Solar Capital Ltd.
Form 10-Q
May 03, 2016
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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, 2016

¨ **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)

Maryland	**26-1381340**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
500 Park Avenue New York, N.Y.	**10022**
(Address of principal executive offices)	**(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 x 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	x	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 x

The number of shares of the registrant s Common Stock, $.01 par value, outstanding as of May 2, 2016 was 42,248,525.

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SOLAR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 2016

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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, 2016 (unaudited)	December 31, 2015
Assets		
Investments at fair value:		
Companies less than 5% owned (cost: $939,996 and $926,055, respectively)	$ 905,703	$ 886,788
Companies 5% to 25% owned (cost: $8,511 and $8,511, respectively)	508	1,233
Companies more than 25% owned (cost: $410,201 and $410,142, respectively)	431,641	424,570
Total investments (cost: $1,358,708 and $1,344,708, respectively)	1,337,852	1,312,591
Cash	716	2,587
Cash equivalents (cost: $269,971 and $274,983, respectively)	269,971	274,983
Receivable for investments sold	10,841	11,374
Dividends receivable	9,758	8,487
Interest receivable	8,168	6,408
Prepaid expenses and other assets	1,329	874
Total assets	$ 1,638,635	$ 1,617,304
Liabilities		
Revolving credit facilities (see note 6 and 8)	$ 222,400	$ 207,900
Unsecured senior notes ($100,000 and $100,000 face amounts, respectively, reported net of unamortized debt issuance costs of $2,968 and $2,996, respectively. See note 8)	97,032	97,004
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	16,900	16,986
Payable for investments and cash equivalents purchased	272,449	274,983
Management fee payable (see note 3)	6,748	6,523
Performance-based incentive fee payable (see note 3)	3,235	1,408
Administrative services expense payable (see note 3)	234	2,324
Interest payable (see note 8)	3,093	1,665
Other liabilities and accrued expenses	977	813
Total liabilities	$ 748,068	$ 734,606
Commitments and contingencies (see note 12 and 13)		
Net Assets		
Common stock, par value $0.01 per share, 200,000,000 and 200,000,000 common shares authorized, respectively, and 42,248,525 and 42,464,762 shares issued and outstanding, respectively	$ 422	$ 425
Paid-in capital in excess of par	990,586	993,991
Distributions in excess of net investment income	(15,577)	(15,592)

Accumulated net realized loss		(64,008)		(64,009)
Net unrealized depreciation		(20,856)		(32,117)
Total net assets	$	890,567	$	882,698
Net Asset Value Per Share	$	21.08	$	20.79

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(in thousands, except share amounts)

	Three months ended March 31, 2016	Three months ended March 31, 2015
INVESTMENT INCOME:		
Interest:		
Companies less than 5% owned	$ 23,597	$ 16,323
Companies more than 25% owned	531	700
Dividends:		
Companies more than 25% owned	9,886	8,477
Other income:		
Companies less than 5% owned		125
Companies more than 25% owned	19	5
Total investment income	34,033	25,630
EXPENSES:		
Management fees (see note 3)	6,748	5,865
Performance-based incentive fees (see note 3)	4,030	
Interest and other credit facility expenses (see note 8)	5,021	3,601
Administrative services expense (see note 3)	1,319	1,039
Other general and administrative expenses	795	735
Total expenses	17,913	11,240
Performance-based incentive fees waived (see note 3)	(795)	
Net expenses	17,118	11,240
Net investment income	$ 16,915	$ 14,390
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, CASH EQUIVALENTS AND FOREIGN CURRENCIES:		
Net realized gain (loss) on investments and cash equivalents:		
Companies less than 5% owned	$	$ (4,779)
Companies 5% to 25% owned		(1,050)
Net realized gain (loss) on investments and cash equivalents		(5,829)
Net realized gain (loss) on foreign currencies	1	(3)
Net realized gain (loss)	1	(5,832)
Net change in unrealized gain (loss) on investments and cash equivalents	11,260	2,368
Net change in unrealized gain (loss) on foreign currencies	1	(27)
Net change in unrealized gain (loss)	11,261	2,341
Net realized and unrealized gain (loss) on investments, cash equivalents and foreign currencies	11,262	(3,491)

NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 28,177	$ 10,899
EARNINGS PER SHARE (see note 5)	$ 0.67	$ 0.26

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except share amounts)

	Three months ended March 31, 2016 (unaudited)	Year ended December 31, 2015
Increase in net assets resulting from operations:		
Net investment income	$ 16,915	$ 64,356
Net realized gain (loss)	1	(4,874)
Net change in unrealized gain (loss)	11,261	(45,402)
Net increase in net assets resulting from operations	28,177	14,080
Distributions to stockholders:		
From net investment income	(16,900)	(67,944)
Capital transactions:		
Repurchases of common stock	(3,408)	(6)
Net decrease in net assets resulting from capital transactions	(3,408)	(6)
Total increase (decrease) in net assets	7,869	(53,870)
Net assets at beginning of period	882,698	936,568
Net assets at end of period (1)	$ 890,567	$ 882,698
Capital stock activity:		
Common stock repurchased	(216,237)	(400)
Net decrease from capital stock activity	(216,237)	(400)

(1) Includes overdistributed net investment income of ($15,577) and ($15,592), respectively.

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(in thousands)

	Three months ended	
	March 31, 2016	**March 31, 2015**
Cash Flows from Operating Activities:		
Net increase in net assets resulting from operations	$ 28,177	$ 10,899
Adjustments to reconcile net increase in net assets resulting from operations to net cash (used in) provided by operating activities:		
Net realized (gain) loss on investments and cash equivalents		5,829
Net realized (gain) loss on foreign currencies	(1)	3
Net change in unrealized (gain) loss on investments and cash equivalents	(11,260)	(2,368)
Net change in unrealized (gain) loss on foreign currencies	(1)	(27)
(Increase) decrease in operating assets:		
Purchase of investments	(43,861)	(33,326)
Proceeds from disposition of investments	29,862	7,714
Capitalization of payment-in-kind interest		(134)
Receivable for investments sold	533	(1,255)
Interest receivable	(1,760)	(2,719)
Dividends receivable	(1,271)	4
Prepaid expenses and other assets	(455)	(446)
Increase (decrease) in operating liabilities:		
Payable for investments and cash equivalents purchased	(2,534)	(2,430)
Management fee payable	225	(244)
Performance-based incentive fee payable	1,827	(4,198)
Administrative services expense payable	(2,090)	(2,149)
Interest payable	1,428	1,086
Other liabilities and accrued expenses	164	94
Net Cash Used in Operating Activities	(1,017)	(23,667)
Cash Flows from Financing Activities:		
Cash distributions paid	(16,986)	(16,986)
Deferred financing costs	28	9
Repurchase of common stock	(3,408)	
Proceeds from borrowings	114,000	
Repayment of borrowings	(99,500)	
Net Cash Used in Financing Activities	(5,866)	(16,977)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,883)	(40,644)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	277,570	635,340
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 270,687	$ 594,696
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 3,593	$ 2,515

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)

March 31, 2016

(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index[11]	LIBOR Floor	Interest Rate[1]	Acquisition Date	Maturity Date		Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans 95.2%										
AccentCare, Inc	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/2015	9/3/2021	$	4,969	$ 4,923	$ 4,919
AccentCare, Inc	Health Care Providers & Services	L+950	1.00%	10.50%	9/3/2015	9/3/2022		17,500	17,211	17,063
Achaogen, Inc	Pharmaceuticals	L+699	1.00%	7.99%	8/5/2015	8/5/2019		15,000	15,036	14,437
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021		29,000	28,698	24,650
AgaMatrix, Inc	Health Care Equipment & Supplies	L+835		8.79%	2/6/2015	2/1/2019		10,000	9,918	9,850
Amerilife Group, LLC	Insurance	L+875	1.00%	9.75%	7/9/2015	1/10/2023		15,000	14,720	14,700
Argo Turboserve Corporation & Argo Tech, LLC	Air Freight & Logistics	L+825		10.25%	5/2/2014	5/2/2018		13,531	13,531	13,260
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021		13,200	12,837	12,441
AviatorCap SII, LLC I [3]	Aerospace & Defense			12.00%	5/31/2011	1/31/2019		813	813	813
AviatorCap SII, LLC II [3]	Aerospace & Defense			11.00%	8/23/2011	1/31/2019		239	239	239
Bishop Lifting Products, Inc. [8]	Trading Companies & Distributors	L+800	1.00%	9.00%	3/24/2014	3/27/2022		25,000	24,805	17,000
Breathe Technologies, Inc	Health Care Technology	L+830		8.74%	11/5/2015	11/5/2019		15,000	14,918	14,550
CAMP International Holding Company	Aerospace & Defense	L+725	1.00%	8.25%	12/2/2013	11/30/2019		5,000	5,000	4,569
CardioDx, Inc	Health Care Equipment & Supplies	P+670		10.20%	6/18/2015	4/1/2019		7,500	7,483	7,050
Cardiva Medical, Inc	Health Care Equipment & Supplies	L+870		9.14%	8/19/2015	8/19/2019		8,500	8,555	8,160
Clinical Ink, Inc	Health Care Technology	L+850	0.70%	9.20%	3/8/2016	3/8/2020		6,500	6,438	6,435
Concentra, Inc	Health Care Facilities	L+800	1.00%	9.00%	5/8/2015	6/1/2023		18,500	18,328	18,222
Datapipe, Inc	IT Services	L+750	1.00%	8.50%	8/14/2014	9/15/2019		27,000	26,541	26,460
Direct Buy Inc. [4]**	Multiline Retail			12.00% PIK	11/5/2012	10/31/2019		10,163	8,511	508
DISA Holdings Acquisition Subsidiary Corp	Professional Services	L+850	1.00%	9.50%	12/9/2014	6/9/2021		51,476	50,823	48,902
Easyfinancial Services, Inc. [5][6]	Consumer Finance	BA+699	1.00%	7.99%	9/27/2012	10/4/2019	C$	10,000	9,261	7,623
Emerging Markets Communications, LLC	Wireless Telecommunication Services	L+962.5	1.00%	10.63%	6/29/2015	7/1/2022	$	27,000	26,625	27,000
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	7.75%	12/7/2015	12/14/2021		14,963	14,747	14,963

Filtration Group Corp	Industrial Conglomerates	L+725	1.00%	8.25%	11/15/2013	11/21/2021	1,571	1,559	1,552
Genoa, A QoL Healthcare Company, LLC	Health Care Providers & Services	L+775	1.00%	8.75%	4/21/2015	4/30/2023	14,000	13,871	13,790
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	7,466	5,857	6,784
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	18,500	18,229	14,122
Greystone Select Holdings LLC & Greystone & Co., Inc	Thrifts & Mortgage Finance	L+800	1.00%	9.00%	3/25/2014	3/26/2021	9,777	9,734	9,582
Hyland Software, Inc	Software	L+725	1.00%	8.25%	6/12/2015	6/30/2023	5,000	4,977	4,800
IHS Intermediate, Inc	Health Care Providers & Services	L+825	1.00%	9.25%	6/19/2015	7/20/2022	25,000	24,536	23,750
Inmar Acquisition Sub, Inc	Professional Services	L+700	1.00%	8.00%	1/27/2014	1/27/2022	10,000	9,921	9,700
K2 Pure Solutions NoCal, L.P	Chemicals	L+900	1.00%	10.00%	8/19/2013	8/19/2019	7,475	7,380	7,326
Kore Wireless Group, Inc	Wireless Telecommunication Services	L+825	1.00%	9.25%	9/12/2014	3/12/2021	55,500	54,592	54,390
Landslide Holdings, Inc	Software	L+725	1.00%	8.25%	2/25/2014	2/25/2021	16,300	16,280	15,404
LegalZoom.com, Inc	Internet Software & Services	L+700	1.00%	8.00%	5/13/2015	5/13/2020	49,500	48,550	48,386
PhyMed Management LLC	Health Care Providers & Services	L+875	1.00%	9.75%	12/18/2015	5/18/2021	32,321	31,080	30,382
Pronutria Biosciences, Inc.	Pharmaceuticals	L+880		9.24%	8/7/2015	8/31/2019	20,000	19,979	20,000
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/2015	11/25/2021	1,073	1,062	1,051
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+841	1.00%	9.41%	11/25/2015	11/25/2021	8,900	8,730	8,366
Rapid Micro Biosystems, Inc.	Life Sciences Tools & Services	L+880		9.24%	6/30/2015	6/30/2019	16,000	16,076	15,760
Rug Doctor LLC (3)	Diversified Consumer Services	L+975	1.50%	11.25%	12/23/2013	12/31/2018	9,111	8,859	9,111
Salient Partners, L.P	Asset Management	L+650	1.00%	7.50%	6/10/2015	6/9/2021	15,720	15,438	14,620
SOINT, LLC (3)	Aerospace & Defense			15.00%	6/8/2012	11/30/2018	5,266	5,249	5,266
Southern Auto Finance Company (6)	Consumer Finance			11.00%	10/19/2011	12/4/2018	25,000	24,754	24,625
Sunesis Pharmaceuticals, Inc.	Pharmaceuticals	L+854		8.98%	3/31/2016	4/1/2020	7,500	7,317	7,317
T2 Biosystems, Inc.	Health Care Equipment & Supplies	L+705		7.49%	7/11/2014	7/1/2019	25,000	25,159	25,000
The Robbins Company TLA	Construction & Engineering	L+1150		12.14%	5/31/2013	5/31/2017	9,881	11,417	10,289
The Robbins Company TLB	Construction & Engineering	L+1150		12.14%	5/31/2013	4/15/2016	2,432	2,431	2,481
TierPoint, LLC	IT Services	L+875-887.5	1.00%	9.75-9.88%	12/2/2014	12/2/2022	34,000	33,611	32,810
TMK Hawk Parent, Corp. (TriMark)	Trading Companies and Distributors	L+750	1.00%	8.50%	9/26/2014	10/1/2022	20,000	19,828	19,700
TouchTunes Interactive Networks, Inc	Media	L+825	1.00%	9.25%	5/28/2015	5/27/2022	14,000	13,808	13,510
Trevi Therapeutics, Inc	Pharmaceuticals	L+775		8.19%	12/29/2014	6/29/2018	7,500	7,556	7,444
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+925	1.00%	10.25%	9/24/2014	9/24/2020	30,000	29,761	29,400
Varilease Finance, Inc	Multi-Sector Holdings	L+825	1.00%	9.25%	8/22/2014	8/24/2020	48,000	47,306	47,520

Total Bank Debt/Senior Secured Loans						**$ 884,868**	**$ 848,052**
Subordinated Debt/Corporate Notes 8.2%							
Alegeus Technologies Holdings Corp	Health Care Technology	12.00%	6/24/2012	2/15/2019	28,200	$ 27,859	$ 27,636
WireCo Worldgroup Inc.	Building Products	9.00%	6/28/2012	5/15/2017	48,000	47,865	45,240
Total Subordinated Debt/Corporate Notes						**$ 75,724**	**$ 72,876**
					Shares/Units		
Preferred Equity 2.0%							
SOAGG LLC (3)(6)(7)	Aerospace & Defense	8.00%	12/14/2010	6/30/2018	8,049	$ 8,050	$ 8,308
SOINT, LLC (3)(6)(7)	Aerospace & Defense	15.00%	6/8/2012	11/30/2018	86,667	8,667	9,317
Total Preferred Equity						**$ 16,717**	**$ 17,625**

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)

March 31, 2016

(in thousands, except share/unit amounts)

Description	Industry	Acquisition Date	Maturity Date	Shares/Units	Cost	Fair Value
Common Equity/Equity Interests/Warrants 44.8%						
AgaMatrix Inc. Warrants*	Health Care Equipment & Supplies	2/6/2015		125,314	$ 144	$ 195
Ark Real Estate Partners LP (2)(3)*	Diversified Real Estate Activities	3/12/2007			526	364
Ark Real Estate Partners II LP (2)(3)*	Diversified Real Estate Activities	10/23/2012			12	9
B Riley Financial Inc. (Great American)	Research & Consulting Services	3/16/2007		38,015	2,684	399
CardioDx, Inc. Warrants*	Health Care Equipment & Supplies	6/18/2015		39,863	129	
Crystal Financial LLC (3)(6)(9)	Diversified Financial Services	12/28/2012		275,000	275,000	293,500
Direct Buy Inc. (4)*	Multiline Retail	11/5/2012		76,999		
RD Holdco Inc. (Rug Doctor) (3)*	Diversified Consumer Services	12/23/2013		231,177	15,683	18,044
RD Holdco Inc. (Rug Doctor) Class B (3)*	Diversified Consumer Services	12/23/2013		522	5,216	5,216
RD Holdco Inc. (Rug Doctor) Warrants (3)*	Diversified Consumer Services	12/23/2013		30,370	381	474
Senior Secured Unitranche Loan Program LLC (3)(6)	Asset Management	11/25/2015			81,506	80,980
Sunesis Pharmaceuticals, Inc. Warrants*	Pharmaceuticals	3/31/2016		624,006	118	118
Total Common Equity/Equity Interests/Warrants					**$ 381,399**	**$ 399,299**
Total Investments (10) 150.2%					**$ 1,358,708**	**$ 1,337,852**
				Par Amount		
Cash Equivalents 30.3%						
U.S. Treasury Bill	Government	3/30/2016	4/28/2016	$ 270,000	$ 269,971	$ 269,971
Total Investments & Cash Equivalents 180.5%					**$ 1,628,679**	**$ 1,607,823**
Liabilities in Excess of Other Assets (80.5%)						(717,256)
Net Assets 100.0%						**$ 890,567**

(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 March 31, 2016.
(2) Ark Real Estate Partners is held through SLRC ADI Corp., a taxable subsidiary.
(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 three months ended March 31, 2016 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/ Dividend /Other Income	Fair Value at March 31, 2016
ARK Real Estate Partners LP	$ 364	$	$	$	$	$ 364
ARK Real Estate Partners II LP	9					9
AviatorCap SII, LLC I	914		101		26	813
AviatorCap SII, LLC II	350		110		8	239
Crystal Financial LLC	290,000				7,900	293,500
RD Holdco Inc. (Rug Doctor, common equity).	14,335					18,044
RD Holdco Inc. (Rug Doctor, class B)	5,216					5,216
RD Holdco Inc. (Rug Doctor, warrants)	214					474
Rug Doctor LLC	8,838				291	9,111
Senior Secured Unitranche Loan Program LLC	80,677	846			1,515	80,980
SOAGG LLC	8,632		163		162	8,308
SOINT, LLC	5,705		439		210	5,266
SOINT, LLC (preferred equity)	9,316				324	9,317
	$ 424,570	$ 846	$ 813	$	$ 10,436	$ 431,641

(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 three months ended March 31, 2016 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2015	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/ Dividend Income	Fair Value at March 31, 2016
Direct Buy Inc. (common equity)	$	$	$	$	$	$
Direct Buy Inc. (senior secured loan)	1,233	296				508
	$ 1,233	$ 296	$	$	$	$ 508

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)

March 31, 2016

(in thousands)

(5) The following entity is domiciled outside the United States and the investments are denominated in Canadian Dollars: Easyfinancial Services, Inc. in Canada.
(6) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of March 31, 2016, on a fair value basis, non-qualifying assets in the portfolio represented 25.6% of the total assets of the Company.
(7) Solar Capital Ltd. s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
(8) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
(9) Investment represents the operating company after consolidation of the holding company Crystal Capital Financial Holdings LLC.
(10) Aggregate net unrealized depreciation for U.S. federal income tax purposes is $30,976; aggregate gross unrealized appreciation and depreciation for federal tax purposes is $23,361 and $54,337, respectively, based on a tax cost of $1,368,828. All of the Company s investments are pledged as collateral against the borrowings outstanding on the revolving credit facilities.
(11) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
* Non-income producing security.
** Investment is on non-accrual status.

Industry Classification	Percentage of Total Investments (at fair value) as of March 31, 2016
Diversified Financial Services	21.9%
Health Care Providers & Services	11.5%
Asset Management	7.1%
Wireless Telecommunications Services	6.1%
IT Services	4.4%
Professional Services	4.4%
Health Care Equipment & Supplies	3.8%
Pharmaceuticals	3.7%
Health Care Technology	3.6%
Internet Software & Services	3.6%
Multi-Sector Holdings	3.6%
Building Products	3.4%
Trading Companies & Distributors	2.7%
Diversified Consumer Services	2.5%
Consumer Finance	2.4%
Aerospace & Defense	2.1%
Insurance	2.0%
Chemicals	1.7%
Communications Equipment	1.6%
Software	1.5%
Health Care Facilities	1.4%
Life Sciences Tools & Services	1.2%
Media	1.0%
Air Freight & Logistics	1.0%
Construction & Engineering	1.0%
Thrifts & Mortgage Finance	0.7%
Industrial Conglomerates	0.1%
Multiline Retail	0.0%

Research & Consulting Services	0.0%
Diversified Real Estate Activities	0.0%
Total Investments	100.0%

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2015

(in thousands, except share/unit amounts)

Description	Industry	Spread Above Index [11]	LIBOR Floor	Interest Rate [1]	Acquisition Date	Maturity Date	Par Amount	Cost	Fair Value
Bank Debt/Senior Secured Loans 94.8%									
AccentCare, Inc	Health Care Providers & Services	L+575	1.00%	6.75%	9/3/2015	9/3/2021	$ 5,000	$ 4,952	$ 4,925
AccentCare, Inc	Health Care Providers & Services	L+950	1.00%	10.50%	9/3/2015	9/3/2022	17,500	17,203	16,975
Achaogen, Inc	Pharmaceuticals	L+699	1.00%	7.99%	8/5/2015	8/5/2019	15,000	14,964	14,700
Aegis Toxicology Sciences Corporation	Health Care Providers & Services	L+850	1.00%	9.50%	2/20/2014	8/24/2021	29,000	28,688	26,100
AgaMatrix, Inc	Health Care Equipment & Supplies	L+835		8.59%	2/6/2015	2/1/2019	6,667	6,611	6,544
Amerilife Group, LLC	Insurance	L+875	1.00%	9.75%	7/9/2015	1/10/2023	15,000	14,713	14,550
Argo Turboserve Corporation & Argo Tech, LLC	Air Freight & Logistics	L+825		8.66%	5/2/2014	5/2/2018	13,932	13,932	13,444
Asurion, LLC	Insurance	L+750	1.00%	8.50%	2/27/2014	3/3/2021	13,200	12,823	11,359
AviatorCap SII, LLC I [3]	Aerospace & Defense			12.00%	5/31/2011	1/31/2019	914	914	914
AviatorCap SII, LLC II [3]	Aerospace & Defense			11.00%	8/23/2011	1/31/2019	350	350	350
Bishop Lifting Products, Inc. [8]	Trading Companies & Distributors	L+800	1.00%	9.00%	3/24/2014	3/27/2022	25,000	24,798	20,250
Breathe Technologies, Inc	Health Care Technology	L+830		8.53%	11/5/2015	11/5/2019	15,000	14,863	14,550
CAMP International Holding Company	Aerospace & Defense	L+725	1.00%	8.25%	12/2/2013	11/30/2019	5,000	5,000	4,871
CardioDx, Inc	Health Care Equipment & Supplies	P+670		10.20%	6/18/2015	4/1/2019	7,500	7,413	7,050
Cardiva Medical, Inc	Health Care Equipment & Supplies	L+870		8.93%	8/19/2015	8/19/2019	8,500	8,533	8,373
Concentra, Inc	Health Care Facilities	L+800	1.00%	9.00%	5/8/2015	6/1/2023	18,500	18,324	18,130
Datapipe, Inc	IT Services	L+750	1.00%	8.50%	8/14/2014	9/15/2019	27,000	26,513	26,190
Direct Buy Inc. [4]**	Multiline Retail			12.00% PIK	11/5/2012	10/31/2019	9,867	8,511	1,233
DISA Holdings Acquisition Subsidiary Corp	Professional Services	L+850	1.00%	9.50%	12/9/2014	6/9/2021	51,476	50,799	48,902
Easyfinancial Services, Inc. [5][6]	Consumer Finance	BA+699	1.00%	7.99%	9/27/2012	10/4/2019	C$ 10,000	9,261	7,080
Emerging Markets Communications, LLC	Wireless Telecommunication Services	L+962.5	1.00%	10.63%	6/29/2015	7/1/2022	$ 27,000	26,614	27,000
Falmouth Group Holdings Corp. (AMPAC)	Chemicals	L+675	1.00%	9.25%	12/7/2015	12/14/2021	15,000	14,776	14,775
Filtration Group Corp	Industrial Conglomerates	L+725	1.00%	8.25%	11/15/2013	11/21/2021	1,571	1,559	1,533
Genoa, A QoL Healthcare Company, LLC	Health Care Providers & Services	L+775	1.00%	8.75%	4/21/2015	4/30/2023	14,000	13,868	13,580
Global Tel*Link Corporation	Communications Equipment	L+375	1.25%	5.00%	11/6/2015	5/23/2020	6,716	5,240	4,940
Global Tel*Link Corporation	Communications Equipment	L+775	1.25%	9.00%	5/21/2013	11/23/2020	18,500	18,217	13,042
Greystone Select Holdings LLC & Greystone & Co.,	Thrifts & Mortgage Finance	L+800	1.00%	9.00%	3/25/2014	3/26/2021	9,826	9,781	9,532

Inc									
Hyland Software, Inc	Software	L+725	1.00%	8.25%	6/12/2015	6/30/2023	5,000	4,976	4,750
IHS Intermediate, Inc	Health Care Providers & Services	L+825	1.00%	9.25%	6/19/2015	7/20/2022	25,000	24,523	24,250
Inmar Acquisition Sub, Inc	Professional Services	L+700	1.00%	8.00%	1/27/2014	1/27/2022	10,000	9,919	9,700
K2 Pure Solutions NoCal, L.P	Chemicals	L+1000	1.00%	11.00%	8/19/2013	8/19/2019	11,069	10,919	10,515
Kore Wireless Group, Inc	Wireless Telecommunication Services	L+825	1.00%	9.25%	9/12/2014	3/12/2021	55,500	54,557	53,835
Landslide Holdings, Inc	Software	L+725	1.00%	8.25%	2/25/2014	2/25/2021	16,300	16,279	15,322
LegalZoom.com, Inc	Internet Software & Services	L+700	1.00%	8.00%	5/13/2015	5/13/2020	49,625	48,625	48,384
PhyMed Management LLC	Health Care Providers & Services	L+875	1.00%	9.75%	12/18/2015	5/18/2021	32,321	31,035	31,028
Pronutria Biosciences, Inc.	Pharmaceuticals	L+880		9.03%	8/7/2015	8/31/2019	20,000	19,922	19,650
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+425	1.00%	5.25%	11/25/2015	11/25/2021	1,100	1,089	1,089
PSKW, LLC & PDR, LLC	Health Care Providers & Services	L+842	1.00%	9.42%	11/25/2015	11/25/2021	8,900	8,724	8,722
Rapid Micro Biosystems, Inc.	Life Sciences Tools & Services	L+880		9.04%	6/30/2015	6/30/2019	16,000	16,019	15,520
Rug Doctor LLC (3)	Diversified Consumer Services	L+975	1.50%	11.25%	12/23/2013	12/31/2018	9,111	8,836	8,838
Salient Partners, L.P	Asset Management	L+650	1.00%	7.50%	6/10/2015	6/9/2021	15,760	15,467	15,208
SOINT, LLC (3)	Aerospace & Defense			15.00%	6/8/2012	11/30/2018	5,705	5,685	5,705
Southern Auto Finance Company (6)	Consumer Finance			11.00%	10/19/2011	12/4/2018	25,000	24,735	24,375
T2 Biosystems, Inc. (6)	Health Care Equipment & Supplies	L+705		7.28%	7/11/2014	7/1/2019	25,000	25,088	24,875
The Robbins Company TLA	Construction & Engineering	L+1150		11.92%	5/31/2013	5/31/2017	10,352	11,961	10,779
The Robbins Company TLB	Construction & Engineering	L+1150		11.92%	5/31/2013	4/15/2016	2,432	2,421	2,481
TierPoint, LLC	IT Services	L+875	1.00%	9.75%	12/2/2014	12/2/2022	34,000	33,599	33,320
TMK Hawk Parent, Corp. (TriMark)	Trading Companies and Distributors	L+750	1.00%	8.50%	9/26/2014	10/1/2022	20,000	19,823	19,600
TouchTunes Interactive Networks, Inc	Media	L+825	1.00%	9.25%	5/28/2015	5/27/2022	14,000	13,802	13,370
Trevi Therapeutics, Inc	Pharmaceuticals	L+775		7.99%	12/29/2014	6/29/2018	7,500	7,516	7,388
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	L+925	1.00%	10.25%	9/24/2014	9/24/2020	30,000	29,751	29,400
Varilease Finance, Inc	Multi-Sector Holdings	L+825	1.00%	9.25%	8/22/2014	8/24/2020	48,000	47,275	47,040
Total Bank Debt/Senior Secured Loans								**$ 871,766**	**$ 836,036**
Subordinated Debt/Corporate Notes 7.6%									
Alegeus Technologies Holdings Corp	Health Care Technology			12.00%	6/24/2012	2/15/2019	28,200	$ 27,835	$ 27,354
WireCo Worldgroup Inc.	Building Products			9.00%	6/28/2012	5/15/2017	48,000	47,837	39,960
Total Subordinated Debt/Corporate Notes								**$ 75,672**	**$ 67,314**
							Shares/ Units		
Preferred Equity 2.0%									
SOAGG LLC (3)(6)(7)	Aerospace & Defense			8.00%	12/14/2010	6/30/2018	8,212	$ 8,212	$ 8,632
SOINT, LLC (3)(6)(7)	Aerospace & Defense			15.00%	6/8/2012	11/30/2018	86,667	8,667	9,316
Total Preferred Equity								**$ 16,879**	**$ 17,948**

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2015

(in thousands, except share/unit amounts)

Description	Industry	Acquisition Date	Maturity Date	Shares/ Units	Cost	Fair Value
Common Equity/Equity Interests/Warrants 44.3%						
AgaMatrix Inc. Warrants*	Health Care Equipment & Supplies	2/6/2015		83,543	$ 100	$ 101
Ark Real Estate Partners LP (2)(3)*	Diversified Real Estate Activities	3/12/2007			526	364
Ark Real Estate Partners II LP (2)(3)*	Diversified Real Estate Activities	10/23/2012			12	9
B Riley Financial Inc. (Great American)	Research & Consulting Services	3/16/2007		38,015	2,684	377
CardioDx, Inc. Warrants*	Health Care Equipment & Supplies	6/18/2015		39,863	129	
Crystal Financial LLC (3)(6)(9)	Diversified Financial Services	12/28/2012		275,000	275,000	290,000
Direct Buy Inc. (4)*	Multiline Retail	11/5/2012		76,999		
RD Holdco Inc. (Rug Doctor) (3)*	Diversified Consumer Services	12/23/2013		231,177	15,683	14,335
RD Holdco Inc. (Rug Doctor) Class B (3)*	Diversified Consumer Services	12/23/2013		522	5,216	5,216
RD Holdco Inc. (Rug Doctor) Warrants (3)*	Diversified Consumer Services	12/23/2013		30,370	381	214
Senior Secured Unitranche Loan Program LLC (3)(6)	Asset Management	11/25/2015			80,660	80,677
Total Common Equity/Equity Interests/Warrants					**$ 380,391**	**$ 391,293**
Total Investments (10) 148.7%					**$ 1,344,708**	**$ 1,312,591**
				Par Amount		
Cash Equivalents 31.2%						
U.S. Treasury Bill	Government	12/28/2015	1/21/2016	$ 275,000	$ 274,983	$ 274,983
Total Investments & Cash Equivalents 179.9%					**$ 1,619,691**	**$ 1,587,574**
Liabilities in Excess of Other Assets (79.9%)						(704,876)
Net Assets 100.0%						**$ 882,698**

(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 December 31, 2015.

(2) Ark Real Estate Partners is held through SLRC ADI Corp., a taxable subsidiary.

(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 year ended December 31, 2015 in these controlled investments are as follows:

Name of Issuer	Fair Value at December 31, 2014	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/ Dividend /Other Income	Fair Value at December 31, 2015
ARK Real Estate Partners LP	$ 885	$	$	$ (347)	$	$ 364
ARK Real Estate Partners II LP	21			2		9
AviatorCap SII, LLC I	1,421		507		142	914
AviatorCap SII, LLC II	1,358		1,008		81	350
Crystal Financial LLC	297,500				31,600	290,000
National Specialty Alloys LLC				198		
RD Holdco Inc. (Rug Doctor, common equity).	16,263					14,335
RD Holdco Inc. (Rug Doctor, class B)	5,216					5,216
RD Holdco Inc. (Rug Doctor, warrants)	290					214
Rug Doctor LLC	9,020				1,226	8,838
Senior Secured Unitranche Loan Program LLC		80,660			229	80,677
SOAGG LLC	13,564	469	5,161		823	8,632
SOINT, LLC	8,733		3,029		1,173	5,705
SOINT, LLC (preferred equity)	9,533				1,299	9,316
	$ 363,804	$ 81,129	$ 9,705	$ (147)	$ 36,573	$ 424,570

(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 year ended December 31, 2015 in these affiliated investments are as follows:

Name of Issuer	Fair Value at December 31, 2014	Gross Additions	Gross Reductions	Realized Gain (Loss)	Interest/ Dividend Income	Fair Value at December 31, 2015
Direct Buy Inc. (common equity)	$	$	$	$	$	$
Direct Buy Inc. (senior secured loan)	4,646	1,100				1,233
DSW Group Holdings LLC				(1,163)		
	$ 4,646	$ 1,100	$	$ (1,163)	$	$ 1,233

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

See notes to consolidated financial statements.

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SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2015

(in thousands)

(6) Indicates assets that the Company believes may not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940 (1940 Act), as amended. If we fail to invest a sufficient portion of our assets in qualifying assets, we could be prevented from making follow-on investments in existing portfolio companies or could be required to dispose of investments at inappropriate times in order to comply with the 1940 Act. As of December 31, 2015, on a fair value basis, non-qualifying assets in the portfolio represented 27.2% of the total assets of the Company.
(7) Solar Capital Ltd. s investments in SOAGG, LLC and SOINT, LLC include a two and one dollar investment in common shares, respectively.
(8) Bishop Lifting Products, Inc., SEI Holding I Corporation, Singer Equities, Inc. & Hampton Rubber Company are co-borrowers.
(9) Investment represents the operating company after consolidation of the holding company Crystal Capital Financial Holdings LLC.
(10) Aggregate net unrealized depreciation for U.S. federal income tax purposes is $42,562; aggregate gross unrealized appreciation and depreciation for federal tax purposes is $16,563 and $59,125, respectively, based on a tax cost of $1,355,153. All of the Company s investments are pledged as collateral against the borrowings outstanding on the revolving credit facilities.
(11) Floating rate instruments accrue interest at a predetermined spread relative to an index, typically the LIBOR or PRIME rate. These instruments are typically subject to a LIBOR or PRIME rate floor.
* Non-income producing security.
** Investment is on non-accrual status.
Represents estimated change in receivable balance.

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2015
Diversified Financial Services	22.1%
Health Care Providers & Services	11.9%
Asset Management	7.3%
Wireless Telecommunications Services	6.2%
IT Services	4.5%
Professional Services	4.5%
Internet Software & Services	3.7%
Multi-Sector Holdings	3.6%
Health Care Equipment & Supplies	3.6%
Health Care Technology	3.2%
Pharmaceuticals	3.2%
Building Products	3.0%
Trading Companies & Distributors	3.0%
Consumer Finance	2.4%
Aerospace & Defense	2.3%
Diversified Consumer Services	2.2%
Insurance	2.0%
Chemicals	1.9%
Software	1.5%
Health Care Facilities	1.4%
Communications Equipment	1.4%
Life Sciences Tools & Services	1.2%
Air Freight & Logistics	1.0%
Media	1.0%
Construction & Engineering	1.0%
Thrifts & Mortgage Finance	0.7%
Industrial Conglomerates	0.1%

Multiline Retail	0.1%
Research & Consulting Services	0.0%
Diversified Real Estate Activities	0.0%
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, 2016

(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 , we , us or our), a Maryland corporation formed in November 2007, is a closed-end, externall 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, the Company s senior 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 leveraged middle market companies in the form of senior secured loans, unitranche loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded.

Note 2. Significant Accounting Policies

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (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 consolidated 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 consolidated 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 periods. Changes in the economic environment, financial markets and any other

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

March 31, 2016

(in thousands, except share amounts)

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, 2016.

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 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 for all material assets;

(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)

March 31, 2016

(in thousands, except share amounts)

Investments are valued utilizing a market approach, an income approach, or both approaches, as appropriate. However, in accordance with ASC 820-10, certain investments that qualify as investment companies in accordance with ASC 946, may be valued using net asset value as a practical expedient as fair value. 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 three months ended March 31, 2016, 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 effective 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 call premiums received on loans repaid as interest income when we receive such amounts. Capital structuring fees, amendment fees, consent fees, and any other non-recurring fee income as well as management fee and other fee income for services rendered, if any, are recorded as other 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 U.S. 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.

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(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 consolidates 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) (see note 6 and 8), in accordance with ASC 825-10. The Company uses an independent third-party valuation firm to assist in measuring their fair value.

(k) In accordance with ASC 835-30, the Company records origination and other expenses related to certain debt issuances as a direct deduction from the carrying amount of the debt liability. 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 typically charged as a reduction of capital upon utilization, in accordance with ASC 946-20-25 or expensed per the AICPA Audit & Accounting Guide for Investment Companies.

(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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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.

(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 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.

Recent Accounting Pronouncements

In February 2015, the FASB issued Accounting Standards Update (ASU) 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis. The update changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. Public companies are required to apply ASU 2015-02 for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-02 on its consolidated financial statements and determined that the adoption of ASU 2015-02 has not had a material impact on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest Imputation of Interest (Subtopic 835-30) Simplifying the Presentation of Debt Issuance Costs. The update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Public companies are required to apply ASU 2015-03 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-03 on its consolidated financial statements and determined that the adoption of ASU 2015-03 has not had a material impact on our consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). The update eliminates the requirement to categorize investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB s fair value measurement guidance. Public companies are required to apply ASU 2015-07 retrospectively for interim and annual reporting periods beginning after December 15, 2015. Accordingly, the Company has evaluated the impact of ASU 2015-07 on its consolidated financial statements and determined that the adoption of ASU 2015-07 has not had a material impact on our consolidated financial statements.

Note 3. Agreements

Solar Capital has an Advisory 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%. 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

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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.

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 or losses, or unrealized capital appreciation or 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). 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 Advisory 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, 2016 and 2015.

For the three months ended March 31, 2016 and 2015, the Company recognized $6,748 and $5,865, respectively, in base management fees and $4,030 and $0, respectively, in performance-based incentive fees. For the three months ended March 31, 2016 and 2015, $795 and $0, respectively, of such performance-based incentive fees were waived. The voluntary fee waiver for the three months ended March 31, 2016 was made at the Investment Adviser s discretion and is subject to recapture by the Investment Adviser and reimbursement by the Company should net investment income during and/or for fiscal 2016 equal or exceed distributions declared in fiscal 2016.

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.

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For the three months ended March 31, 2016 and 2015, the Company recognized expenses under the Administration Agreement of $1,319 and $1,039, respectively. No managerial assistance fees were accrued or collected for the three months ended March 31, 2016 and 2015.

Note 4. Net Asset Value Per Share

At March 31, 2016, the Company s total net assets and net asset value per share were $890,567 and $21.08, respectively. This compares to total net assets and net asset value per share at December 31, 2015 of $882,698 and $20.79, 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 months ended March 31, 2016 and 2015:

	Three months ended March 31, 2016	Three months ended March 31, 2015
Earnings per share (basic & diluted)		
Numerator net increase in net assets resulting from operations:	$ 28,177	$ 10,899
Denominator weighted average shares:	42,287,207	42,465,162
Earnings per share:	$ 0.67	$ 0.26

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;

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.

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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 March 31, 2016 and December 31, 2015:

Fair Value Measurements

As of March 31, 2016

	Level 1	Level 2	Level 3	Measured at Net Asset Value*	Total
Assets:					
Bank Debt/Senior Secured Loans	$	$ 39,468	$ 808,584	$	$ 848,052
Subordinated Debt/Corporate Notes			72,876		72,876
Preferred Equity			17,625		17,625
Common Equity/Equity Interests/Warrants	399		317,920	80,980	399,299
Total Investments	$ 399	$ 39,468	$ 1,217,005	$ 80,980	$ 1,337,852
Liabilities:					
Credit Facility and Senior Secured Notes	$	$	$ 347,400	$	$ 347,400

* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient as fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities.

Fair Value Measurements

As of December 31, 2015

	Level 1	Level 2	Level 3	Measured at Net Asset Value*	Total
Assets:					
Bank Debt/Senior Secured Loans	$	$ 35,745	$ 800,291	$	$ 836,036
Subordinated Debt/Corporate Notes			67,314		67,314
Preferred Equity			17,948		17,948
Common Equity/Equity Interests/Warrants	377		310,239	80,677	391,293
Total Investments	$ 377	$ 35,745	$ 1,195,792	$ 80,677	$ 1,312,591
Liabilities:					
Credit Facility and Senior Secured Notes	$	$	$ 332,900	$	$ 332,900

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* In accordance with ASC 820-10, certain investments that are measured using the net asset value per share (or its equivalent) as a practical expedient as fair value have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Statements of Assets and Liabilities.

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, 2016 and the year ended December 31, 2015 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, 2016 and December 31, 2015:

Fair Value Measurements Using Level 3 Inputs

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Equity Interests/ Warrants
Fair value, December 31, 2015	$ 800,291	$ 67,314	$ 17,948	$ 310,239
Total gains or losses included in earnings:				
Net realized gain (loss)				
Net change in unrealized gain (loss)	(4,167)	5,510	(160)	7,518
Purchase of investment securities	42,138	52		163
Proceeds from dispositions of investment securities	(29,678)		(163)	
Transfers in/out of Level 3				
Fair value, March 31, 2016	$ 808,584	$ 72,876	$ 17,625	$ 317,920
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)	$ (4,164)	$ 5,510	$ (160)	$ 7,518

During the three months ended March 31, 2016, there were no transfers in and out of Levels 1 and 2.

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, 2016:

Credit Facility and Senior Secured Notes	For the three months ended March 31, 2016
Beginning fair value	$ 332,900
Net realized (gain) loss	
Net change in unrealized (gain) loss	
Borrowings	114,000

Repayments		(99,500)
Transfers in/out of Level 3		
Ending fair value	$	347,400

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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 March 31, 2016, there were borrowings of $272,400 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

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Equity Interests/ Warrants
Fair value, December 31, 2014	$ 521,791	$ 76,140	$ 23,097	$ 320,424
Total gains or losses included in earnings:				
Net realized gain (loss)	(4,823)			(415)
Net change in unrealized gain (loss)	(18,805)	(9,021)	(457)	(9,418)
Purchase of investment securities	418,759	195	469	229
Proceeds from dispositions of investment securities	(116,631)		(5,161)	(581)
Transfers in/out of Level 3				
Fair value, December 31, 2015	$ 800,291	$ 67,314	$ 17,948	$ 310,239
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)	$ (23,917)	$ (9,021)	$ (457)	$ (9,410)

During the year ended December 31, 2015, there were no transfers in and out of Levels 1 and 2.

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, 2015:

Credit Facility and Senior Secured Notes	For the year ended December 31, 2015
Beginning fair value	$ 125,000
Net realized (gain) loss	
Net change in unrealized (gain) loss	
Borrowings	418,800
Repayments	(210,900)
Transfers in/out of Level 3	

Ending fair value	$	332,900

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, 2015, there were borrowings of $257,900 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.

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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, returns on equity 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 March 31, 2016 is summarized in the table below:

	Asset or Liability	Fair Value at March 31, 2016	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt/Senior Secured Loans	Asset	$ 808,076	Yield Analysis	Market Yield	5.7% 19.8% (10.9%)
		$ 508	Enterprise Value	EBITDA Multiple	4.5x 5.0x (4.5x)
Subordinated Debt/Corporate Note	Asset	$ 72,876	Yield Analysis	Market Yield	12.8% 15.5% (14.5%)
Preferred Equity	Asset	$ 17,625	Yield Analysis	Market Yield	8.0% 11.5% (9.9%)
Common Equity/Equity Interests/Warrants	Asset	$ 24,420	Enterprise Value	EBITDA Multiple	5.5x 6.5x (6.3x)
		$ 293,500	Enterprise Value	Return on Equity	7.3% 14.0% (10.1%)
Credit Facility	Liability	$ 272,400	Yield Analysis	Market Yield	L+1.5% L+4.8% (L+2.3%)
Senior Secured Notes	Liability	$ 75,000	Yield Analysis	Market Yield	5.6% 6.4% (5.9%)

Quantitative information about the Company s Level 3 asset and liability fair value measurements as of December 31, 2015 is summarized in the table below:

	Asset or Liability	Fair Value at December 31, 2015	Principal Valuation Technique/Methodology	Unobservable Input	Range (Weighted Average)
Bank Debt/Senior Secured Loans	Asset	$ 799,058	Yield Analysis	Market Yield	5.5% 19.5% (11.0%)
		$ 1,233	Enterprise Value	EBITDA Multiple	4.5x 5.0x (4.5x)
Subordinated Debt/Corporate Note	Asset	$ 67,314	Yield Analysis	Market Yield	13.2% 26.1% (20.8%)
Preferred Equity	Asset	$ 17,948	Yield Analysis	Market Yield	8.0% 11.5% (9.8%)
Common Equity/Equity Interests/Warrants	Asset	$ 20,239	Enterprise Value	EBITDA Multiple	5.6x 6.8x (6.1x)

		$	290,000	Enterprise Value	Return on Equity	7.0%	13.8%	(11.0%)
Credit Facility	Liability	$	257,900	Yield Analysis	Market Yield	L+0.5%	L+4.8%	(L+2.3%)
Senior Secured Notes	Liability	$	75,000	Yield Analysis	Market Yield	5.6%	6.1%	(5.9%)

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.

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Note 7. Derivatives

The Company is 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.

As of March 31, 2016 and December 31, 2015, there were no open forward foreign currency contracts outstanding. The Company also had no derivatives designated as hedging instruments at March 31, 2016 and December 31, 2015.

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. 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 March 31, 2016, outstanding USD equivalent borrowings under the Credit Facility totaled $272,400.

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.

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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. ASC 825-10 requires entities to display the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the Credit Facility are reported in the Consolidated Statements of Operations.

The average annualized interest cost for all borrowings for the three months ended March 31, 2016 and the year ended December 31, 2015 was 4.20% and 5.13%, 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 three months ended March 31, 2016 and the year ended December 31, 2015 were $472,900 and $434,900, respectively.

Note 9. Financial Highlights and Senior Securities Table

The following is a schedule of financial highlights for the three months ended March 31, 2016 and for the year ended December 31, 2015:

	Three months ended March 31, 2016 (unaudited)	Year ended December 31, 2015
Per Share Data: [a]		
Net asset value, beginning of year	$ 20.79	$ 22.05
Net investment income	0.40	1.52
Net realized and unrealized gain (loss)	0.26	(1.18)
Net increase in net assets resulting from operations	0.66	0.34
Distributions to stockholders:		
From net investment income	(0.40)	(1.60)
Anti-dilution	0.03	
Net asset value, end of period	$ 21.08	$ 20.79
Per share market value, end of period	$ 17.28	$ 16.43
Total Return [b]	7.61%	(0.29)%
Net assets, end of period	$ 890,567	$ 882,698
Shares outstanding, end of period	42,248,525	42,464,762
Ratios to average net assets [c]:		
Net investment income	1.92%	6.94%
Operating expenses	1.38%*	3.84%*
Interest and other credit facility expenses	0.57%	1.68%

Total expenses	1.95%*	5.52%*
Average debt outstanding	$ 450,241	$ 262,341
Portfolio turnover ratio	2.3%	13.0%

(a) Calculated using the average shares outstanding method.

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SOLAR CAPITAL LTD.

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(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.

* The ratio of operating expenses to average net assets and the ratio of total expenses to average net assets is shown net of a voluntary incentive fee waiver (see note 3). For the three months ended March 31, 2016, the ratios of operating expenses to average net assets and total expenses to average net assets would be 1.47% and 2.04%, respectively, without the voluntary incentive fee waiver. For the year ended December 31, 2015, the ratios of operating expenses to average net assets and total expenses to average net assets would be 4.02% and 5.70%, respectively, without the voluntary incentive fee waiver.

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SOLAR CAPITAL LTD.

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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 indicates information which the SEC expressly does not require to be disclosed for certain types of senior securities.

Class and Year	Total Amount Outstanding (1)	Asset Coverage Per Unit (2)	Involuntary Liquidating Preference Per Unit (3)	Average Market Value Per Unit (4)
Revolving Credit Facilities				
Fiscal 2016 (through March 31, 2016)	$ 222,400	$ 1,487		N/A
Fiscal 2015	207,900	1,459		N/A
Fiscal 2014				N/A
Fiscal 2013				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
Unsecured Senior Notes				
Fiscal 2016 (through March 31, 2016)	$ 100,000	$ 669		$ 978
Fiscal 2015	100,000	702		982
Fiscal 2014	100,000	2,294		943
Fiscal 2013	100,000	2,411		934
Fiscal 2012	100,000	571		923
Senior Secured Notes				
Fiscal 2016 (through March 31, 2016)	$ 75,000	$ 501		N/A
Fiscal 2015	75,000	527		N/A
Fiscal 2014	75,000	1,721		N/A
Fiscal 2013	75,000	1,808		N/A
Fiscal 2012	75,000	428		N/A
Term Loans				
Fiscal 2016 (through March 31, 2016)	$ 50,000	$ 334		N/A
Fiscal 2015	50,000	351		N/A
Fiscal 2014	50,000	1,147		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
Total Senior Securities				
Fiscal 2016 (through March 31, 2016)	$ 447,400	$ 2,991		N/A
Fiscal 2015	432,900	3,039		N/A
Fiscal 2014	225,000	5,162		N/A
Fiscal 2013	225,000	5,425		N/A
Fiscal 2012	489,452	2,794		N/A
Fiscal 2011	236,355	4,410		N/A

Fiscal 2010	435,000	2,901	N/A
Fiscal 2009	88,114	8,920	N/A

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

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(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. As of March 31, 2016, asset coverage was 299.1%.

(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. The average market value for the fiscal 2016, 2015, 2014, 2013 and 2012 periods was $97,772, $98,196, $94,301, $93,392, and $92,302, respectively.

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 (the Crystal Acquisition). 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. On May 18, 2015, the revolving credit facility was expanded to $350,000. Our financial statements, including our schedule of investments, reflect our investments in Crystal Financial on a consolidated basis.

As of March 31, 2016 Crystal Financial LLC had 32 funded commitments to 29 different issuers with a total par value of approximately $502,243 on total assets of $540,009. As of December 31, 2015, Crystal Financial LLC had 28 funded commitments to 26 different issuers with a total par value of approximately $465,128 on total assets of $518,288. As of March 31, 2016 and December 31, 2015, all loans were floating rate with the largest loan outstanding totaling $34,698 and $34,250, respectively. For the same periods, the average exposure per issuer was $17,319 and $17,890, respectively. Crystal Financial LLC s credit facility, which is non-recourse to Solar Capital, had approximately $261,188 and $232,922 of borrowings outstanding at March 31, 2016 and December 31, 2015, respectively. For the three months ended March 31, 2016 and 2015, Crystal Financial LLC had net income of $9,199 and $7,952, respectively, on gross income of $15,211 and $12,939, 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 Programs

On July 31, 2013, the Board authorized a program for the purpose of repurchasing up to $100,000 of the Company s common stock. Under the repurchase program, the Company could have, but was not obligated to, repurchase its outstanding common stock in the open market from time to time provided that the Company complied with the prohibitions under its Insider Trading Policies and Procedures and the guidelines specified in

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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 Board 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 had been repurchased. On July 31, 2014, the Company s stock repurchase program expired. During the fiscal year ended December 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 that period was $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.

On October 7, 2015, the Board authorized a new share repurchase program to purchase common stock in the open market in an amount up to $30,000. 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 of the Securities Exchange Act of 1934, as amended, including certain price, market volume and timing constraints. Unless amended or extended by the Board, the Company expects the repurchase program to be in place until the earlier of October 7, 2016 or until $30,000 of the Company s outstanding shares of common stock have been repurchased. During the three months ended March 31, 2016, the Company repurchased 216,237 shares at an average price of $15.76 per share, inclusive of commissions. This represented a discount of approximately 25.2% of the net asset value per share at March 31, 2016. The total dollar amount of shares repurchased in this period is $3,408, leaving a maximum of $26,586 available for future program purchases. During the year ended December 31, 2015, the Company repurchased 400 shares at an average price of $15.98 per share, inclusive of commissions, for a total dollar amount of $6.

Note 12. Commitments and Contingencies

The Company had unfunded debt and equity commitments to various delayed draw loans as well as to Crystal Financial LLC. The total amount of these unfunded commitments as of March 31, 2016 and December 31, 2015 is $60,000 and $65,833, respectively, comprised of the following:

	March 31, 2016	December 31, 2015
Crystal Financial LLC	$ 50,000	$ 50,000
Achaogen, Inc	10,000	10,000
AgaMatrix, Inc		3,333
CardioDx, Inc		2,500
Total Commitments*	$ 60,000	$ 65,833

* The Company controls the funding of the Crystal Financial LLC commitment and may cancel it at its discretion.

As of March 31, 2016 and December 31, 2015, the Company had sufficient cash available and/or liquid securities available to fund these commitments.

Note 13. Senior Secured Unitranche Loan Program LLC

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

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(in thousands, except share amounts)

investments and co-investment commitments as described below. The joint venture vehicle known as the Senior Secured Unitranche Loan Program LLC (SSLP) is structured as an unconsolidated Delaware limited liability company. The Company and the Investor 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).

On October 15, 2015, the Company entered into an amended and restated limited liability company agreement for its SSLP to add Voya Investment Management LLC (Voya), part of Voya Financial, Inc. (NYSE: VOYA), as a partner in SSLP in place of the investor that was previously the Company s partner in SSLP, though this investor may still co-invest up to $300,000 of equity in unitranche loans alongside SSLP. This joint venture is expected to invest primarily in senior secured unitranche loans to middle market companies predominantly owned by private equity sponsors or entrepreneurs, consistent with the Company s core origination and underwriting mandate. In addition to the Company s prior equity commitment of $300,000 to SSLP, Voya has made an initial equity commitment of $25,000 to SSLP, with the ability to upsize.

On November 2, 2015, the Company assigned $125,000 of its $300,000 commitment to SSLP to Senior Secured Unitranche Loan Program II LLC (SSLP II), a newly formed Delaware limited liability company. SSLP II is currently wholly owned by Solar Capital Ltd. but may bring in unaffiliated investors at a later date.

On November 25, 2015, SSLP commenced operations. As of March 31, 2016 and December 31, 2015, the Company and Voya contributed combined equity capital in the amount of $93,150 and $92,183, respectively. Of the $93,150 of contributed equity capital at March 31, 2016, the Company contributed $29,884 in the form of investments and $51,622 in the form of cash and Voya contributed $11,644 in the form of cash. As of March 31, 2016, the Company and Voya s remaining commitments to SSLP totaled $93,494 and $13,356, respectively. The Company, along with Voya, controls the funding of SSLP and SSLP may not call the unfunded commitments without approval of both the Company and Voya.

As of March 31, 2016 and December 31, 2015, SSLP had total assets of $94,426 and $92,528, respectively. For the same periods, SSLP s portfolio consisted of floating rate senior secured loans to 4 and 4 different borrowers, respectively. For the three months ended March 31, 2016, SSLP invested $967 in 1 portfolio company. For the period from November 25, 2015 through December 31, 2015, SSLP invested $91,833 across 4 portfolio companies. Investments prepaid totaled $189 for the three months ended March 31, 2016 and $75 for the period from November 25, 2015 through December 31, 2015. At March 31, 2016 and December 31, 2015, the weighted average yield of SSLP s portfolio was 8.1% and 8.5%, respectively, measured at fair value and 7.9% and 8.5%, respectively, measured at cost.

SSLP Portfolio as of March 31, 2016

Description	Industry	Interest Rate (1)	Maturity Date	Par Amount	Cost	Fair Value (2)
Falmouth Group Holdings Corp. (AMPAC) (3)	Chemicals	7.75%	12/14/21	$ 34,913	$ 34,408	$ 34,913
PSKW, LLC & PDR, LLC (3)	Health Care Providers & Services	5.25%	11/25/21	2,681	2,656	2,628
PSKW, LLC & PDR, LLC (3)	Health Care Providers & Services	9.41%	11/25/21	22,250	21,824	20,915
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	6.00%	12/31/19	19,757	19,572	19,559
VetCor Professional Practices LLC	Health Care Facilities	7.00%	4/20/21	14,130	14,130	13,848
					$ 92,590	$ 91,863

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SOLAR CAPITAL LTD.

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(1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), and which typically reset monthly, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of March 31, 2016.
(2) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
(3) The Company also holds a portion of this position on its Consolidated Statements of Assets and Liabilities.

SSLP Portfolio as of December 31, 2015 (audited)

Description	Industry	Interest Rate (1)	Maturity Date	Par Amount	Cost	Fair Value (2)
Falmouth Group Holdings Corp. (AMPAC) (3)	Chemicals	9.25%	12/14/21	$ 35,000	$ 34,478	$ 34,475
PSKW, LLC & PDR, LLC (3)	Health Care Providers & Services	5.25%	11/25/21	2,750	2,723	2,723
PSKW, LLC & PDR, LLC (3)	Health Care Providers & Services	9.42%	11/25/21	22,250	21,810	21,805
U.S. Anesthesia Partners Inc.	Health Care Providers & Services	6.00%	12/31/19	19,757	19,561	19,559
VetCor Professional Practices LLC	Health Care Facilities	7.00%	4/20/21	13,197	13,197	13,197
					$ 91,769	$ 91,759

(1) Floating rate debt investments typically bear interest at a rate determined by reference to either the London Interbank Offered Rate (LIBOR or L) index rate or the prime index rate (PRIME or P), 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, 2015.
(2) Represents the fair value in accordance with ASC Topic 820. The determination of such fair value is not included in the Board s valuation process described elsewhere herein.
(3) The Company also holds a portion of this position on its Consolidated Statements of Assets and Liabilities.

Below is certain summarized financial information for SSLP as of March 31, 2016 and December 31, 2015 and for the three months ended March 31, 2016:

	March 31, 2016	December 31, 2015 (audited)
Selected Balance Sheet Information for SSLP:		
Investments at fair value (cost $92,590 and $91,769, respectively)	$ 91,863	$ 91,759
Cash and other assets	2,564	769
Total assets	$ 94,427	$ 92,528
Distributions payable	$ 1,700	$ 253

Accrued expenses and other payables		178		72
Total liabilities	$	1,878	$	325
Members equity	$	92,549	$	92,203
Total liabilities and members equity	$	94,427	$	92,528

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		For the three months ended March 31, 2016
Selected Income Statement Information for SSLP:		
Interest income	$	1,846
Service fees	$	15
Other general and administrative expenses		35
Total expenses	$	50
Net investment income	$	1,796
Net change in unrealized gain (loss) on investments		(717)
Net income	$	1,079

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 April 28, 2016, the Company completed the purchase of senior secured first lien life sciences loans to 14 companies with an aggregate par amount of approximately $74,377.

On May 3, 2016, our Board declared a quarterly distribution of $0.40 per share payable on July 1, 2016 to holders of record as of June 23, 2016.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

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 March 31, 2016, the related consolidated statements of operations for the three-month periods ended March 31, 2016 and 2015, the related consolidated statement of changes in net assets for the three-month period ended March 31, 2016, and the related consolidated statements of cash flows for the three-month periods ended March 31, 2016 and 2015. These consolidated financial statements are the responsibility of the Company s management.

We conducted our review 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 review, 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 consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd., as of December 31, 2015 and the related consolidated statements of operations, changes in net assets, and cash flows for the year ended December 31, 2015, and in our report dated February 24, 2016, we expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

May 3, 2016

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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 consolidated 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 actu 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.

Solar Capital Ltd. (Solar Capital , the Company , we or our), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated 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 the Financial Accounting Standards Board (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).

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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 $5 million