenses of our operations and transactions, including those relating to:

investment advisory and management fees;

expenses incurred by the Investment Adviser payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;

calculation of our net asset value (including the cost and expenses of any independent valuation firm utilized);

direct costs and expenses of administration, including independent registered public accounting and legal costs;

costs of preparing and filing reports or other documents with the SEC;

interest payable on debt, if any, incurred to finance our investments;

offerings of our common stock and other securities;

registration and listing fees;

fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;

transfer agent and custodial fees;



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taxes;

independent directors' fees and expenses;

marketing and distribution-related expenses;

the costs of any reports, proxy statements or other notices to stockholders, including printing and postage costs;

our allocable portion of the fidelity bond, directors and officers/errors and omissions liability insurance, and any other insurance premiums;

organizational costs; and

all other expenses incurred by us or the Administrator in connection with administering our business, such as our allocable portion of overhead under the administration agreement, including rent and our allocable portion of the cost of our chief financial officer and chief compliance officer and their respective staffs.

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

**Portfolio and Investment Activity**

During the three months ended September 30, 2014, we invested approximately \$207.6 million across 11 portfolio companies. This compares to investing approximately \$66.3 million in 5 portfolio companies for the three months ended September 30, 2013. Investments sold or prepaid during the three months ended September 30, 2014 totaled approximately \$56.8 million versus approximately \$349.8 million for the three months ended September 30, 2013.

At September 30, 2014, our portfolio consisted of 47 portfolio companies and was invested 53.5% in senior secured loans, 13.8% in subordinated debt, 2.0% in preferred equity and 30.7% in common equity and warrants measured at fair value versus 40 portfolio companies invested 42.6% in senior secured loans, 25.8% in subordinated debt, 2.3% in preferred equity and 29.3% in common equity and warrants measured at fair value at September 30, 2013.

The weighted average yields on our portfolio of income producing investments were 10.3% and 11.6%, respectively, at September 30, 2014 and 2013, measured at fair value.

At September 30, 2014, 77.6% or \$841.1 million of our income producing investment portfolio\* is floating rate and 22.4% or \$242.8 million is fixed rate, measured at fair value. At September 30, 2013, 56.1% or \$601.1 million of our income producing investment portfolio\* was floating rate and 43.9% or \$470.6 million was fixed rate, measured at fair value. As of September 30, 2014 and 2013, we had one and one issuer on non-accrual status, respectively.

Since inception, Solar Capital Ltd. and its predecessor companies have invested approximately \$3.7 billion in 119 portfolio companies. Over the same period, Solar Capital Ltd. has completed transactions with more than 80 different financial sponsors.

**Crystal Financial LLC**

On December 28, 2012, we completed the acquisition of Crystal Capital Financial Holdings LLC ( Crystal Financial ), a commercial finance company focused on providing asset-based and other secured financing solutions, from SSP Energy Ltd., Quartz Managers LLC and Quantum Strategic Partners Ltd. (the Crystal Acquisition ) pursuant to a definitive agreement entered into on December 17, 2012. We invested \$275 million in cash to effect the Crystal Acquisition. Crystal Financial owns approximately 98% of the outstanding ownership interest in Crystal Financial LLC. The remaining financial interest is held by various employees of Crystal Financial LLC, through their investment in Crystal Management LP. Crystal Financial LLC had a diversified portfolio of 23 loans having a total par value of approximately \$400 million at November 30, 2012 and a \$275 million committed revolving credit facility. On January 27, 2014 the revolving credit facility was expanded to \$300 million. On March 31, 2014, we exchanged \$137.5 million of our equity interest in Crystal Financial in exchange for \$137.5 million in floating rate senior secured notes in Crystal Financial bearing interest at LIBOR plus 9.50%, maturing on March 31, 2019. Our financial statements, including our schedule of investments, reflect our investments in Crystal Financial on a consolidated basis.

As of September 30, 2014, Crystal Financial LLC had 29 funded commitments to 25 different issuers with a total par value of approximately \$411.0 million on total assets of \$449.4 million. As of December 31, 2013, total par value and total assets were \$465.5 million and \$499.1 million, respectively. All loans were floating rate with

\* We have included Crystal Financial LLC as 100% floating rate.

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the largest loan outstanding totaling \$30.0 million. The average exposure per issuer was \$16.4 million. Crystal Financial LLC's credit facility, which is non-recourse to Solar Capital, had approximately \$164.4 million and \$200.4 million of borrowings outstanding at September 30, 2014 and December 31, 2013, respectively. For the three months ended September 30, 2014 and September 30, 2013, Crystal Financial LLC had net income of \$8.3 million and \$6.9 million on gross income of \$13.7 million and \$13.1 million, respectively. For the nine months ended September 30, 2014 and September 30, 2013, Crystal Financial LLC had net income of \$21.1 million and \$22.7 million on gross income of \$40.6 million and \$39.5 million, respectively. Due to timing and non-cash items, there may be material differences between GAAP net income and cash available for distributions.

### **Stock Repurchase Program**

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

### **Senior Secured Unitranche Loan Program**

On September 2, 2014, the Company entered into a limited liability company agreement with an affiliate (the Investor) of a fund managed by Pacific Investment Management Company LLC (PIMCO) to co-invest in middle market senior secured unitranche loans sourced by the same origination platform used by the Company. Initial funding commitments to the unitranche strategy total \$600 million, consisting of direct equity investments and co-investment commitments as described below. The joint venture vehicle known as the Senior Secured Unitranche Loan Program (SSLP) is structured as an unconsolidated Delaware limited liability company. The Company and the Investor have initially made equity commitments to the SSLP of \$300 million and \$43.25 million, respectively. All portfolio decisions and generally all other decisions in respect of the SSLP must be approved by an investment committee of the SSLP consisting of representatives of the Company and PIMCO (with approval from a representative of each required). As of September 30, 2014, SSLP has not commenced operations.

### **Critical Accounting Policies**

The preparation of consolidated financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and revenues and expenses during the periods reported. Actual results could materially differ from those estimates. We have identified the following items as critical accounting policies.

#### ***Valuation of Portfolio Investments***

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

Under procedures established by our board of directors (the Board), we value investments, including certain senior secured debt, subordinated debt and other debt securities with maturities greater than 60 days, for

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

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

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

Investments in all asset classes are valued utilizing a market approach, an income approach, or both approaches, as appropriate. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities (including a business). The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The measurement is based on the value indicated by current market expectations about those future amounts. In following these approaches, the types of factors that we may take into account in fair value pricing our investments include, as relevant: available current market data, including relevant and applicable market trading and transaction comparables, applicable market yields and multiples, security covenants, call protection provisions, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the nine months ended September 30, 2014, there has been no change to the Company's valuation techniques and the nature of the related inputs considered in the valuation process.

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

### ***Valuation of Senior Secured Credit Facility and Senior Secured Notes***

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

### ***Revenue Recognition***

The Company records dividend income and interest, adjusted for amortization of premium and accretion of discount, on an accrual basis. Investments that are expected to pay regularly scheduled interest and/or dividends in cash are generally placed on non-accrual status when principal or interest/dividend cash payments are past due 30 days or more and/or when it is no longer probable that principal or interest/dividend cash payments will be collected. Such non-accrual investments are restored to accrual status if past due principal and interest or dividends are paid in cash, and in management's judgment, are likely to continue timely payment of their remaining interest or dividend obligations. Interest or dividend cash payments received on investments may be recognized as income or applied to principal depending upon management's judgment. Some of our investments may have contractual PIK interest or dividends. PIK interest and dividends computed at the contractual rate is accrued into income and reflected as receivable up to the capitalization date. PIK investments offer issuers the option at each payment date of making payments in cash or in additional securities. When additional securities are received, they typically have the same terms, including maturity dates and interest rates as the original securities issued. On these payment dates, the Company capitalizes the accrued interest or dividends receivable (reflecting such amounts as the basis in the additional securities received). PIK generally becomes due at the maturity of the investment or upon the investment being called by the issuer. At the point the Company believes PIK is not expected to be realized, the PIK investment will be placed on non-accrual status. When a PIK investment is placed on non-accrual status, the accrued, uncapitalized interest or dividends is reversed from the related receivable through interest or dividend income, respectively. The Company does not reverse previously capitalized PIK interest or dividends. Upon capitalization, PIK is subject to the fair value estimates associated with their related investments. PIK investments on non-accrual status are restored to accrual status if the Company again believes that PIK is expected to be realized. Loan origination fees, original issue discount, and market discounts are capitalized and amortized into income using the interest method or straight-line, as applicable. Upon the prepayment of a loan, any unamortized loan origination fees are recorded as interest income. We record prepayment premiums on loans and other investments as interest income when we receive such amounts. Capital structuring fees are recorded as other income when earned.

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

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

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

Within the context of these critical accounting policies and disclosed subsequent events herein, we are not currently aware of any other reasonably likely events or circumstances that would result in materially different amounts being reported.

### ***Income Taxes***

Solar Capital Ltd., a U.S. corporation, has elected to be treated as a RIC under Subchapter M of the Code, as amended. 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. Depending on the level of taxable income earned in a given tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year distributions, the Company accrues an estimated excise tax, if any, on estimated excess taxable income. As of September 30, 2014, the accrual for excise tax was \$0.

## **RESULTS OF OPERATIONS**

Results comparisons are for the three and nine months ended September 30, 2014 and 2013:

### **Investment Income**

For the three and nine months ended September 30, 2014, gross investment income totaled \$28.4 million and \$89.0 million, respectively. For the three and nine months ended September 30, 2013, gross investment income totaled \$43.0 million and \$128.2 million, respectively. The decrease in gross investment income year over year was primarily due to a smaller income producing portfolio from the net effect of portfolio repayments, as well as portfolio yield compression.

### **Expenses**

Expenses totaled \$12.0 million and \$39.1 million, respectively, for the three and nine months ended September 30, 2014, of which \$6.2 million and \$21.8 million, respectively, were management fees and performance-based incentive fees and \$3.6 million and \$10.8 million, respectively, were interest and other credit facility expenses. Administrative services and other general and administrative expenses totaled \$2.2 million and \$6.5 million, respectively, for the three and nine months ended September 30, 2014. Expenses totaled \$21.4 million and \$61.8 million, respectively, for the three and nine months ended September 30, 2013, of which \$12.0

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million and \$37.6 million, respectively, were management fees and performance-based incentive fees and \$6.8 million and \$16.4 million, respectively, were interest and other credit facility expenses. Administrative services and other general and administrative expenses totaled \$2.6 million and \$7.8 million, respectively, for the three and nine months ended September 30, 2013. Expenses generally consist of management and performance-based incentive fees, administrative services fees, insurance expenses, legal fees, directors' fees, transfer agency fees, printing and proxy expenses, audit and tax services expenses, and other general and administrative expenses. Interest and other credit facility expenses generally consist of interest, unused fees, agency fees and loan origination fees, if any, among others. The decrease in expenses year over year was primarily due to a decrease in performance-based incentive fees on lower investment income, as well as decreases in debt expenses due to lower average borrowings.

**Net Investment Income**

The Company's net investment income totaled \$16.4 million and \$49.9 million, or \$0.39 and \$1.16, per average share, respectively, for the three and nine months ended September 30, 2014. The Company's net investment income totaled \$21.6 million and \$66.4 million, or \$0.48 and \$1.49, per average share, respectively, for the three and nine months ended September 30, 2013.

**Net Realized Loss**

The Company had investment sales and prepayments totaling approximately \$57 million and \$403 million, respectively, for the three and nine months ended September 30, 2014. Net realized losses over the same periods were \$3.0 million and \$30.1 million, respectively. The Company had investment sales and prepayments totaling approximately \$350 million and \$492 million, respectively, for the three and nine months ended September 30, 2013. Net realized losses over the same periods were \$15.7 million and \$16.9 million, respectively. Net realized losses for the three months ended September 30, 2014 were primarily related to the realization of previously unrealized currency losses. Net realized losses for the nine months ended September 30, 2014 were primarily related to the realization of previously recognized unrealized losses on our investment in ARK Real Estate, L.P. Net realized loss for the three and nine months ended September 30, 2013 was primarily related to the exit of our investment in DSW Group, Inc.

**Net Change in Unrealized Gain (Loss)**

For the three and nine months ended September 30, 2014, net change in unrealized gain (loss) on the Company's assets and liabilities totaled (\$0.6) million and \$23.7 million, respectively. For the three and nine months ended September 30, 2013, net change in unrealized gain (loss) on the Company's assets and liabilities totaled \$4.6 million and (\$3.2) million, respectively. Net unrealized loss for the three months ended September 30, 2014 is primarily due to depreciation in the value of our investments in Nuveen Investments, Direct Buy and Adams Outdoor Advertising, among others, partially offset by appreciation in Crystal Financial LLC and Tecomet, Inc., among others. Net unrealized gain for the nine months ended September 30, 2014 is primarily due to the reversal of unrealized depreciation on our investment in Ark Real Estate, L.P. Net unrealized gain for the three months ended September 30, 2013 was primarily attributable to the realization of previously recognized unrealized losses on exited investments. Net unrealized loss for the nine months ended September 30, 2013 stemmed from depreciation in the value of our investments in ARK Real Estate Partners and Rug Doctor, Inc. as well as modest yield widening on our portfolio, partially offset by the realization of previously recognized unrealized losses on exited investments.

**Net Increase (Decrease) in Net Assets From Operations**

For the three and nine months ended September 30, 2014, the Company had a net increase in net assets resulting from operations of \$12.8 million and \$43.6 million, respectively. For the same periods, earnings per average share were \$0.30 and \$1.01, respectively. For the three and nine months ended September 30, 2013, the Company had a net increase in net assets resulting from operations of \$10.6 million and \$46.4 million, respectively. For the same periods, earnings per average share were \$0.24 and \$1.04, respectively.

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**LIQUIDITY AND CAPITAL RESOURCES**

The Company's liquidity and capital resources are generated and generally available through its Credit Facility maturing in June 2018, through cash flows from operations, investment sales, prepayments of senior and subordinated loans, income earned on investments and cash equivalents, and periodic follow-on equity and/or debt offerings. As of September 30, 2014, we had a total of \$490.0 million of unused borrowing capacity under our Credit Facility, subject to borrowing base limits.

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

On January 11, 2013, the Company closed its most recent follow-on public equity offering of 6.3 million shares of common stock at \$24.40 per share raising approximately \$146.9 million in net proceeds. The primary uses of the funds raised were for investments in portfolio companies, reductions in revolving debt outstanding and for other general corporate purposes.

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

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

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

**Cash Equivalents**

We deem certain U.S. Treasury bills, repurchase agreements and other high-quality, short-term debt securities as cash equivalents. From time to time, including at or near the end of each fiscal quarter, we consider using various temporary investment strategies for our business. One strategy includes taking proactive steps by utilizing cash equivalents with the objective of enhancing our investment flexibility pursuant to Section 55 of the 1940 Act. More specifically, from time-to-time we may purchase U.S. Treasury bills or other high-quality, short-term debt securities at or near the end of the quarter and typically close out the position on a net cash basis subsequent to quarter end. We may also utilize repurchase agreements or other balance sheet transactions, including drawing down on our credit facilities, as deemed appropriate. The amount of these transactions or such drawn cash for this purpose is excluded from total assets for purposes of computing the asset base upon which the management fee is determined. We held approximately \$490 million in cash equivalents as of September 30, 2014.

**Debt**

*Unsecured Senior Notes*

On November 16, 2012, the Company and U.S. Bank National Association entered into an Indenture and a First Supplemental Indenture relating to the Company's issuance, offer and sale of \$100 million aggregate principal amount of its Unsecured Notes. The Unsecured Notes will mature on November 15, 2042 and may be



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redeemed in whole or in part at the Company's option at any time or from time to time on or after November 15, 2017 at a redemption price of \$25 per security plus accrued and unpaid interest. The Unsecured Notes bear interest at a rate of 6.75% per year payable quarterly on February 15, May 15, August 15 and November 15 of each year, commencing on February 15, 2013. The Unsecured Notes are direct senior unsecured obligations of the Company.

*Revolving & Term Loan Facility*

In July 2013, the Company amended its Credit Facility, composed of \$440 million of revolving credit and \$50 million in term loans. Subsequently, in December 2013, a commitment increase was executed providing an additional \$50 million of revolving credit, bringing the total revolving credit capacity to \$490 million. Borrowings generally bear interest at a rate per annum equal to the base rate plus 2.25% or the alternate base rate plus 1.25%. The Credit Facility has no LIBOR floor requirement. The Credit Facility matures in June 2018 and includes ratable amortization in the final year. The Credit Facility may be increased up to \$800 million with additional new lenders or an increase in commitments from current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default. In addition, the Credit Facility contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder's equity and a minimum asset coverage ratio. The Company also pays issuers of funded term loans quarterly in arrears a commitment fee at the rate of 0.25% per annum on the average daily outstanding balance. In conjunction with the establishment of the Credit Facility, the predecessor facility and a term loan were retired, resulting in \$2.3 million of non-recurring charges to expense unamortized costs in the year ended December 31, 2012. Expenses associated with the July 2013 amendment of the Credit Facility, the retirement of our \$100 million revolving credit facility with Wells Fargo Securities, LLC as well as the subsequent December 2013 commitment increase totaled \$2.5 million. At September 30, 2014, outstanding USD equivalent borrowings under the Credit Facility totaled \$50 million in term loans.

*Senior Secured Notes*

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

Certain covenants on our issued debt may restrict our business activities, including limitations that could hinder our ability to finance additional loans and investments or to make the distributions required to maintain our status as a RIC under Subchapter M of the Code. At September 30, 2014, the Company was in compliance with all financial and operational covenants required by the Credit Facilities.

*Contractual Obligations*

A summary of our significant contractual payment obligations is as follows as of September 30, 2014:

**Payments Due by Period (in millions)**

|  | <b>Total</b> | <b>Less than 1 Year</b> | <b>1-3 Years</b> | <b>3-5 Years</b> | <b>More Than<br/>5 Years</b> |
|--|--------------|-------------------------|------------------|------------------|------------------------------|
| Revolving credit facility <sup>(1)</sup> | \$           | \$                      | \$               | \$               | \$                           |
| Unsecured senior notes                   | 100.0        |                         |                  |                  | 100.0                        |
| Senior secured notes                     | 75.0         |                         | 75.0             |                  |                              |
| Term Loans                               | 50.0         |                         |                  | 50.0             |                              |

As of September 30, 2014, we had a total of \$490.0 million of unused borrowing capacity under our revolving credit facilities, subject to borrowing base limits.

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

| Class and Year                           | Total Amount Outstanding <sup>(1)</sup> | Asset Coverage Per Unit <sup>(2)</sup> | Involuntary Liquidating Preference Per Unit <sup>(3)</sup> | Average Market Value Per Unit <sup>(4)</sup> |
|--|---|--|--|--|
| <b>Revolving Credit Facilities</b>       |   |  |  |  |
| Fiscal 2014 (through September 30, 2014) | \$ 0                                    | \$ 0                                   |  | N/A  |
| Fiscal 2013                              | 0                                       | 0                                      |  | N/A  |
| Fiscal 2012                              | 264,452                                 | 1,510                                  |  | N/A  |
| Fiscal 2011                              | 201,355                                 | 3,757                                  |  | N/A  |
| Fiscal 2010                              | 400,000                                 | 2,668                                  |  | N/A  |
| Fiscal 2009                              | 88,114                                  | 8,920                                  |  | N/A  |
| <b>Unsecured Senior Notes</b>            |   |  |  |  |
| Fiscal 2014 (through September 30, 2014) | \$ 100,000                              | \$ 2,318                               |  | \$ 936                                       |
| Fiscal 2013                              | 100,000                                 | 2,411                                  |  | 934  |
| Fiscal 2012                              | 100,000                                 | 571                                    |  | 923  |
| <b>Senior Secured Notes</b>              |   |  |  |  |
| Fiscal 2014 (through September 30, 2014) | \$ 75,000                               | \$ 1,739                               |  | N/A  |
| Fiscal 2013                              | 75,000                                  | 1,808                                  |  | N/A  |
| Fiscal 2012                              | 75,000                                  | 428                                    |  | N/A  |
| <b>Term Loans</b>                        |   |  |  |  |
| Fiscal 2014 (through September 30, 2014) | \$ 50,000                               | \$ 1,159                               |  | N/A  |
| Fiscal 2013                              | 50,000                                  | 1,206                                  |  | N/A  |
| Fiscal 2012                              | 50,000                                  | 285                                    |  | N/A  |
| Fiscal 2011                              | 35,000                                  | 653                                    |  | N/A  |
| Fiscal 2010                              | 35,000                                  | 233                                    |  | N/A  |

- (1) Total amount of each class of senior securities outstanding at the end of the period presented.
- (2) The asset coverage ratio for a class of senior securities representing indebtedness is calculated as our consolidated total assets, less all liabilities and indebtedness not represented by senior securities, divided by all senior securities representing indebtedness. This asset coverage ratio is multiplied by one thousand to determine the Asset Coverage Per Unit. In order to determine the specific Asset Coverage Per Unit for each class of debt, the total Asset Coverage Per Unit is allocated based on the amount outstanding in each class of debt at the end of the period.
- (3) The amount to which such class of senior security would be entitled upon the involuntary liquidation of the issuer in preference to any security junior to it.
- (4) Not applicable except for the Unsecured Senior Notes which are publicly traded. The Average Market Value Per Unit is calculated by taking the daily average closing price during the period and dividing it by twenty-five dollars per share and multiplying the result by one thousand to determine a unit price per thousand consistent with Asset Coverage Per Unit.

We have also entered into two contracts under which we have future commitments: the Investment Advisory and Management Agreement, pursuant to which Solar Capital Partners, LLC has agreed to serve as our investment adviser, and the Administration Agreement, pursuant to which the Administrator has agreed to furnish us with the facilities and administrative services necessary to conduct our day-to-day operations and provide on our behalf managerial assistance to those portfolio companies to which we are required to provide such assistance. Payments under the Investment Advisory and Management Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of the Administrator's overhead in performing its obligations under the Administration Agreement, including rent, technology systems,

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insurance and our allocable portion of the costs of our chief financial officer and chief compliance officer and their respective staffs. Either party may terminate each of the investment advisory and management agreement and administration agreement without penalty upon 60 days written notice to the other. See note 3 to our Consolidated Financial Statements.

**Off-Balance Sheet Arrangements**

The Company had unfunded equity and debt commitments to various revolving and delayed draw loans. The total amount of these unfunded commitments as of September 30, 2014 and December 31, 2013 is \$120.1 million and \$15.0 million, respectively.

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

**Distributions**

The following table reflects the cash distributions per share on our common stock since our initial public offering:

| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|----------------------|--------------------|---------------------|---------------|
| <b>Fiscal 2014</b>   |                    |                     |               |
| November 4, 2014     | December 18, 2014  | January 5, 2015     | \$ 0.40       |
| August 4, 2014       | September 18, 2014 | October 1, 2014     | 0.40          |
| May 5, 2014          | June 19, 2014      | July 1, 2014        | 0.40          |
| February 25, 2014    | March 20, 2014     | April 1, 2014       | 0.40          |
| <i>Total 2014</i>    |                    |                     | \$ 1.60       |
| <b>Fiscal 2013</b>   |                    |                     |               |
| October 30, 2013     | December 19, 2013  | January 3, 2014     | \$ 0.40       |
| July 24, 2013        | September 19, 2013 | October 2, 2013     | 0.40          |
| May 7, 2013          | June 20, 2013      | July 1, 2013        | 0.60          |
| February 25, 2013    | March 21, 2013     | April 2, 2013       | 0.60          |
| <i>Total 2013</i>    |                    |                     | \$ 2.00       |
| <b>Fiscal 2012</b>   |                    |                     |               |
| November 1, 2012     | December 20, 2012  | January 3, 2013     | \$ 0.60       |
| July 31, 2012        | September 20, 2012 | October 2, 2012     | 0.60          |
| May 1, 2012          | June 19, 2012      | July 3, 2012        | 0.60          |
| February 22, 2012    | March 20, 2012     | April 3, 2012       | 0.60          |
| <i>Total 2012</i>    |                    |                     | \$ 2.40       |
| <b>Fiscal 2011</b>   |                    |                     |               |
| November 1, 2011     | December 15, 2011  | December 29, 2011   | \$ 0.60       |
| August 2, 2011       | September 20, 2011 | October 4, 2011     | 0.60          |
| May 2, 2011          | June 17, 2011      | July 5, 2011        | 0.60          |
| March 1, 2011        | March 17, 2011     | April 4, 2011       | 0.60          |
| <i>Total 2011</i>    |                    |                     | \$ 2.40       |



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| <b>Date Declared</b> | <b>Record Date</b> | <b>Payment Date</b> | <b>Amount</b> |
|----------------------|--------------------|---------------------|---------------|
| <b>Fiscal 2010</b>   |                    |                     |               |
| November 2, 2010     | December 17, 2010  | December 30, 2010   | \$ 0.60       |
| August 3, 2010       | September 17, 2010 | October 4, 2010     | 0.60          |
| May 4, 2010          | June 17, 2010      | July 2, 2010        | 0.60          |
| January 26, 2010     | March 18, 2010     | April 1, 2010       | 0.34*         |
| <i>Total 2010</i>    |                    |                     | \$ 2.14       |

\* Partial period distribution of \$0.60 per share pro-rated for the number of days that remained in the quarter after our initial public offering. Tax characteristics of all distributions will be reported to shareholders on Form 1099 after the end of the calendar year. Future quarterly distributions, if any, will be determined by our Board. We expect that our distributions to stockholders will generally be from accumulated net investment income, from net realized capital gains or non-taxable return of capital, if any, as applicable.

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

We maintain an opt out dividend reinvestment plan for our common stockholders. As a result, if we declare a distribution, then stockholders cash distributions will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash distributions.

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

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

**Related Parties**

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

We have entered into an Investment Advisory and Management Agreement with the Investment Adviser. Mr. Gross, our chairman and chief executive officer, is a managing member and a senior

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investment professional of, and has financial and controlling interests in, the Investment Adviser. In addition, Mr. Spohler, our chief operating officer is a managing member and a senior investment professional of, and has financial interests in, the Investment Adviser.

The Administrator provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse the Administrator for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff.

We have entered into a license agreement with the Investment Adviser, pursuant to which the Investment Adviser has granted us a non-exclusive, royalty-free license to use the name Solar Capital.

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We are subject to financial market risks, including changes in interest rates. During the nine months ended September 30, 2014, certain of the investments in our portfolio had floating interest rates. These floating rate investments were primarily based on floating LIBOR and typically have durations of one to three months after which they reset to current market interest rates. Additionally, some of these investments have LIBOR floors. The Company also has revolving credit facilities that are generally based on floating LIBOR. Assuming no changes to our balance sheet as of September 30, 2014, a hypothetical one-quarter of one percent decrease in LIBOR on our floating rate assets and liabilities would approximately have no effect on our net investment income per average share over the next twelve months. Assuming no changes to our balance sheet as of September 30, 2014, a hypothetical one percent increase in LIBOR on our floating rate assets and liabilities would increase our net investment income by approximately three cents per average share over the next twelve months. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options, swaps and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of lower interest rates with respect to our portfolio of investments. At September 30, 2014, we have no interest rate hedging instruments outstanding.

|   |         |        |
|---|---------|--------|
| Increase (Decrease) in LIBOR                                    | (0.25%) | 1.00%  |
| Increase (Decrease) in Net Investment Income Per Share Per Year | \$0.00  | \$0.03 |

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We may also have exposure to foreign currencies (e.g., Canadian Dollars) through various investments. These investments are converted into U.S. dollars at the balance sheet date, exposing us to movements in foreign exchange rates. In order to reduce our exposure to fluctuations in foreign exchange rates, we may borrow from time-to-time in Canadian Dollars under our multi-currency revolving credit facility or enter into forward currency contracts. See Note 8 to our consolidated financial statements.

**Item 4. Controls and Procedures**

***(a) Evaluation of Disclosure Controls and Procedures***

As of September 30, 2014 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

***(b) Changes in Internal Controls Over Financial Reporting***

Management has not identified any change in the Company's internal control over financial reporting that occurred during the third quarter of 2014 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in **Risk Factors** in the June 17, 2014 filing of our Registration Statement on Form N-2, which could materially affect our business, financial condition and/or operating results. The risks described in our Registration Statement on Form N-2 are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

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

We did not engage in unregistered sales of securities during the quarter ended September 30, 2014.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.



**Table of Contents****Item 6. Exhibits**

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

| Exhibit |   |
|---------|---|
| Number  | Description   |
| 3.1     | Articles of Amendment and Restatement(1)  |
| 3.2     | Amended and Restated Bylaws(1)  |
| 4.1     | Form of Common Stock Certificate(2)   |
| 4.2     | Indenture, dated as of November 16, 2012, between the Registrant and U.S. Bank National Association as trustee(3)   |
| 4.3     | First Supplemental Indenture, dated November 16, 2012, relating to the 6.75% Senior Notes due 2042, between the Registrant and U.S. Bank National Association as trustee(3)   |
| 10.1    | Dividend Reinvestment Plan(1)   |
| 10.2    | Form of Amended and Restated Senior Secured Revolving Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent(2)  |
| 10.3    | Amendment No. 1 to the Senior Secured Revolving Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent(6)  |
| 10.4    | Investment Advisory and Management Agreement by and between the Registrant and Solar Capital Partners, LLC(4)   |
| 10.5    | Form of Custodian Agreement(7)  |
| 10.6    | Amended and Restated Administration Agreement by and between Registrant and Solar Capital Management, LLC(8)  |
| 10.7    | Form of Indemnification Agreement by and between Registrant and each of its directors(1)  |
| 10.8    | Registration Rights Agreement by and between Registrant, Solar Cayman Limited, Solar Offshore Limited, Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and purchasers in the initial private placement(4)                        |
| 10.9    | First Amendment to the Registration Rights Agreement by and between Registrant, Solar Cayman Limited, Solar Offshore Limited, Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and purchasers in the initial private placement(1) |
| 10.10   | Registration Rights Agreement by and between Registrant, Magnetar Capital Fund, LP and Solar Offshore Limited(4)  |
| 10.11   | Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC(1)  |
| 10.12   | Form of Share Purchase Agreement by and between Registrant and Solar Capital Investors II, LLC(2)   |
| 10.13   | Form of Registration Rights Agreement(5)  |
| 10.14   | Form of Subscription Agreement(5)   |
| 10.15   | Form of Limited Liability Company Agreement, dated as of September 2, 2014, between Solar Capital Ltd. and Senior Secured Unitranche LLC, a Delaware limited liability company*   |
| 11.1    | Computation of Per Share Earnings (included in the notes to the financial statements contained in this report).   |

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**Exhibit**

| <b>Number</b> | <b>Description</b>  |
|---------------|---|
| 31.1          | Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*   |
| 31.2          | Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*   |
| 32.1          | Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*  |
| 32.2          | Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*  |
| (1)           | Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Pre-Effective Amendment No. 7 (File No. 333-148734) filed on January 7, 2010.     |
| (2)           | Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 (File No 333-148734) filed on February 9, 2010.                                   |
| (3)           | Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 6 (File No. 333-172968) filed on November 16, 2012.  |
| (4)           | Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 (File No. 333-148734) filed on January 18, 2008.                                  |
| (5)           | Previously filed in connection with Solar Capital Ltd. s report on Form 8-K filed on November 29, 2010.   |
| (6)           | Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on July 31, 2013.  |
| (7)           | Previously filed in connection with Solar Capital Ltd. s report on Form 10-K filed on February 25, 2014.  |
| (8)           | Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 10 (File No. 333-172968) filed on November 12, 2013. |
| *             | Filed herewith.   |

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 4, 2014.

SOLAR CAPITAL LTD.

By: /s/ MICHAEL S. GROSS  
**Michael S. Gross**

**Chief Executive Officer**

**(Principal Executive Officer)**

By: /s/ RICHARD L. PETEKA  
**Richard L. Peteka**

**Chief Financial Officer**

**(Principal Financial and Accounting Officer)**