

Solar Capital Ltd.
Form 10-Q
May 07, 2013
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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, 2013

.. **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

500 Park Avenue

Identification No.)

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 6, 2013 was 45,006,497.

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SOLAR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2013

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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)

	March 31, 2013 (unaudited)	December 31, 2012
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: \$869,415 and \$856,134, respectively)	\$ 840,361	\$ 831,306
Companies 5% to 25% owned (cost: \$173,743 and \$167,564, respectively)	172,983	165,406
Companies more than 25% owned (cost: \$406,222 and \$408,373, respectively)	408,054	398,810
Total investments (cost: \$1,449,380 and \$1,432,071, respectively)	1,421,398	1,395,522
Cash	11,645	14,133
Foreign currency (cost: \$920 and \$899, respectively)	884	906
Interest and dividends receivable	22,130	15,147
Deferred offering costs	423	450
Deferred financing costs	4,133	4,228
Derivatives	16	17
Receivable for investments sold	655	
Prepaid expenses and other assets	1,427	
Total assets	\$ 1,462,711	\$ 1,430,403
Liabilities		
Revolving credit facilities (see note 6 and 8)	\$ 128,793	\$ 264,452
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
Dividends payable	26,984	23,217
Payable for investments purchased	29,604	21,756
Management fee payable	7,134	6,612
Performance-based incentive fee payable	6,380	6,050
Interest payable	3,431	2,406
Administrative services fee payable	316	1,058
Other liabilities and accrued expenses	556	1,579
Total liabilities	\$ 428,198	\$ 552,130

Net Assets

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Common stock, par value \$0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 44,973,532 and 38,694,060 shares issued and outstanding, respectively	\$ 450	\$ 387
Paid-in capital in excess of par	1,125,634	978,279
Distributions in excess of net investment income	(6,127)	(4,662)
Accumulated net realized loss	(54,942)	(55,631)
Net unrealized depreciation	(30,502)	(40,100)
Total net assets	\$ 1,034,513	\$ 878,273
Net Asset Value Per Share	\$ 23.00	\$ 22.70

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 March 31, 2013	Three months ended March 31, 2012
INVESTMENT INCOME:		
Interest and dividends:		
Companies more than 25% owned	\$ 10,474	\$ 1,082
Companies 5% to 25% owned	7,060	
Companies less than 5% owned	28,563	35,227
Total investment income	46,097	36,309
EXPENSES:		
Management fees (see note 3)	\$ 7,134	\$ 5,278
Performance-based incentive fees (see note 3)	6,380	5,275
Interest and other credit facility expenses	4,823	2,695
Administrative services expense	727	696
Other general and administrative expenses	1,514	1,009
Total operating expenses	20,578	14,953
Income tax expense		257
Total expenses	20,578	15,210
Net investment income	\$ 25,519	\$ 21,099
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FOREIGN CURRENCIES AND DERIVATIVES:		
Net realized gain (loss) on investments:		
Companies more than 25% owned	\$ 472	\$ 11,002
Companies 5% to 25% owned		
Companies less than 5% owned	228	(725)
Net realized gain on investments	700	10,277
Net realized loss on foreign currencies and derivatives:	(11)	(326)
Total net realized gain before income taxes	689	9,951
Income tax expense		785
Net realized gain	689	9,166
Net change in unrealized gain on investments	8,568	18,834
Net change in unrealized gain (loss) on foreign currencies and derivatives	1,030	(2,941)
Net change in unrealized gain	9,598	15,893

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Net realized and unrealized gain on investments, foreign currencies and derivatives	10,287	25,029
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	\$ 35,806	\$ 46,158
EARNINGS PER SHARE (see note 5)	\$ 0.81	\$ 1.26

See notes to consolidated financial statements.

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

(in thousands, except shares)

	Three months ended March 31, 2013 (unaudited)	Year ended December 31, 2012
Increase (decrease) in net assets resulting from operations:		
Net investment income	\$ 25,519	\$ 81,927
Net realized gain (loss)	689	(32,537)
Net change in unrealized gain	9,598	66,371
Net increase in net assets resulting from operations	35,806	115,761
Dividends and distributions to stockholders:	(26,984)	(90,366)
Capital share transactions:		
Net proceeds from shares sold	146,857	45,020
Less offering costs	(86)	(24)
Reinvestment of dividends	647	1,941
Net increase in net assets from capital transactions	147,418	46,937
Total increase in net assets	156,240	72,332
Net assets at beginning of period	878,273	805,941
Net assets at end of period	\$ 1,034,513	\$ 878,273
Capital share activity:		
Shares sold	6,253,226	2,000,000
Shares issued from reinvestment of dividends	26,246	86,022
Net increase from capital share activity	6,279,472	2,086,022

See notes to consolidated financial statements.

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

(in thousands)

	Three months ended March 31, 2013	Three months ended March 31, 2012
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	\$ 35,806	\$ 46,158
Adjustments to reconcile net increase in net assets resulting from operations:		
Net realized gain on investments	(700)	(10,277)
Net realized loss on foreign currencies and derivatives	11	326
Net change in unrealized gain on investments	(8,568)	(18,834)
Net change in unrealized (gain) loss on foreign currencies and derivatives	(1,030)	2,941
(Increase) decrease in operating assets:		
Purchase of investments	(74,849)	(69,197)
Proceeds from disposition of investments	67,048	132,199
Capitalization of payment-in-kind interest	(7,788)	(7,724)
Collections of payment-in-kind interest		7,094
Fee revenue receivable		431
Deferred offering costs	27	(106)
Derivatives	1	355
Receivable for investments sold	(655)	(17,874)
Interest and dividends receivable	(6,983)	(1,779)
Prepaid expenses and other assets	(1,427)	70
Increase (decrease) in operating liabilities:		
Payable for investments purchased	7,848	6,830
Management fee payable	522	1
Performance-based incentive fees payable	330	72
Deferred fee revenue		(235)
Administrative services expenses payable	(742)	(431)
Interest payable	1,025	(102)
Other liabilities and accrued expenses	(1,023)	795
Net Cash Provided by Operating Activities	8,853	70,713
Cash Flows from Financing Activities:		
Cash dividends paid	(22,570)	
Common stock offering costs	(86)	
Deferred financing costs	95	575
Proceeds from shares sold	146,857	
Proceeds from borrowings	221,500	160,212
Repayments of borrowings	(357,159)	(232,924)
Net Cash Used In Financing Activities	(11,363)	(72,137)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,510)	(1,424)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	15,039	11,787
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 12,529	\$ 10,363

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Supplemental disclosure of cash flow information:

Cash paid for interest	\$	3,798	\$	2,797
Cash paid for income taxes	\$	356	\$	727

See notes to consolidated financial statements.

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

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Maturity	Par Amount*	Cost	Fair Value
Bank Debt/Senior Secured Loans	50.3%					
AREP Fifty-Seventh LLC ⁽³⁾⁽⁴⁾⁽⁵⁾	Building & Real Estate	14.00%	8/1/2013	\$ 24,709	\$ 24,709	\$ 24,462
ARK Real Estate Partners II LP ⁽³⁾⁽⁵⁾	Building & Real Estate	14.00%	8/1/2013	8,026	8,026	7,946
AviatorCap SII, LLC I ⁽⁵⁾	Aerospace & Defense	12.00%	12/31/2014	2,861	2,839	2,861
AviatorCap SII, LLC II ⁽⁵⁾	Aerospace & Defense	11.00%	12/31/2014	4,043	4,008	4,043
AviatorCap SII, LLC III ⁽⁵⁾	Aerospace & Defense	13.00%	12/31/2014	3,229	3,190	3,229
Direct Buy Inc. ⁽⁶⁾	Home, Office Furnishing & Durable Consumer Products	12.00% PIK	10/31/2019	7,921	7,921	7,921
DS Waters of America, Inc. ⁽⁶⁾⁽⁷⁾	Beverage, Foods & Tobacco	15% (11% Cash & 4% PIK) ⁽⁸⁾	2/28/2018	31,309	30,400	32,561
Easy Financial Services, Inc. ⁽⁹⁾⁽¹⁰⁾	Consumer Finance	11.79%	10/4/2017	C\$ 10,000	9,945	9,846
Fulton Holding Corp ⁽¹¹⁾	Retail Stores	13.37%	5/28/2016	\$ 35,000	34,376	35,000
Good Sam Enterprise, LLC	Insurance	11.50%	12/1/2016	7,000	6,627	7,464
Grakon, LLC ⁽³⁾	Machinery	12.00%	12/31/2015	9,524	7,948	9,524
Interactive Health Solutions, Inc. ⁽¹²⁾	Healthcare, Education & Childcare	11.50%	10/4/2016	18,288	17,950	18,287
Interactive Health Solutions, Inc. ⁽¹³⁾	Healthcare, Education & Childcare	11.50%	10/4/2016	18,000	17,685	17,685
Isotoner Corporation	Personal & Nondurable Consumer Products	10.75%	1/8/2018	39,000	38,081	38,610
MYI Acquiror Corporation ⁽¹⁰⁾⁽¹¹⁾⁽¹⁴⁾	Insurance	13% (12% Cash & 1% PIK) ⁽⁸⁾	3/13/17	25,839	25,444	26,356
Quantum Foods, LLC	Beverage, Foods & Tobacco	10.79%	2/6/2018	37,500	37,500	36,750
SMG	Healthcare, Education & Childcare	10.75%	12/7/2018	25,000	24,561	24,875
Southern Auto Finance Company ⁽¹⁰⁾⁽¹⁵⁾	Banking	13.50%	10/19/2017	35,000	34,319	35,000
SOINT, LLC ⁽⁵⁾	Aerospace & Defense	15.00%	6/30/2016	15,434	15,166	15,434
Spencer Spirit Holdings, Inc.	Retail Stores	11.00%	5/1/2017	10,000	10,000	10,900
The Endurance International Group, Inc.	Internet Software & Services	10.25%	5/9/2020	25,000	24,759	25,227
Transplace Texas, LP ⁽¹²⁾	Cargo Transport	11.00%	4/12/2017	20,000	19,633	20,000
TravelClick, Inc.	Hotels, Restaurants & Leisure	9.75%	3/26/2018	20,000	19,800	19,800
Trident USA Health Services, LLC ⁽¹¹⁾	Healthcare, Education & Childcare	11.75%	10/30/2017	43,000	42,245	43,000
USAW 767 ⁽⁵⁾	Aerospace & Defense	14.50%	6/30/2014	2,597	2,587	2,597
ViaWest Inc. ⁽¹¹⁾	Personal, Food & Misc. Services	13.5% (12% Cash & 1.5% PIK) ⁽⁸⁾	5/20/2018	40,999	40,058	41,409
Total Bank Debt/Senior Secured Loans					\$ 509,777	\$ 520,787
Subordinated Debt/Corporate Notes	39.0%					
Adams Outdoor Advertising	Diversified/Conglomerate Service	18.00%	12/8/2015	\$ 42,500	\$ 42,046	\$ 43,775
Alegeus Technologies Holdings Corp.	Healthcare Technology	12.00%	2/15/2019	28,200	27,608	28,200
Asurion Holdco	Insurance	11.00%	3/2/2019	12,000	11,684	12,938
Crosman Corporation	Leisure, Amusement, Entertainment	13.00%	10/15/2016	15,219	14,894	14,914

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Earthbound Farm ⁽¹¹⁾	Farming & Agriculture	14.25%	6/21/2017	58,947	58,006	56,000
Grakon Holdings LLC Sr ⁽³⁾	Machinery	14.00% PIK	12/31/2015	1,886	1,886	1,886
Grakon Holdings LLC Jr ⁽³⁾	Machinery	12.00% PIK	12/31/2015	12,531	10,983	9,398
Granite Global Solutions Corp. ⁽⁹⁾⁽¹⁰⁾	Insurance	13.50%	11/30/2016	C\$ 25,714	25,709	24,433
Midcap Financial Intermediate Holdings, LLC ⁽¹⁰⁾⁽¹¹⁾	Banking	13.00%	7/9/2015	\$ 85,000	83,973	85,850
ProSieben Sat.1 Media AG ⁽⁹⁾⁽¹⁰⁾⁽¹⁶⁾	Broadcasting & Entertainment	7.70%(4.2% Cash & 3.5%PIK) ⁽⁸⁾	3/6/2017	17,214	21,433	21,401
Richelieu Foods, Inc. ⁽¹²⁾	Beverage, Food & Tobacco	13.75%(12% Cash & 1.75%PIK) ⁽⁸⁾	5/18/2016	\$ 23,155	22,750	23,155
Rug Doctor Inc. ^{(11)(17)***}	Personal, Food & Misc. Services	15.50% to 20.00%				
		(wtd. avg. 17.57%) ⁽⁸⁾	10/31/2014	54,829	52,200	32,897
WireCo. Worldgroup Inc.	Building Products	11.75%	5/15/2017	48,000	47,576	48,480
Total Subordinated Debt/Corporate Notes					\$ 420,748	\$ 403,327

See notes to consolidated financial statements.

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

March 31, 2013

(in thousands, except shares/units)

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Maturity	Shares/ Units	Cost	Fair Value
Preferred Equity						
15.3%						
Senior Preferred 15% Units of DSW Group Holdings LLC ⁽⁶⁾						
	Beverage, Food & Tobacco	15.00% PIK		1,557,002	\$ 135,422	\$ 132,501
SOCAY Limited ⁽⁵⁾⁽¹⁰⁾⁽¹⁸⁾	Aerospace & Defense	8.59% PIK ⁽⁸⁾	6/30/2018	14,112	14,112	14,490
SODO Corp. ⁽⁵⁾⁽¹⁸⁾	Aerospace & Defense	8.43% PIK ⁽⁸⁾	6/30/2018	2,184	2,184	2,371
SOINT, LLC ⁽⁵⁾⁽¹⁰⁾⁽¹⁸⁾	Aerospace & Defense	15.00% PIK ⁽⁸⁾	6/30/2018	86,667	8,667	9,100
Wyle Laboratories**	Aerospace & Defense	8.00%	7/17/2015	387	39	52
Total Preferred Equity					\$ 160,424	\$ 158,514
Common Equity/Partnership Interests/ Warrants						
32.8%						
Ark Real Estate Partners LP ^{(3)(5)**}						
	Buildings & Real Estate			45,905,653	\$ 45,235	\$ 27,544
Ark Real Estate Partners II LP ^{(3)(5)**}						
	Buildings & Real Estate			1,070,679	498	643
Crystal Capital Financial Holdings LLC ⁽⁵⁾⁽¹⁰⁾						
	Diversified Financial Services			275,000	275,000	293,334
Direct Buy Inc. ^{(6)**}						
	Home, Office Furnishing & Durable Consumer Products			76,999		
Participating Preferred Units of DSW Group Holdings LLC ^{(6)**}						
	Beverage, Food & Tobacco			1,292,964		
Grakon, LLC ^{(3)**}						
	Machinery			1,714,286	1,714	
Grakon, LLC Warrants ^{(3)**}						
	Machinery			3,518,001		
Great American Group Inc. ^{(10)**}						
	Personal, Food & Misc. Services			572,800	2,681	223
Great American Group Inc. ^{(10)(19)**}						
	Personal, Food & Misc. Services			187,500	3	73
Nuveen Investments, Inc. **						
	Finance			3,486,444	30,876	16,037
Seven West Media Limited ⁽⁹⁾⁽¹⁰⁾						
	Broadcasting & Entertainment			437,687	2,424	916
Total Common Equity/Partnerships Interests/Warrants					\$ 358,431	\$ 338,770
Total Investments 137.4%					\$ 1,449,380	\$ 1,421,398
Liabilities in Excess of Other Assets (37.4%)						(386,885)
Net Assets 100.0%					\$ 1,034,513	

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- (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) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to the London Interbank Offered Rate ("LIBOR") or the Euro Interbank Offered Rate ("EURIBOR"), and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 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.
- (4) Includes an unfunded commitment of \$2,144.
- (5) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the Investment Company Act of 1940 ("1940 Act"), due to beneficially owning, either directly or through one or more controlled companies, more than 25% of the outstanding voting securities of the investment. Transactions during the three months ended March 31, 2013 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2012	Gross Additions	Gross Reductions	Interest/Dividend Income	Fair Value at March 31, 2013
AREP Fifty-Seventh LLC	\$ 24,215	\$	\$	\$ 766	\$ 24,462
ARK Real Estate Partners II LP	7,866			278	7,946
ARK Real Estate Partners LP	35,095				27,544
ARK Real Estate Partners II LP	824				643
AviatorCap SII, LLC I	3,044		183	91	2,861
AviatorCap SII, LLC II	4,390		347	122	4,043
AviatorCap SII, LLC III	4,006		777	133	3,229
Crystal Capital Financial Holdings LLC	275,000			7,700	293,334
SOCAY Limited	14,490	197		294	14,490
SODO Corp.	2,371	33		45	2,371
SOINT, LLC	15,766		654	623	15,434
SOINT, LLC (preferred equity)	8,667			317	9,100
USAW 767	3,076		479	105	2,597
	\$ 398,810	\$ 230	\$ 2,440	\$ 10,474	\$ 408,054

See notes to consolidated financial statements.

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

- (6) Denotes investments in which we are an Affiliated Person, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, more than 5% of the outstanding voting securities of the investment. Transactions during the three months ended March 31, 2013 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2012	Gross Additions	Gross Reductions	Interest/Dividend/ Other Income	Fair Value at March 31, 2013
Direct Buy Inc. (common equity)	\$	\$	\$	\$	\$
Direct Buy Inc.	7,700	221		236	7,921
DS Waters of America, Inc.	32,095	300		1,194	32,561
Participating Preferred Units of DSW Group Holdings LLC					
Senior Preferred 15% Units of DSW Group Holdings LLC	125,611	5,628		5,630	132,501
	\$ 165,406	\$ 6,149	\$	\$ 7,060	\$ 172,983

- (7) In March 2012, Solar Capital Ltd. purchased \$36,991 par amount and sold \$7,000 par amount to a third party through a participation with no recourse to the Company.
- (8) Coupon is payable in cash and/or in kind (PIK).
- (9) The following entities are domiciled outside the United States and the investments are denominated in either Euro, Canadian Dollars or Australian Dollars; ProSieben Sat.1 Media AG in Germany; Granite Global Solutions Corp., Easy Financials Services, Inc. in Canada; and Seven Media Group Limited in Australia. All other investments are domiciled in the United States.
- (10) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (11) Indicates an investment partially held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC (SC Funding). (See footnote 12 for further explanation.) Par amounts held through SC Funding include: Earthbound Farm \$23,500; Fulton Holding Corp. \$18,000; Midcap Financial Intermediate Holdings, LLC \$23,500; MYI Acquiror Corporation \$6,500; Rug Doctor Inc. \$9,929; Trident USA Health Services, LLC \$6,500; and ViaWest Inc. \$15,529. Remaining par balances are held directly by Solar Capital Ltd.
- (12) Indicates an investment held by Solar Capital Ltd. through its wholly-owned subsidiary SC Funding. Such investments are pledged as collateral under the Senior Secured Loan Facility (see Note 8 to the consolidated financial statements) and are not generally available to the creditors of Solar Capital Ltd. Unless otherwise noted, as of March 31, 2013, all other investments were pledged as collateral for the Senior Secured Credit Facility, Term Loan and Senior Secured Notes (see Note 8 to the consolidated financial statements).
- (13) Includes an unfunded commitment of \$17,685.
- (14) Solar Capital Ltd.'s foreign domiciled portion of MYI Acquiror Corporation is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (15) Includes an unfunded commitment of \$9,775.
- (16) Solar Capital Ltd.'s investment in ProSieben Sat. 1 Media AG is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (17) Includes PIK on \$13,173 of par at 4.50% PIK, \$15,367 of par at 5.25% PIK, \$16,360 of par at 8.00% PIK, and \$9,929 of par at 3.50% PIK.
- (18) Solar Capital Ltd.'s investments in SODO Corp., SOYAY Corp. and SOINT, LLC each include a one dollar investment in common shares.
- (19) Founders' Shares.
- * Denominated in USD unless otherwise noted.
- ** 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)****March 31, 2013**

Industry Classification	Percentage of Total Investments (at fair value) as of March 31, 2013
Diversified Financial Services	20.6%
Beverage, Food & Tobacco	15.8%
Banking	8.5%
Insurance	7.7%
Personal, Food and Misc. Services	7.0%
Healthcare, Education & Childcare	5.6%
Buildings & Real Estate	4.3%
Farming & Agriculture	3.9%
Aerospace & Defense	3.8%
Building Products	3.4%
Retail Stores	3.2%
Diversified/Conglomerate Service	3.1%
Healthcare Technology	2.0%
Internet Software & Services	1.8%
Broadcasting & Entertainment	1.6%
Machinery	1.5%
Cargo Transport	1.4%
Hotels, Restaurants & Leisure	1.4%
Finance	1.1%
Leisure, Amusement, Entertainment	1.0%
Consumer Finance	0.7%
Home, Office Furnishing & Durable Consumer Products	0.6%
Total Investments	100.0%

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2012****(in thousands)**

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Maturity	Par Amount*/ Shares	Cost	Fair Value
Bank Debt/Senior Secured Loans 53.6%						
Asurion Corporation ⁽¹⁴⁾	Insurance	9.00%	5/24/2019	\$ 17,834	\$ 17,760	\$ 18,409
AREP Fifty Seventh LLC ⁽⁸⁾⁽¹⁰⁾⁽¹⁹⁾⁽²²⁾	Building & Real Estate	14.00%	8/1/2013	24,709	24,709	24,215
ARK Real Estate Partners II LP ⁽⁸⁾⁽¹⁰⁾⁽²⁰⁾⁽²²⁾	Building & Real Estate	14.00%	8/1/2013	8,026	8,026	7,866
AviatorCap SII, LLC I ⁽⁸⁾⁽²²⁾	Aerospace & Defense	12.00%	12/31/2014	3,044	3,018	3,044
AviatorCap SII, LLC II ⁽⁸⁾⁽²²⁾	Aerospace & Defense	11.00%	12/31/2014	4,390	4,347	4,390
AviatorCap SII, LLC III ⁽⁸⁾⁽²²⁾	Aerospace & Defense	13.00%	12/31/2014	4,006	3,952	4,006
Direct Buy Inc. ⁽⁹⁾⁽²³⁾	Home, Office Furnishing & Durable Consumer Products	12.00% ⁽⁶⁾	10/31/2019	7,700	7,700	7,700
DS Waters of America, Inc. ⁽⁹⁾⁽¹⁸⁾⁽²³⁾	Beverage, Foods & Tobacco	15% (11% Cash & 4% PIK) ⁽⁶⁾	2/28/2018	31,010	30,070	32,095
Fulton Holding Corp ⁽¹⁴⁾	Retail Stores	13.37%	5/28/2016	35,000	34,337	35,000
Easy Financial Services, Inc. ⁽³⁾⁽¹⁵⁾	Consumer Finance	11.80%	10/4/2017	C\$ 10,000	9,933	9,956
Grakon, LLC ⁽¹⁰⁾	Machinery	12.00%	12/31/2015	\$ 9,524	7,842	9,429
Good Sam Enterprise, LLC	Insurance	11.50%	12/1/2016	7,000	6,607	7,490
Isotoner Corporation	Personal & Nondurable Consumer Products	10.75%	1/8/2018	39,000	38,045	38,610
Interactive Health Solutions, Inc. ⁽¹³⁾	Healthcare, Education & Childcare	11.50%	10/4/2016	18,406	18,048	18,590
MYI Acquiror Corporation ⁽⁴⁾⁽⁷⁾⁽¹⁵⁾	Insurance	13% (12% Cash & 1% PIK) ⁽⁶⁾	3/13/17	31,773	31,258	32,409
SMG	Healthcare, Education & Childcare	10.75%	12/7/2018	25,000	24,536	24,875
Southern Auto Finance Company ⁽¹⁵⁾⁽²¹⁾	Banking	13.50%	10/19/2017	35,000	34,301	35,000
SOINT, LLC ⁽⁸⁾⁽²²⁾	Aerospace & Defense	15.00%	6/30/2016	16,088	15,793	15,766
Spencer Spirit Holdings, Inc.	Retail Stores	11.00%	5/1/2017	10,000	10,000	10,850
The Endurance International Group, Inc.	Internet Software & Services	10.25%	5/9/2020	25,000	24,753	25,000
Transplace Texas, LP ⁽¹³⁾	Cargo Transport	11.00%	4/12/2017	20,000	19,615	19,700
Trident USA Health Services, LLC	Healthcare, Education & Childcare	11.75%	10/30/2017	43,000	42,214	42,140
USAW 767 ⁽⁸⁾⁽²²⁾	Aerospace & Defense	14.50%	6/30/2014	3,076	3,062	3,076
ViaWest Inc. ⁽¹⁴⁾	Personal, Food & Misc. Services	13.5% (12% Cash & 1.5%PIK) ⁽⁶⁾	5/20/2018	40,851	39,880	40,851
Total Bank Debt/Senior Secured Loans					\$ 459,806	\$ 470,467
Subordinated Debt/Corporate Notes 50.9%						
Adams Outdoor Advertising	Diversified/Conglomerate Service	18.00%	12/8/2015	\$ 42,500	\$ 42,014	\$ 43,350
Alegeus Technologies Holdings Corp.	Healthcare Technology	12.00%	2/15/2019	28,200	27,591	28,200
Asurion Holdco ⁽¹⁷⁾	Insurance	11.00%	3/2/2019	12,000	11,675	12,800
CIBT Solutions	Leisure, Amusement, Entertainment	13.50%	6/15/2018	36,200	35,483	36,200
Crosman Corporation	Leisure, Amusement, Entertainment	13.00%	10/15/2016	15,219	14,876	14,914
Earthbound Farm ⁽¹⁴⁾	Farming & Agriculture	14.25%	6/21/2017	58,947	57,966	56,000
Grakon Holdings LLC Sr ⁽¹⁰⁾	Machinery	14.00% ⁽⁶⁾	12/31/2015	1,822	1,822	1,804
Grakon Holdings LLC Jr ⁽¹⁰⁾	Machinery	12.00% ⁽⁶⁾	12/31/2015	12,166	10,489	8,516

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Granite Global Solutions Corp. ⁽³⁾⁽¹⁵⁾	Insurance	13.50%	11/30/2016	C\$	25,714	25,668	24,954
Midcap Financial Intermediate Holdings, LLC ⁽¹⁴⁾⁽¹⁵⁾	Banking	13.00%	7/9/2015	\$	85,000	83,878	85,000
ProSieben Sat.1 Media AG ⁽³⁾⁽⁵⁾⁽¹⁵⁾	Broadcasting & Entertainment	7.70%(4.2% Cash & 3.5%PIK) ⁽⁶⁾	3/6/2017		16,911	21,022	20,375
Richelieu Foods, Inc. ⁽¹³⁾	Beverage, Food & Tobacco	13.75%(12% Cash & 1.75%PIK) ⁽⁶⁾	5/8/2016	\$	23,057	22,628	22,596
Rug Doctor Inc. ⁽¹⁴⁾⁽¹⁶⁾	Personal, Food & Misc. Services	15.50% to 20.00%					
		(wtd. avg. 17.55%) ⁽⁶⁾	10/31/2014		54,072	51,941	43,258
WireCo. Worldgroup Inc.	Building Products	11.75%	5/15/2017		48,000	47,556	48,960
Total Subordinated Debt/Corporate Notes						\$ 454,609	\$ 446,927

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2012****(in thousands, except shares)**

Description ⁽¹⁾	Industry	Interest ⁽²⁾	Maturity	Par Amount*/ Shares/Units	Cost	Fair Value
Preferred Equity 17.2%						
Senior Preferred 15% Units of DSW Group Holdings LLC ⁽⁹⁾⁽²³⁾	Beverage, Food & Tobacco	15.00% PIK ⁽⁶⁾		1,500,725	\$ 129,794	\$ 125,611
SODO Corp. ⁽⁸⁾⁽¹¹⁾⁽²²⁾	Aerospace & Defense	8.41% PIK ⁽⁶⁾	6/30/2018	2,151	2,151	2,371
SOCAY Limited ⁽⁸⁾⁽¹¹⁾⁽¹⁵⁾⁽²²⁾	Aerospace & Defense	8.57% PIK ⁽⁶⁾	6/30/2018	13,915	13,915	14,490
SOINT, LLC ⁽⁸⁾⁽¹⁵⁾⁽²²⁾	Aerospace & Defense	15.00% PIK ⁽⁶⁾	6/30/2018	86,667	8,667	8,667
Wyle Laboratories**	Aerospace & Defense	8.00%	7/17/2015	387	39	51
Total Preferred Equity					\$ 154,566	\$ 151,190
Common Equity/Partnership Interests/Warrants 37.2%						
Ark Real Estate Partners LP ^{(8)(10)(11)(22)**}	Buildings & Real Estate			45,905,653	\$ 45,235	\$ 35,095
Ark Real Estate Partners II LP ^{(8)(9)(10)(22)**}	Buildings & Real Estate			1,069,592	498	824
Crystal Capital Financial Holdings LLC ⁽⁸⁾⁽¹⁵⁾⁽²²⁾	Diversified Financial Services			275,000	275,000	275,000
Direct Buy Inc. ^{** (9)(23)}	Home, Office Furnishing & Durable Consumer Products			76,999		
Participating Preferred Units of DSW Group Holdings LLC ^{(9)(23)**}	Beverage, Food & Tobacco			1,292,964		
Grakon, LLC ^{(10)**}	Machinery			1,714,286	1,714	
Grakon, LLC Warrants ^{(10)**}	Machinery			3,518,001		
Great American Group Inc. ^{(15)**}	Personal, Food & Misc. Services			572,800	2,681	177
Great American Group Inc. ^{(12)(15)**}	Personal, Food & Misc. Services			187,500	3	58
Nuveen Investments, Inc. ^{**}	Finance			3,486,444	30,876	10,459
NXP Semiconductors Netherlands B.V. ^{(3)(15)**}	Electronics			159,827	4,357	4,207
Seven West Media Limited ⁽³⁾⁽¹⁵⁾	Broadcasting & Entertainment			656,530	2,726	1,118
Total Common Equity/Partnerships Interests/ Warrants					\$ 363,090	\$ 326,938
Total Investments 158.9%					\$ 1,432,071	\$ 1,395,522
Liabilities in Excess of Other Assets (58.9%)						(517,249)
Net Assets 100.0%						\$ 878,273

(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) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2012.

(3) The following entities are domiciled outside the United States and the investments are denominated in either Euro, Canadian Dollars or Australian Dollars; ProSieben Sat.1 Media AG in Germany; Granite Global Solutions Corp., Easy Financials Services, Inc. in Canada; and Seven Media Group Limited in Australia. NXP Semiconductors Netherlands B.V. is domiciled in the Netherlands and is denominated in U.S. dollars. All other investments are domiciled in the United States.

(4) Solar Capital Ltd.'s foreign domiciled portion of MYI Aquiror Corporation is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(5) Solar Capital Ltd.'s investment in ProSieben Sat. 1 Media AG is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

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- (6) Coupon is payable in cash and/or in kind (PIK).
- (7) Includes an unfunded commitment of \$5,880.
- (8) Denotes a Control Investment. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the Investment Company Act of 1940, as amended (the 1940 Act), the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.
- (9) Denotes an Affiliate Investment. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.
- (10) 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.
- (11) Solar Capital Ltd.'s investments in SODO Corp. and SOCA Y Corp. each include a one dollar investment in common shares.
- (12) Founders Shares.

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2012****(in thousands)**

- (13) Indicates an investment held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC (SC Funding). Such investments are pledged as collateral under the Senior Secured Loan Facility (see Note 8 to the consolidated financial statements) and are not generally available to the creditors of Solar Capital Ltd. Unless otherwise noted, as of December 31, 2012, all other investments were pledged as collateral for the Senior Secured Credit Facility, Term Loan and Senior Secured Notes (see Note 8 to the consolidated financial statements).
- (14) Indicates an investment partially held by Solar Capital Ltd. through its wholly-owned subsidiary SC Funding. (See footnote 13 above for further explanation.) Par amounts held through SC Funding include: Asurion Corp \$9,017; Earthbound Farm \$23,500; Fulton Holding Corp. \$18,000; Midcap Financial Intermediate Holdings, LLC \$23,500; Rug Doctor L.P. \$9,842; and ViaWest Inc. \$15,473. Remaining par balances are held directly by Solar Capital Ltd.
- (15) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (16) Includes PIK on \$13,026 of par at 4.50% PIK, \$15,167 of par at 5.25% PIK, \$16,037 of par at 8.00% PIK, and \$9,842 of par at 3.50% PIK.
- (17) Asurion Holdco has the option to pay interest in kind at L+10.25% if certain specified conditions are met.
- (18) In March 2012, Solar Capital Ltd. purchased \$36,991 par amount and sold \$7,000 par amount to a third party through a participation with no recourse to the Company.
- (19) Includes an unfunded commitment of \$5,695.
- (20) Includes an unfunded commitment of \$406.
- (21) Includes an unfunded commitment of \$9,775.
- (22) Denotes investments in which we are an Affiliated Person, as defined in the Investment Company Act of 1940 (1940 Act), due to owning, controlling, or holding the power to vote, more than 25% of the outstanding voting securities of the investment. Transactions during the fiscal year ended December 31, 2012 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2011	Gross Additions	Gross Reductions	Interest/ Dividend Income	Fair Value at December 31, 2012
AviatorCap SII, LLC I	\$ 3,671		684	\$ 434	\$ 3,044
AviatorCap SII, LLC II	5,611		1,306	596	4,390
AviatorCap SII, LLC III	8,724		4,850	944	4,006
AREP Fifty-Seventh LLC		24,709		520	24,215
ARK Real Estate Partners II LP		8,026		157	7,866
ARK Real Estate Partners LP		45,235			35,095
ARK Real Estate Partners II LP		498			824
USAW 767	4,831		1,828	619	3,076
SODO Corp.	1,949			175	2,371
SOCAY Limited	12,668			1,158	14,490
National Specialty Alloys LLC	16,000		21,299		
SOINT, LLC		16,335	579	1,044	15,766
SOINT, LLC		8,675		527	8,667
Crystal Capital Financial Holdings LLC		275,000			275,000
	\$ 53,454	378,468	30,546	\$ 6,174	\$ 398,810

- (23) Denotes investments in which we are deemed to exercise a controlling influence over the management or policies of a company, as defined in the 1940 Act, due to beneficially owning, either directly or through one or more controlled companies, between 5% and 25% of the outstanding voting securities of the investment. Transactions during the fiscal year ended December 31, 2012 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2011	Gross Additions	Gross Reductions	Interest/ Dividend/	Fair Value at December 31,
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				Other Income	2012
AREP Fifty-Seventh LLC	\$	19,768	19,768	\$ 1,019	\$
ARK Real Estate Partners II LP		8,026	8,026	122	
ARK Real Estate Partners LP	35,820	2,879	44,650		
Direct Buy Inc. (common equity)					
Direct Buy Inc.		7,700		143	7,700
DS Waters of America, Inc.		35,696	6,755	3,944	32,095
Senior Preferred 15% Units of DSW Group Holdings LLC		115,187	278	14,948	125,611
	\$	35,820	189,256	79,477	\$ 20,176
					\$ 165,406

* Denominated in USD unless otherwise noted.

** Non-income producing security

See notes to consolidated financial statements.

Table of Contents**SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2012**

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2012
Diversified Financial Services	19.7%
Beverage, Food & Tobacco	12.9%
Banking	8.6%
Personal, Food & Misc. Services	7.8%
Insurance	6.9%
Buildings & Real Estate	4.9%
Healthcare, Education & Childcare	4.4%
Farming & Agriculture	4.0%
Aerospace & Defense	4.0%
Leisure, Amusement, Entertainment	3.7%
Building Products	3.5%
Retail Stores	3.3%
Diversified/Conglomerate Service	3.1%
Personal & Nondurable Consumer Products	2.8%
Healthcare Technology	2.0%
Internet Software & Services	1.8%
Broadcasting & Entertainment	1.5%
Machinery	1.4%
Cargo Transport	1.4%
Finance	0.7%
Consumer Finance	0.7%
Home, Office Furnishing & Durable Consumer Products	0.6%
Electronics	0.3%
 Total Investments	 100.0%

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

March 31, 2013

(in thousands, except shares)

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

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, Solar Capital Luxembourg I S.a.r.l., which was incorporated under the laws of the Grand Duchy of Luxembourg on April 26, 2007, and Solar Capital Funding II LLC (SC Funding), a Delaware limited liability company formed on December 8, 2010. 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 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 Articles 6 or 10 and 12 of Regulation S-X, as appropriate. GAAP also 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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2013

(in thousands, except shares)

during the reported periods. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. 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, 2013.

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, we value investments, including certain senior secured debt, subordinated debt and other debt securities, 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 with interest accrued or discount amortized to the date of maturity, unless such valuation, in the judgment of our 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 of directors. 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 of directors. Such determination of fair values involve 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 of directors 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 our investment adviser responsible for the portfolio investment;

- (2) preliminary valuation conclusions are then documented and discussed with senior management of our investment adviser;

- (3) independent valuation firms engaged by our board of directors conduct independent appraisals and review our investment adviser's preliminary valuations and make their own independent assessment;

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- (4) the audit committee of the board of directors reviews the preliminary valuation of our investment adviser and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2013

(in thousands, except shares)

- (5) the board of directors discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of our 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, information rights, the nature and realizable value of any collateral, the portfolio company's ability to make payments, its earnings and discounted cash flows, the markets in which the portfolio company does business, comparisons of financial ratios of peer companies that are public, M&A comparables, our principal market (as the reporting entity) and enterprise values, among other factors. When available, broker quotations and/or quotations provided by pricing services are considered as an input in the valuation process. For the three months ended March 31, 2013, there has been no change to the Company's valuation techniques and the nature of the related inputs considered in the valuation process.

Accounting Standards Codification (ASC) 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.

- (c) Gains or losses on investments are calculated by using the specific identification method.
- (d) The Company records 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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2013

(in thousands, except shares)

taxable income in excess of calendar year distributions and pay a 4% excise tax on this income. The Company will accrue excise tax on estimated excess taxable income as appropriate.

- (f) Book and tax basis differences relating to stockholder dividends and 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) Dividends and distributions to common stockholders are recorded as of the record date. The amount to be paid out as a dividend is determined by the board of directors. Net realized capital gains, if any, are generally distributed or deemed distributed at least annually.
- (h) In accordance with Regulation S-X Article 6.03 and ASC 810 *Consolidation*, the Company generally will not consolidate its interest in any operating company other than in investment company subsidiaries, certain financing subsidiaries, and 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 realized and 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 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 \$525,000 senior secured credit facility (the "\$525 Million 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 measure their fair value. (see Note 8)
- (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.

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- (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.

- (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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2013

(in thousands, except shares)

management's judgment, are likely to continue timely payment of their remaining principal and interest obligations. Cash interest payments received on non-accrual designated investments may be recognized as income or applied to principal depending on management's judgment.

- (o) The Company defines cash equivalents as securities that are readily convertible into known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only securities with a maturity of three months or less from the date of purchase would qualify, with limited exceptions. The Company deems 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 Solar Capital Partners LLC (the "Investment Adviser"), under which the Investment Adviser will manage the day-to-day operations of, and provide investment advisory services to, Solar Capital. For providing these services, the Investment Adviser receives a fee from Solar Capital, consisting of two components: a base management fee and an incentive fee. The base management fee is determined by taking the average value of Solar Capital's gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Solar Capital's pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus Solar Capital's operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Solar Capital's net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 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 months ended March 31, 2013 and 2012.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except shares)**

For the three months ended March 31, 2013 and 2012, the Company recognized \$7,134 and \$5,278, respectively, in base management fees and \$6,380 and \$5,275, respectively, in performance-based incentive fees.

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 months ended March 31, 2013 and 2012, the Company recognized expenses under the Administration Agreement of \$727, and \$696, respectively. No managerial assistance fees were accrued or collected for the three months ended March 31, 2013 and 2012.

Note 4. Net Asset Value Per Share

At March 31, 2013, the Company's total net assets and net asset value per share were \$1,034,513 and \$23.00, respectively. This compares to total net assets and net asset value per share at December 31, 2012 of \$878,273 and \$22.70, respectively.

Note 5. Earnings Per Share

The following table sets forth the computation of basic and diluted net increase in net assets resulting from operations, pursuant to ASC 260-10, for the three months ended March 31, 2013 and March 31, 2012:

	Three Months Ended	
	March 31, 2013	March 31, 2012
<u>Earnings per share (basic & diluted)</u>		
Numerator for net increase in net assets per share:	\$ 35,806	\$ 46,158
Denominator for weighted average shares:	44,278,146	36,608,038
Earnings per share:	0.81	1.26

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.

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;

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except shares)**

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 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).

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

A review of fair value hierarchy classifications is conducted on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities. Reclassifications impacting Level 3 of the fair value hierarchy are reported as transfers in/out of the Level 3 category as of the beginning of the quarter in which the reclassifications occur.

The following tables present the balances of assets and liabilities measured at fair value on a recurring basis, as of March 31, 2013 and December 31, 2012:

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

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 7,464	\$ 513,323	\$ 520,787
Subordinated Debt/Corporate Notes		34,339	368,988	403,327
Preferred Equity			158,514	158,514
Common Equity/Partnership Interests/Warrants	1,212		337,558	338,770
Derivative assets interest rate caps and foreign exchange contracts		16		16
Liabilities:				
\$525 Million Facility and Senior Secured Notes			202,793	202,793

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except shares)****Fair Value Measurements****As of December 31, 2012**

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	\$	\$ 25,899	\$ 444,568	\$ 470,467
Subordinated Debt/Corporate Notes		33,175	413,752	446,927
Preferred Equity			151,190	151,190
Common Equity/Partnership Interests/Warrants	5,560		321,378	326,938
Derivative assets interest rate caps and foreign exchange contracts		17		17

Liabilities:

\$525 Million Facility and Senior Secured Notes			389,452	389,452
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The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2013 and the year ended December 31, 2012 as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2013 and December 31, 2012:

Fair Value Measurements Using Level 3 Inputs**As of March 31, 2013**

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Partnership Interests/ Warrants
Fair value, December 31, 2012	\$ 444,568	\$ 413,752	\$ 151,190	\$ 321,378
Total gains or losses included in earnings:				
Net realized gain (loss)		2,149		
Net change in unrealized gain (loss)	1,044	(10,483)	1,466	16,180
Purchase of investment securities	76,151	1,218	5,858	
Proceeds from dispositions of investment securities	(8,440)	(37,648)		
Transfers in/out of Level 3				
Fair value, March 31, 2013	\$ 513,323	\$ 368,988	\$ 158,514	\$ 337,558
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):	\$ 1,272	\$ (9,766)	\$ 1,761	\$ 16,180

During the three months ended March 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)****March 31, 2013****(in thousands, except shares)**

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

	For the three months ended March 31, 2013
<u>The \$525 Million Facility and Senior Secured Notes</u>	
Beginning fair value	\$ 389,452
Total unrealized depreciation	(1,095)
Borrowings	118,500
Repayments	(304,064)
Transfers in/out of Level 3	
Ending fair value	\$ 202,793

The Company has made an irrevocable election to apply the fair value option of accounting to the \$525 Million Facility and the Senior Secured Notes, in accordance with ASC 825-10. On March 31, 2013, there were borrowings of \$127,793 and \$75,000, respectively, on the \$525 Million Facility and the Senior Secured Notes. The Company used an independent third-party valuation firm to measure the fair value of the \$525 Million Facility and Senior Secured Notes.

Fair Value Measurements Using Level 3 Inputs**As of December 31, 2012**

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Partnership Interests/ Warrants
Fair value, January 1, 2012	\$ 366,019	\$ 536,351	\$ 14,664	\$ 59,664
Total gains or losses included in earnings:				
Net realized gain (loss)		(36,049)		11,299
Net change in unrealized gain (loss)	22,976	39,384	(2,932)	(7,201)
Purchase of investment securities	223,710	101,858	139,736	278,962
Proceeds from dispositions of investment securities	(168,137)	(227,792)	(278)	(21,346)
Transfers in/out of Level 3				
Fair value, December 31, 2012	\$ 444,568	\$ 413,752	\$ 151,190	\$ 321,378

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:

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Net change in unrealized gain (loss):	\$	9,129	\$	(8,161)	\$	(3,376)	\$	(31,945)
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During the fiscal year December 31, 2012, 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)****March 31, 2013****(in thousands, except shares)**

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, 2012:

	For the year ended December 31, 2012
<u>The \$525 Million Facility and Senior Secured Notes</u>	
Beginning fair value	\$
Total unrealized appreciation	
Borrowings	489,957
Repayments	(100,505)
Transfers in/out of Level 3	
Ending fair value	\$ 389,452

The Company has made an irrevocable election to apply the fair value option of accounting to the \$525 Million Facility and the Senior Secured Notes, in accordance with ASC 825-10. On December 31, 2012, there were borrowings of \$314,452 and \$75,000, respectively, on the \$525 Million Facility and the Senior Secured Notes. The Company used an independent third-party valuation firm to measure the fair value of the \$525 Million 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.

Table of Contents**SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****March 31, 2013****(in thousands, except shares)**

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

	Asset or Liability	Fair Value at March 31, 2013	Valuation Techniques/ Methodology	Unobservable Input	Range (Weighted Average)
Senior Secured / Bank Debt	Asset	\$ 513,323	Yield Analysis/Market	Market Yields /	8.4% 19.6%
			Approach/Broker quoted	Bid-Ask Spreads	(12.9%)
Subordinated Debt/Corporate Note	Asset	\$ 368,988	Yield Analysis/Market	Market Yields /	12.0% 17.0%
			Approach/Broker quoted	Bid-Ask Spreads EBITDA Multiples	(14.2%)
			Enterprise value		5.5x 7.5x (6.5x)
Preferred Equity	Asset	\$ 158,514	Yield Analysis	Market Yields	8.0% 15.0% (14.3%)
			Enterprise Value	EBITDA Multiples	5.8x 6.3x (6.0x)
Common Equity	Asset	\$ 337,558	Enterprise Value	Enterprise Value	6.8x 11.5x (11.5x)
			Book Value	Multiple of BV	1.0x 1.1x (1.1x)
			Yield Analysis/Market Approach	Market Yields	7.4% 10.5% (10.5%)
The \$525 Million Facility	Liability	\$ 127,793	Yield Analysis/Market	Market Yields	L+0.5% L+5.5%
			Approach		(L+2.7%)
Senior Secured Notes	Liability	\$ 75,000	Yield Analysis/Market	Market Yields	4.2% 7.4%
			Approach		(5.9%)

Quantitative information about the Company's Level 3 asset and liability fair value measurements as of December 31, 2012 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2012	Valuation Techniques/ Methodology	Unobservable Input	Range (Weighted Average)
Senior Secured /Bank Debt	Asset	\$ 444,568	Yield Analysis/Market	Market Yields /	10.3% 19.0%
			Approach/Broker quoted	Bid-Ask Spreads	(13.3%)
Subordinated Debt/Corporate Note	Asset	\$ 413,752	Yield Analysis/Market	Market Yields /	12.0% 17.1%

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				Approach/Broker quoted	Bid-Ask Spreads EBITDA Multiples	(14.7%)
				Enterprise value		3.8x 7.8x (5.8x)
Preferred Equity	Asset	\$	151,190	Yield Analysis	Market Yields	8.0% 15.0% (14.3%)
Common Equity	Asset	\$	321,378	Market Approach	Enterprise Value	6.8x 10.0x (8.4x)
					Multiple of BV	1.0x 1.5x (1.2x)
The \$525 Million Facility	Liability	\$	314,452	Yield Analysis/Market	Market Yields	L+0.5% L+5.5%
				Approach		(L+2.7%)
Senior Secured Notes	Liability	\$	75,000	Yield Analysis/Market	Market Yields	
				Approach		