

Solar Capital Ltd.
Form 10-Q
May 04, 2010
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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 March 31, 2010

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

SOLAR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

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Maryland
(State or Incorporation)

26-1381340
(I.R.S. Employer

Identification No.)

500 Park Avenue, 5th Floor

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

10022
(Zip Code)

(212) 993-1670

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of May 4, 2010 was 33,030,641.

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SOLAR CAPITAL LTD.

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

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Capital Ltd.:

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

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital LLC as of December 31, 2009, and the related consolidated statement of net assets for the year ended December 31, 2009 and we expressed an unqualified opinion on them in our report dated March 1, 2010.

/s/ KPMG LLP

New York, New York

May 4, 2010

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

(in thousands, except shares)

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

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

See notes to consolidated financial statements.

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

(in thousands, except shares)

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

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

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**

(in thousands)

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

See notes to consolidated financial statements.

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

(in thousands except shares)

	Three months ended March 31, 2010 (unaudited)	Three Months Ended March 31, 2009 (unaudited)
Cash Flows from Operating Activities:		
Net increase (decrease) in net assets from operations	\$ 62,004	\$ (25,582)
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash provided by operating activities:		
Net realized (gain) loss from investments	27,331	22,627
Net realized loss from foreign currency exchange	(3,536)	29
Net change in unrealized (gain) loss on investments	(64,511)	22,832
Net change in forward contracts	771	5,700
(Increase) decrease in operating assets:		
Purchase of investment securities	(53,170)	(8,526)
Proceeds from disposition of investment securities	114,534	5,865
Receivable for investments sold	(10,123)	
Interest and dividends receivable	(1,224)	1,576
Deferred borrowing costs	(3,679)	565
Fee revenue receivable	1,564	(95)
Deferred offering costs	1,184	(93)
Foreign tax receivable		101