

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the Quarter Ended September 30, 2010

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Commission File Number: 814-00754

**SOLAR CAPITAL LTD.**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or Incorporation)

**26-1381340**  
(I.R.S. Employer  
Identification No.)

**500 Park Avenue, 5<sup>th</sup> Floor**  
**New York, N.Y.**  
(Address of principal executive offices)

**10022**  
(Zip Code)

**(212) 993-1670**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of the registrant's Common Stock, \$.01 par value, outstanding as of November 2, 2010 was 33,270,844.

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**SOLAR CAPITAL LTD.**  
**FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2010**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders  
Solar Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. (the Company) as of September 30, 2010, and the related consolidated statements of operations for the three and nine-month periods ended September 30, 2010 and 2009, changes in net assets for the nine-month period ended September 30, 2010 and cash flows for the nine-month periods ended September 30, 2010 and 2009, and the financial highlights (included in Note 11) for the nine-month period ended September 30, 2010. These consolidated financial statements and financial highlights are the responsibility of the Company's management.

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

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

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

/s/ KPMG LLP  
New York, New York  
November 2, 2010

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**  
**(in thousands, except shares)**

	September 30, 2010 (unaudited)	December 31, 2009
<b>Assets</b>		
Investments at value:		
Companies more than 25% owned (cost: \$10,000 and \$10,000, respectively)	\$ 10,000	\$ 9,000
Companies 5% to 25% owned (cost: \$34,806 and \$85,102, respectively)	24,966	93,423
Companies less than 5% owned (cost: \$986,352 and \$968,886, respectively)	871,013	760,717
Total investments (cost: \$1,031,158 and \$1,063,988, respectively)	905,979	863,140
Cash and cash equivalents	334,375	5,675
Receivable for investments sold	10,204	—
Interest and dividends receivable	9,408	7,547
Deferred borrowing costs	4,940	914
Fee revenue receivable	4,573	5,824
Deferred offering costs	—	1,478
Derivative assets	—	294
Prepaid expenses and other receivables	858	549
<b>Total Assets</b>	<u>1,270,337</u>	<u>885,421</u>
<b>Liabilities</b>		
Payable for investment purchased	38,490	—
Credit facility payable	300,000	88,114
Term loan payable	35,000	—
Senior unsecured notes payable	125,000	—
Dividends payable	19,901	—
Distributions payable	—	75,136
Due to Solar Capital Partners LLC:		
Investment advisory and management fee payable	4,607	8,663
Performance-based incentive fee payable	3,887	8,517
Deferred fee revenue	1,790	3,532
Interest payable	1,969	153
Derivative liabilities	3,725	25
Due to Solar Capital Management LLC	727	912
Income taxes payable	801	535
Other accrued expenses and payables	1,843	1,931
<b>Total Liabilities</b>	<u>537,740</u>	<u>187,518</u>
<b>Net Assets</b>		
Partners' capital	—	697,903
Common stock, par value \$0.01 per share 33,168,872 shares issued and outstanding	331	—
Paid in capital in excess of par	670,783	—
Distributions in excess of net investment income	(5,002)	—
Accumulated net realized gain	646	—
Net unrealized appreciation	65,839	—
<b>Total Net Assets</b>	<u>\$ 732,597</u>	<u>\$ 697,903</u>
Number of shares outstanding	33,168,872	32,860,454
<b>Net Asset Value Per Share</b>	\$ 22.09	\$ 21.24

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(in thousands, except shares)

	Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
<b>INVESTMENT INCOME:</b>				
Interest and dividends:				
Companies more than 25% owned	\$ 300	\$ —	\$ 300	\$ —
Companies 5% to 25% owned	—	2,320	7,619	6,877
Other interest and dividend income	29,103	25,465	85,078	74,337
Total interest and dividends	29,403	27,785	92,997	81,214
<b>Total investment income</b>	<b>29,403</b>	<b>27,785</b>	<b>92,997</b>	<b>81,214</b>
<b>EXPENSES:</b>				
Investment advisory and management fees	4,607	4,273	13,404	12,348
Performance-based incentive fee	3,887	4,096	12,958	12,395
Interest and other credit facility expenses	3,943	536	10,540	1,565
Administrative service fee	387	479	1,098	1,512
Other general and administrative expenses	972	1,947	2,978	3,590
Total operating expenses	13,796	11,331	40,978	31,410
<b>Net investment income before income tax expense</b>	<b>15,607</b>	<b>16,454</b>	<b>52,019</b>	<b>49,804</b>
Income tax expense (benefit)	56	71	191	227
<b>Net investment income</b>	<b>15,551</b>	<b>16,383</b>	<b>51,828</b>	<b>49,577</b>
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, FORWARD CONTRACTS AND FOREIGN CURRENCIES:</b>				
Net realized gain (loss):				
Investments:				
Companies more than 25% owned	—	(30)	—	(30)
Companies 5% to 25% owned	—	—	16,397	—
Companies less than 5% owned	(24)	(151,239)	(44,233)	(227,161)
Net realized loss on investments	(24)	(151,269)	(27,836)	(227,191)
Forward contracts	(8,832)	(1,844)	916	(9,674)
Foreign currency exchange	—	(284)	3,531	(751)
<b>Net realized loss</b>	<b>(8,856)</b>	<b>(153,397)</b>	<b>(23,389)</b>	<b>(237,616)</b>
Net change in unrealized gain (loss):				
Investments:				
Companies more than 25% owned	1,000	(800)	1,000	(3,900)
Companies 5% to 25% owned	(81)	613	(18,161)	2,828
Companies less than 5% owned	14,023	176,026	92,911	239,012
Net change unrealized gain on investments	14,942	175,839	75,750	237,940
Forward contracts	(669)	1,726	(3,995)	(963)
Foreign currency exchange	41	(1,987)	(667)	(1,958)
<b>Net change in unrealized gain</b>	<b>14,314</b>	<b>175,578</b>	<b>71,088</b>	<b>235,019</b>
<b>Net realized and unrealized gain (loss) on investments, forward contracts and foreign currencies</b>	<b>5,458</b>	<b>22,181</b>	<b>47,699</b>	<b>(2,597)</b>
<b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>	<b>\$ 21,009</b>	<b>\$ 38,564</b>	<b>\$ 99,527</b>	<b>\$ 46,980</b>
Earnings per share (see note 10)	\$ 0.63	\$ 1.17	\$ 3.02	\$ 1.43

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS**  
**(in thousands, except shares)**

	Nine months ended September 30, 2010 (unaudited)	Year ended December 31, 2009
<b>Increase (Decrease) in net assets resulting from operations:</b>		
Net investment income	\$ 51,828	\$ 67,262
Net realized loss	(23,389)	(264,898)
Net change in unrealized gain	71,088	284,572
<b>Net increase in net assets resulting from operations</b>	<u>99,527</u>	<u>86,936</u>
<b>Dividends and distributions declared</b>	<u>(50,915)</u>	<u>(241,706)</u>
<b>Capital transactions:</b>		
Proceeds from shares sold	116,198	—
Common stock offering costs	(10,047)	—
Senior notes issued in Solar Capital Merger	(125,000)	—
Reinvestment of dividends	4,931	—
<b>Net decrease in net assets resulting from capital transactions</b>	<u>(13,918)</u>	<u>—</u>
<b>Net increase (decrease) in net assets</b>	<u>34,694</u>	<u>(154,770)</u>
Net assets at beginning of period	697,903	852,673
Net assets at end of period	<u>\$ 732,597</u>	<u>\$ 697,903</u>

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands except shares)

	Nine months ended <u>September 30, 2010</u> (unaudited)	Nine months ended <u>September 30, 2009</u> (unaudited)
<b>Cash Flows from Operating Activities:</b>		
Net increase in net assets from operations	\$ 99,527	\$ 46,980
Adjustments to reconcile net increase (decrease) in net assets from operations to net cash provided by operating activities:		
Net realized loss from investments	27,836	227,191
Net realized gain from foreign currency exchange on borrowings	(3,536)	—
Net change in unrealized gain on investments	(75,750)	(237,940)
Net change in forward contracts	3,995	964
<b>(Increase) decrease in operating assets:</b>		
Purchase of investment securities	(217,663)	(124,675)
Proceeds from disposition of investment securities	222,738	111,245
Receivable for investments sold	(10,204)	(7,256)
Interest and dividends receivable	(1,861)	1,625
Deferred borrowing costs	(4,026)	321
Fee revenue receivable	1,251	(294)
Deferred offering costs	1,478	(266)
Foreign tax receivable	—	101
Withholding tax receivable	—	(3,106)
Prepaid expenses and other receivables	(309)	(529)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments purchased	38,490	—
Investment advisory and management fee payable	(4,056)	(1,021)
Performance-based incentive fee payable	(4,630)	(1,409)
Deferred fee revenue	(1,742)	(652)
Interest payable	1,816	346
Due to Solar Capital Management LLC	(185)	(257)
Income taxes payable	266	(953)
Other accrued expenses and payables	(88)	1,370
<b>Net Cash Provided by Operating Activities</b>	<u>73,347</u>	<u>11,785</u>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from shares sold	116,198	—
Common stock offering costs	(10,047)	—
Cash dividends paid	(26,083)	—
Cash distributions paid	(75,136)	(85,198)
Proceeds from borrowings on the term loan	35,000	—
Proceeds from borrowings on credit facility	394,000	142,483
Repayments of borrowings on credit facility	(178,579)	(116,900)
<b>Net Cash Used in Financing Activities</b>	<u>255,353</u>	<u>(59,615)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	328,700	(47,830)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	5,675	65,841
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 334,375</u>	<u>\$ 18,011</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for interest	\$ 1,773	\$ 128
Cash paid for income taxes	\$ 18	\$ 1,180
<b>Non-cash financing activity:</b>		
Distributions payable	\$ —	\$ 81,508
Dividends payable	\$ 19,901	\$ —
Reinvestment of dividends	\$ 4,931	\$ —
Issuance of Senior Notes	\$ 125,000	\$ —

See notes to consolidated financial statements.

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**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**September 30, 2010**  
**(in thousands, except shares)**  
**(unaudited)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans - 20.5%</b>						
Asurion Corporation	Insurance	6.76	7/3/2015	\$ 52,000	\$ 51,951	\$ 49,849
Classic Cruises Holdings (5)	Leisure, Motion Pictures, Entertainment	10.11	1/31/2015	26,000	25,446	22,750
Emdeon Business Services LLC	Healthcare, Education, and Childcare	5.26	5/16/2014	15,000	15,093	14,595
Fulton Holding Corp	Retail Stores	13.83	5/28/2016	35,000	33,916	35,000
Ram Energy Resources, Inc.	Oil & Gas	12.75	11/29/2012	13,098	13,055	12,312
Roundy's Supermarkets, Inc.	Grocery	10.00	4/16/2016	22,000	21,594	22,433
ViaWest, Inc.	Personal, Food and Misc. Services	13.50	5/20/2016	29,639	28,797	28,750
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 192,737</b>	<b>\$189,852</b>	<b>\$185,689</b>
<b>Subordinated Debt/Corporate Notes - 73.0%</b>						
Ares Capital Corporation	Finance	6.00	4/1/2012	\$ 15,393	\$ 11,534	\$ 15,662
Ares Capital Corporation	Finance	6.63	7/15/2011	14,500	11,603	14,790
Adams Outdoor Advertising	Diversified / Conglomerate Service	13.50	6/20/2011	40,000	39,681	37,600
Adams Outdoor Advertising	Diversified / Conglomerate Service	10.88	6/20/2011	17,237	17,312	15,910
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.29	6/13/2012	25,390	25,189	22,343
Booz Allen	Aerospace & Defense	13.00	7/31/2016	36,355	35,785	37,173
Direct Buy Inc.	Home and Office Furnishing, Consumer Products	16.00	5/30/2013	37,714	37,325	34,263
DS Waters	Beverage, Food, and Tobacco	14.00	4/24/2012	110,514	109,877	108,304
Earthbound	Farming & Agriculture	15.25	7/20/2016	40,000	39,000	40,400
Fleetpride Corporation	Cargo Transport	11.50	10/1/2014	43,000	43,126	40,528
FreedomRoads	Automobile	16.00	6/20/2011	27,500	27,346	26,758
Grakon, LLC (12)	Machinery	14.00	6/19/2013	20,815	18,620	5,101
Iglo Birds Eye Group Limited (3)(4)	Beverage, Food, and Tobacco	11.79	11/3/2016	5,073	5,001	5,050
Iglo Birds Eye Group Limited (3)(4)	Beverage, Food, and Tobacco	11.32	11/3/2016	12,299	15,077	12,375
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00	4/28/2014	19,064	18,468	17,635
Midcap Financial Intermediate Holdings, LLC (18)	Banking	14.25	7/9/2015	75,000	73,153	73,125
ProSieben Sat.1 Media AG (3)(8)	Broadcasting & Entertainment	8.14	3/6/2017	21,484	19,383	13,037
Rug Doctor L.P.	Personal, Food and Misc. Services	14.95	10/31/2014	49,346	47,354	46,879
Seven Media Group Pty Limited (3)	Broadcasting & Entertainment	11.18	12/29/2013	19,573	16,328	18,888
Seven Media Group Pty Limited (3)	Broadcasting & Entertainment	12.00	12/29/2013	7,420	5,283	6,601
Shoes for Crews, LLC	Textiles and Leather	13.75	7/23/2016	15,650	15,233	15,220
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25	8/2/2013	22,761	22,660	19,802
Wastequip, Inc. (12)	Containers, Packaging and Glass	13.00	2/5/2015	16,475	14,401	—
Weetabix Group (3)(7)	Beverage, Food, and Tobacco	10.53	9/14/2016	14,697	17,088	11,390
Weetabix Group (3)(7)	Beverage, Food, and Tobacco	9.96	5/7/2017	29,939	36,878	22,455
<b>Total Subordinated Debt/Corporate Notes</b>				<b>\$ 737,199</b>	<b>\$722,705</b>	<b>\$661,289</b>

See notes to consolidated financial statements.



**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**September 30, 2010**  
**(in thousands, except shares)**  
**(unaudited)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Preferred Equity - 0.1%</b>						
Wyle Laboratories	Aerospace & Defense	8.00	7/17/2015	\$ 387	\$ 39	\$ 42
<b>Total Preferred Equity</b>				<b>\$ 387</b>	<b>\$ 39</b>	<b>\$ 42</b>
<b>Common Equity / Partnership Interests / Warrants - 6.4%</b>						
Ark Real Estate Partners LP (9)(11)	Real Estate			34,806,121	\$ 34,806	\$ 24,966
Direct Buy Inc.	Home and Office Furnishing, Consumer Products			5,000,000	5,000	2,500
Global Garden Products (3)(6)	Farming & Agriculture			146,983	—	—
Grakon, LLC	Machinery			1,714,286	1,714	—
Great American Group Inc. (13)	Personal, Food and Misc. Services			572,800	2,681	258
Great American Group Inc. (14)	Personal, Food and Misc. Services			187,500	3	84
Great American Group Inc. (15)	Personal, Food and Misc. Services			125,000	—	—
National Specialty Alloys, LLC(10)	Mining, Steel, Iron, and Nonprecious Metals			1,000,000	10,000	10,000
Nuveen Investments, Inc.	Finance			3,000,000	30,000	6,000
NXP Semiconductors N.V. (16)	Electronics			1,139,081	31,057	12,251
NXP Semiconductors N.V. (17)	Electronics			12,058	—	—
Seven Media Group Pty Limited (3)	Broadcasting & Entertainment			4,285,714	3,301	2,900
<b>Total Common Equity/Partnerships Interests / Warrants</b>					<b>\$ 118,562</b>	<b>\$ 58,959</b>
<b>Total Investments</b>					<b>\$1,031,158</b>	<b>\$905,979</b>

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act. Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be "restricted securities" under the Securities Act.
- (2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of September 30, 2010.
- (3) The following entities are domiciled outside the United States and the investments are denominated in either Euro, British Pounds or Australian Dollars: Iglo Birds Eye Group Limited, Global Garden Products and Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; and Seven Media Group Pty Limited in Australia. All other investments are domiciled in the United States.
- (4) Solar Capital Ltd.'s investments in Iglo Birds Eye Group Limited are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (5) Solar Capital Ltd.'s investments in Classic Cruises Holdings are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (6) Solar Capital Ltd.'s investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (7) Solar Capital Ltd.'s investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (8) Solar Capital Ltd.'s investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (9) Solar Capital Ltd. has an unfunded commitment of \$9,946.
- (10) Denotes a Control Investment. "Control Investments" are defined in the 1940 Act as investments in those companies that the Company is deemed to "Control." Generally, under the 1940 Act, the Company is deemed to "Control" a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.
- (11) Denotes an Affiliate Investment. "Affiliate Investments" are investments in those companies that are "Affiliated Companies" of the Company, as defined in the 1940 Act, which are not "Control Investments." The Company is deemed to be an "Affiliate" of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.
- (12) Investment is on non-accrual status
- (13) Common Shares
- (14) Founders Shares
- (15) Contingent Founders Shares
- (16) Common Stock
- (17) Administrative agent to NXP management equity plan
- (18) Includes an unfunded commitment of \$35,000.

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**September 30, 2010**  
**(unaudited)**

<u>Industry Classification</u>	<u>Percentage of Total Investments (at fair value) as of September 30, 2010</u>
Beverage, Food, and Tobacco	18%
Personal, Food and Misc. Services	8%
Banking	8%
Aerospace & Defense	6%
Diversified / Conglomerate Service	6%
Insurance	6%
Leisure, Motion Pictures, Entertainment	5%
Broadcasting & Entertainment	5%
Cargo Transport	4%
Farming & Agriculture	4%
Home and Office Furnishing, Consumer Products	4%
Finance	4%
Retail Stores	4%
Automobile	3%
Real Estate	3%
Grocery	2%
Hotels, Motels, Inns & Gaming	2%
Textiles and Leather	2%
Healthcare, Education, and Childcare	2%
Oil & Gas	1%
Electronics	1%
Mining, Steel, Iron, and Nonprecious Metals	1%
Machinery	1%
	<u>100%</u>

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS**  
**December 31, 2009**  
**(in thousands, except shares)**

Description <sup>(1)</sup>	Industry	Interest <sup>(2)</sup>	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans – 18.8%</b>						
Affinity 1st Lien	Printing, Publishing, Broadcasting	12.75	3/31/2010	\$ 18,771	\$ 18,372	\$ 18,489
Asurion Corporation	Insurance	6.73	7/3/2015	55,000	54,939	51,700
Classic Cruises Holdings <sup>(5)</sup>	Leisure, Motion Pictures, Entertainment	10.02	1/31/2015	26,000	25,350	20,800
Emdeon Business Services LLC	Healthcare, Education, and Childcare	5.29	5/16/2014	15,000	15,112	14,400
National Interest Security Corporation <sup>(11)</sup>	Aerospace & Defense	15.00	6/11/2013	25,182	24,740	26,152
Ram Energy Resources, Inc.	Oil & Gas	12.75	11/29/2012	12,827	12,769	12,058
Wyle Laboratories	Aerospace & Defense	15.00	1/17/2015	20,000	19,614	19,900
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 172,780</b>	<b>\$170,896</b>	<b>\$163,499</b>
<b>Subordinated Debt/Corporate Notes – 74.4%</b>						
Allied Capital	Finance	6.00	4/1/2012	\$ 15,393	\$ 9,362	\$ 14,392
Allied Capital	Finance	6.63	7/15/2011	14,500	8,880	13,920
Adams Outdoor Advertising	Diversified / Conglomerate Service	13.50	6/20/2011	40,000	39,445	35,360
Adams Outdoor Advertising	Diversified / Conglomerate Service	10.88	6/20/2011	18,237	18,345	15,538
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.25	6/13/2012	24,383	24,106	20,433
Booz Allen	Aerospace & Defense	13.00	7/31/2016	43,000	42,220	43,000
Casema B.V. <sup>(3)</sup>	Telecommunications	9.73	9/13/2016	7,860	7,542	7,565
Casema B.V. <sup>(3)</sup>	Telecommunications	9.69	9/13/2016	8,478	8,135	8,109
Direct Buy Inc.	Home and Office Furnishing, Consumer Products	16.00	5/30/2013	36,593	36,092	31,104
DS Waters	Beverage, Food, and Tobacco	14.00	4/24/2012	99,565	98,664	95,085
Earthbound	Beverage, Food, and Tobacco	15.25	7/20/2016	40,000	38,875	39,800
Fleetpride Corporation	Cargo Transport	11.50	10/1/2014	43,000	43,145	38,754
FreedomRoads	Automotive	16.00	6/20/2011	27,500	27,076	25,603
Global Garden Products <sup>(3)(6)(12)</sup>	Farming & Agriculture	12.72	10/31/2016	19,674	20,136	—
Grakon, LLC <sup>(13)</sup>	Machinery	12.00	6/19/2013	20,403	19,306	5,101
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.99	11/3/2016	5,230	4,908	4,942
Iglo Birds Eye Group Limited <sup>(3)(4)</sup>	Beverage, Food, and Tobacco	8.52	11/3/2016	12,200	14,701	11,527
Jonathan Engineering Solutions Corp. <sup>(12)</sup>	Diversified/Conglomerate Manufacturing	16.50	6/29/2014	4,219	4,045	—
Jonathan Engineering Solutions Corp. <sup>(12)</sup>	Diversified/ Conglomerate Manufacturing	13.00	6/29/2014	10,641	10,614	—
Learning Care Group No.2, Inc	Healthcare, Education, and Childcare	13.50	12/28/2015	31,173	30,797	27,276
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00	4/28/2014	19,064	18,327	13,345
National Interest Security Corporation <sup>(11)</sup>	Aerospace & Defense	15.00	6/11/2013	30,539	30,229	31,303
Pacific Crane Maintenance Company, L.P. <sup>(12)</sup>	Machinery	13.00	2/15/2014	9,045	8,920	—
ProSieben Sat.1 Media AG <sup>(3)(8)(13)</sup>	Broadcasting & Entertainment	8.15	3/6/2017	21,437	19,804	5,505
Rug Doctor L.P.	Personal, Food and Misc. Services	14.94	10/31/2014	48,253	45,920	45,841
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	11.18	12/29/2013	18,086	16,328	16,278
Seven Media Group Pty Limited <sup>(3)</sup>	Broadcasting & Entertainment	12.00	12/29/2013	6,857	5,283	6,068
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25	8/2/2013	22,546	22,420	16,008
Wastequip, Inc. <sup>(13)</sup>	Containers, Packaging and Glass	12.00	2/5/2015	15,745	14,953	3,149
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	10.62	9/14/2016	13,627	16,335	9,879
Weetabix Group <sup>(3)(7)</sup>	Beverage, Food, and Tobacco	9.83	5/7/2017	29,211	34,948	20,447
Wire Rope Corporation (nka WireCo World Group)	Diversified/Conglomerate Manufacturing	11.00	2/8/2015	39,000	38,302	36,660
<b>Total Subordinated Debt/Corporate Notes</b>				<b>\$ 795,459</b>	<b>\$778,163</b>	<b>\$641,992</b>

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2009**  
**(in thousands, except shares)**

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

- (1) We generally acquire our investments in private transactions exempt from registration under the Securities Act. Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be “restricted securities” under the Securities Act.
- (2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2009.
- (3) The following entities are domiciled outside the United States: Casema B.V. and NXP Semiconductors Netherlands B.V. in The Netherlands; Iglo Birds Eye Group Limited, Global Garden Products and Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; and Seven Media Group Pty Limited in Australia. All other investments are domiciled in the United States.
- (4) Solar Capital LLC’s investments in Iglo Birds Eye Group Limited are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (5) Solar Capital LLC’s investments in Classic Cruises Holdings are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (6) Solar Capital LLC’s investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (7) Solar Capital LLC’s investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (8) Solar Capital LLC’s investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (9) Solar Capital LLC has an unfunded commitment of \$16,745.
- (10) Denotes a Control Investment. “Control Investments” are defined in the 1940 Act as investments in those companies that the Company is deemed to “Control.” Generally, under the 1940 Act, the Company is deemed to “Control” a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.
- (11) Denotes an Affiliate Investment. “Affiliate Investments” are investments in those companies that are “Affiliated Companies” of the Company, as defined in the 1940 Act, which are not “Control Investments.” The Company is deemed to be an “Affiliate” of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.
- (12) Investment is on non-accrual status.
- (13) Investments are current on all obligations with interest payments being applied to principal.
- (14) Common Shares
- (15) Founders Shares
- (16) Contingent Founders Shares

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**  
**December 31, 2009**

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

See notes to consolidated financial statements.

**SOLAR CAPITAL LTD.**  
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**Note 1. Organization**

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

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

Immediately prior to the initial public offering, through a series of transactions Solar Capital Ltd. merged with Solar Capital LLC, leaving Solar Capital Ltd. as the surviving entity (the “Merger”). Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125 million in Senior Unsecured Notes to the existing Solar Capital LLC unit holders in connection with the Merger. Solar Capital Ltd. had no assets or operations prior to completion of the Merger and as a result, the historical books and records of Solar Capital LLC have become the books and records of the surviving entity.

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

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

**Note 2. Significant Accounting Policies**

**Basis of Presentation** – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“GAAP”), and include the accounts of the Company and its wholly-owned subsidiary, Solar Capital Luxembourg I S.a.r.l., which was incorporated under the laws of the Grand Duchy of Luxembourg on April 26, 2007. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated.

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

Certain prior period amounts have been reclassified to conform to current period presentation. As required by ASC 260-10, the number of shares used to calculate weighted average shares for use in computations on a per share basis have been decreased retroactively by a factor of approximately 0.4022 for all periods prior to February 9, 2010. This factor represents the effective impact of the reduction in shares resulting from the Merger.

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

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

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

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

- 1) The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with senior management;
- 3) Third-party valuation firms are engaged by, or on behalf of, the Board to conduct independent appraisals and review management’s preliminary valuations and make their own independent assessment, for all material assets; and

- 4) The Board discusses valuations and determines the fair value of each investment in the portfolio in good faith based on the input of our investment adviser (note 4) and, where appropriate, the respective independent valuation firms.

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

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

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

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

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

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

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

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

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the nine months ended September 30, 2010, there was no U.S. Federal excise tax accrued.

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

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

**Dividends** – Dividends and distributions to common stockholders are recorded on the ex-dividend date. Quarterly dividend payments are determined by the Board and are generally based upon taxable earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although we may decide to retain such capital gains for investment.

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

**Foreign Currency Translation** – The accounting records of the Company are maintained in U.S. dollars. All assets and liabilities denominated in foreign currencies are translated into U.S. dollars based on the rate of exchange of such currencies against U.S. dollars on the date of valuation. The Company's investments in foreign securities may involve certain risks such as foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.

**Derivative Instruments and Hedging Activity** – In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities at their fair value on its Consolidated Statements of Assets and Liabilities. At this time, the Company does not document formal hedge relationships because the hedged items are recorded at fair value with realized and unrealized gains and losses recognized in current earnings. Realized and unrealized gains and losses



from derivatives are also

**SOLAR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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recorded in current earnings. Realized gains or losses from derivatives are recognized when contracts are settled. The Company primarily uses foreign exchange forward contracts to economically hedge its foreign currency risk. The fair value of foreign exchange forward contracts is determined by recognizing the difference between the contract exchange rate and the current market exchange rate. These fair values are recognized as either derivative assets or derivative liabilities in the Company’s Consolidated Statements of Assets and Liabilities. The Company may also borrow in foreign currencies on its multicurrency credit lines to reduce foreign currency exposure. Fluctuations in market values of assets and liabilities denominated in the same foreign currency offset in earnings providing a “natural” foreign currency hedge.

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

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

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

**Note 3. Investments**

Investments consisted of the following as of September 30, 2010 and December 31, 2009:

	September 30 2010 (unaudited)		December 31, 2009	
	Cost	Fair Value	Cost	Fair Value
Bank Debt / Senior Secured Loans	\$ 189,852	\$ 185,689	\$ 170,896	\$ 163,499
Subordinated Debt / Corporate Notes	722,705	661,289	778,163	641,992
Preferred Equity	39	42	39	40
Common Equity / Partnership Interests / Warrants	118,562	58,959	114,890	57,609
<b>Total</b>	<b><u>\$1,031,158</u></b>	<b><u>\$905,979</u></b>	<b><u>\$1,063,988</u></b>	<b><u>\$863,140</u></b>

As of September 30, 2010, the Company had two investments on non-accrual status with a total market value of \$5.1 million.

As of December 31, 2009, the Company had three investments on non-accrual status with a total market value of zero.

**Note 4. Agreements**

Solar Capital has an Investment Advisory and Management Agreement with Solar Capital Partners LLC (the “Investment Adviser”), under which the Investment Adviser will manage the day-to-day operations of, and provide investment advisory services to, Solar Capital. For providing these services, the Investment Adviser receives a fee from Solar Capital, consisting of two components—a base management fee and an incentive fee. The base management fee is determined by taking the average value of Solar Capital’s gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Solar Capital’s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus Solar Capital’s operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Solar Capital’s net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. Solar Capital pays the Investment Adviser an incentive fee with respect to Solar Capital’s pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Solar Capital’s pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Solar Capital’s pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Solar Capital’s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro-rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date), commencing on February 12, 2007, and will equal 20% of Solar Capital’s cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the advisor.

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

**SOLAR CAPITAL LTD.**  
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**Note 5. Derivatives**

The Company is exposed to foreign exchange risk through its investments denominated in foreign currencies. The Company mitigates this risk through the use of foreign currency forward contracts. As an investment company, all changes in the fair value of assets, including changes caused by foreign currency fluctuation, flow through current earnings. The forward contracts serve as an economic hedge with their realized and unrealized gains and losses also recorded in current earnings. The Company has no derivatives designated as hedging instruments. During the nine months ended September 30, 2010, the Company entered into 59 foreign currency forward contracts with durations of 1 month and an average U.S. dollar value of \$25,440. During the year ended December 31, 2009, the Company entered into 81 foreign currency forward contracts with durations of 1 to 3 months and an average U.S. dollar value of \$29,757.

As of September 30, 2010, there were three open forward foreign currency contracts denominated in Euro, Australian Dollar and British Pounds, all of which terminate on October 8, 2010. As of December 31, 2009, there were nine open forward foreign currency contracts denominated in Euro, Australian Dollar and British Pounds, six of which terminated on January 15, 2010 and three of which terminated on February 16, 2010. At September 30, 2010 and December 31, 2009, there was no fixed collateral held by counterparties for the open contracts and no credit-related contingent features associated with any of the open forward contracts. The contract details are as follows:

Purchase:	Counterparty	September 30, 2010 (unaudited)			December 31, 2009		
		Local Currency	USD Value	Unrealized appreciation (depreciation)	Local Currency	USD Value	Unrealized appreciation (depreciation)
USD / AUD	SunTrust Bank	30,405	\$ 27,778	\$ (1,618)	(734)	\$ 658	\$ 1
USD / AUD	SunTrust Bank				734	669	10
USD / AUD	SunTrust Bank				734	655	(1)
USD / EURO	SunTrust Bank	12,611	16,048	(1,151)	(317)	461	(7)
USD / EURO	SunTrust Bank				317	463	10
USD / EURO	SunTrust Bank				6,317	9,185	135
USD / GBP	SunTrust Bank	37,070	57,302	(956)	(825)	1,351	(17)
USD / GBP	SunTrust Bank				825	1,342	8
USD / GBP	SunTrust Bank				6,825	11,165	130
Total			<u>\$101,128</u>	<u>\$ (3,725)</u>		<u>\$ 25,949</u>	<u>\$ 269</u>

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

Fair Values of Derivative Instruments				
Derivative Assets				
September 30, 2010 (unaudited)				
	Balance Sheet Location	Fair Value		December 31, 2009
			Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments <sup>(a)</sup>				
Foreign exchange contracts	Derivative assets	—	Derivative assets	\$ 294
Total derivative assets		—		\$ 294
Derivative Liabilities				
September 30, 2010 (unaudited)				
	Balance Sheet Location	Fair Value		December 31, 2009
			Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments <sup>(a)</sup>				
Foreign exchange contracts	Derivative liabilities	\$ 3,725	Derivative liabilities	\$ 25
Total derivative liabilities		\$ 3,725		\$ 25

**SOLAR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**September 30, 2010**  
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Effect of Derivative Instruments on the Consolidated Statements of Operations

Derivatives not designated as hedging instruments <sup>(a)</sup>	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three months ended September 30, 2010 (unaudited)	Three months ended September 30, 2009 (unaudited)	Nine months ended September 30, 2010 (unaudited)	Nine months ended September 30, 2009 (unaudited)
		Foreign exchange contracts	Realized gain (loss):		
	Forward contracts	\$ (8,832)	\$ (1,844)	\$ 916	\$ (9,674)
Foreign exchange contracts	Unrealized gain (loss):				
	Forward contracts	(669)	1,726	(3,995)	(963)
<b>Total</b>		<b>\$ (9,501)</b>	<b>\$ (118)</b>	<b>\$ (3,079)</b>	<b>\$ (10,637)</b>

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

**Note 6. Borrowing Facility, Senior Unsecured Notes, and Term Loan**

On February 12, 2010, Solar Capital Ltd. amended and restated Solar Capital LLC's \$250 million Senior Secured Revolving Credit Facility (the "Credit Facility"), extending the maturity to February 2013 and increasing the total commitments under the facility to \$270 million. Per the amended agreement, borrowings bear interest at a rate per annum equal to the base rate plus 3.25% or the alternate base rate plus 2.25%. The commitment fee on unused balances is 0.375%. The amendment also reduced the advance rates permitted on certain asset types and placed limitations on the secured borrowing amount. On May 26, 2010, the Credit Facility was amended to remove the limitations on the secured borrowing amount and increase the advance rates permitted on certain asset types. Total commitments under the Credit Facility have been increased to \$355 million as a result of the addition of two new lenders on May 12, 2010 and June 23, 2010. The facility size may be increased up to \$600 million with additional new lenders or the increase in commitments of current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change of control. 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 debt to total assets ratio.

On September 2, 2010, Solar Capital Ltd. entered into a fully funded \$35 million senior secured term loan (the "Term Loan"), which matures in September 2013, bears interest at a rate per annum equal to the base rate plus 3.25%, and has terms substantially similar to our existing revolving credit facility. The Term Loan contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change of control. In addition, the Term Loan contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder's equity and a minimum debt to total assets ratio.

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

The weighted average annualized interest cost for all borrowings for the nine months ended September 30, 2010 and 2009 was 7.90% and 2.56%, respectively. These costs are exclusive of commitment fees and for other prepaid expenses related to establishing the Credit Facility, Senior Unsecured Notes, and Term Loan. This weighted average annualized interest cost reflects the average interest cost for all outstanding borrowings. The average debt outstanding for the nine months ended September 30, 2010 and for the year ended December 31, 2009 were \$136,296 and \$29,035, respectively. The maximum amounts borrowed on the Credit Facility during the nine months ended September 30, 2010 and year ended December 31, 2009 were \$300,000 and \$122,065, respectively. There was \$300,000 drawn on the Credit Facility as of September 30, 2010 and \$88,114 outstanding as of December 31, 2009. At September 30, 2010 and December 31, 2009, the Company was in compliance with all financial and operational covenants required by the Credit Facility and Senior Unsecured Notes.

**Note 7. Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

**Level 1.** Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access (examples include active exchange-traded equity securities, exchange-traded derivatives, and most U.S. Government and agency securities).

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

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

**Level 3.** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management’s own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain of our private debt and equity investments) and long-dated or complex derivatives (including certain equity and currency derivatives).

When the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore gains and losses for such assets and liabilities categorized within the Level 3 table below may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Further, it should be noted that the following tables do not take into consideration the effect of offsetting Levels 1 and 2 financial instruments entered into by the Company that economically hedge certain exposures to the Level 3 positions.

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

During the third quarter of 2010, one investment with a current market value of \$0.3 million was transferred from Level 2 to Level 1, when its listed common stock became freely tradable as restrictions expired.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2010 and December 31, 2009:

**Fair Value Measurements**  
**As of September 30, 2010**  
**(unaudited)**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$ —	\$49,849	\$135,840	\$185,689
Subordinated Debt / Corporate Notes	—	98,087	563,202	661,289
Preferred Equity	—	—	42	42
Common Equity / Partnership Interests / Warrants	342	12,251	46,366	58,959
Derivative assets – forward contracts	—	—	—	—
<b>Liabilities:</b>				
Derivative liabilities – forward contracts	—	3,725	—	3,725

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans	\$ —	\$ —	\$163,499	\$163,499
Subordinated Debt / Corporate Notes	—	65,961	576,031	641,992
Preferred Equity	—	—	40	40
Common Equity / Partnership Interests / Warrants	—	2,488	55,121	57,609
Derivative assets – forward contracts	—	294	—	294
<b>Liabilities:</b>				
Derivative liabilities – forward contracts	—	25	—	25

**SOLAR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the nine months ended September 30, 2010 and the year ended December 31, 2009, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2010 and December 31, 2009:

The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the period.

**Fair Value Measurements Using Level 3 Inputs**  
**As of September 30, 2010**  
**(unaudited)**

	<u>Bank Debt/Senior Secured Loans</u>	<u>Subordinated Debt/ Corporate Notes</u>	<u>Preferred Equity</u>	<u>Common Equity/ Partnership Interests/Warrants</u>
<b>Fair value, January 1, 2010</b>	\$ 163,499	\$ 576,031	\$ 40	\$ 55,121
Total gains or losses included in earnings:				
Net realized gain (loss)	487	(42,564)	—	15,396
Net change in unrealized gain (loss)	2,099	68,459	2	(10,732)
Purchases, sales, issuances, and settlements (net)	21,455	4,276	—	(11,722)
Transfers out of Level 3	(51,700)	(43,000)	—	(1,697)
<b>Fair value, September 30, 2010</b>	<u>\$ 135,840</u>	<u>\$ 563,202</u>	<u>\$ 42</u>	<u>\$ 46,366</u>
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:	\$ 3,913	\$ 20,653	\$ —	\$ 2,435

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

	<u>Bank Debt/Senior Secured Loans</u>	<u>Subordinated Debt/ Corporate Notes</u>	<u>Preferred Equity</u>	<u>Common Equity/ Partnership Interests/Warrants</u>
<b>Fair value, January 1, 2009</b>	\$ 97,665	\$ 509,416	\$ 6,145	\$ 67,752
Total gains or losses included in earnings:				
Net realized loss	(50,032)	(75,837)	(61,101)	(61,081)
Net change in unrealized gain (loss)	82,880	58,509	54,957	48,941
Purchases, sales, issuances, and settlements (net)	(770)	83,943	39	(491)
Transfers into Level 3	33,756	—	—	—
<b>Fair value, December 31, 2009</b>	<u>\$ 163,499</u>	<u>\$ 576,031</u>	<u>\$ 40</u>	<u>\$ 55,121</u>
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized gain (loss):	\$ 34,333	\$ 23,128	\$ 2	\$ (9,480)

The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the year.

**SOLAR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
**September 30, 2010**  
**(in thousands, except shares)**  
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**Note 9. Stockholders' Equity**

The table below illustrates the effect of certain transactions on our capital accounts for the nine months ended September 30, 2010:

	Common Stock		Partners Capital	Paid in Capital in Excess of Par	Distributions in Excess of Net Investment Income	Accumulated Net Realized Gain	Net Unrealized Appreciation	Total Stockholders Equity
	Shares	Par Amount						
Balance at December 31, 2009	—	\$ —	\$ 697,903	\$ —	\$ —	\$ —	\$ —	\$ 697,903
Solar Capital Merger <sup>(1)</sup>	26,647,312	266	(697,903)	572,637	—	—	—	(125,000)
Issuances of common stock <sup>(2)</sup>	6,280,945	63	—	106,088	—	—	—	106,151
Reinvestment of dividends	240,615	2	—	4,929	—	—	—	4,931
Net increase in stockholders' equity resulting from operations	—	—	—	—	51,828	(23,389)	71,088	99,527
Dividends declared (\$1.54 per share)	—	—	—	—	(50,915)	—	—	(50,915)
Permanent tax differences	—	—	—	(12,871)	(5,915)	24,035	(5,249)	—
Balance at September 30, 2010	<u>33,168,872</u>	<u>\$ 331</u>	<u>\$ —</u>	<u>\$ 670,783</u>	<u>\$ (5,002)</u>	<u>\$ 646</u>	<u>\$ 65,839</u>	<u>\$ 732,597</u>

- (1) Immediately prior to the initial public offering, through a series of transactions Solar Capital Ltd. merged with Solar Capital LLC, leaving Solar Capital Ltd. as the surviving entity. Solar Capital Ltd. issued an aggregate of approximately 26.65 million shares of common stock and \$125 million in Senior Unsecured Notes to the existing Solar Capital LLC unit holders in connection with the Merger.
- (2) On February 9, 2010 Solar Capital Ltd. priced its initial public offering, selling 5.68 million shares, including the underwriters over-allotment, at a price of \$18.50 per share. Concurrent with this offering, management purchased an additional 600,000 shares through a private placement, also at \$18.50 per share.

**Note 10. Earnings Per Share**

The following information sets forth the computation of basic and diluted net increase (decrease) in shareholders' capital per share resulting from operations for the three and nine months ended September 30, 2010 and 2009:

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Numerator for basic and diluted earnings per share:	\$ 21,009	\$ 38,564	\$ 99,527	\$ 46,980
Denominator for basic and diluted weighted average share:	33,165,867	32,860,454	32,918,479	32,860,454
Basic and diluted net increase in share holders' equity resulting from operations per share:	\$ 0.63	\$ 1.17	\$ 3.02	\$ 1.43

As required by ASC 260-10, the number of shares used to calculate weighted average shares for use in computations on a per share basis have been decreased retroactively by a factor of approximately 0.4022 for all periods prior to February 9, 2010. This factor represents the effective impact of the reduction in shares resulting from the Merger.



**SOLAR CAPITAL LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**  
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**Note 11. Financial Highlights**

The following is a schedule of financial highlights for the nine months ended September 30, 2010:

	<b>Nine months ended September 30, 2010 (unaudited)</b>
<b>Per Share Data: <sup>(a)</sup></b>	
Net asset value, beginning of period	\$ 21.24
Net investment income	1.57
Net realized and unrealized gain (loss)	1.45
Net increase (decrease) in net assets resulting from operations	3.02
Effect of dilution	(0.32)
Offering costs	(0.31)
Dividends to shareholders declared	(1.54)
Net asset value, end of period	<u>\$ 22.09</u>
Total return <sup>(c)</sup>	24.27%
Net assets, end of period	\$ 732,597
Per share market value at end of period	21.45
Shares outstanding end of period	33,168,872
Ratio to average net assets	
Expenses without incentive fees <sup>(b)</sup>	5.21%
Incentive fees	1.79%
Total expenses	<u>7.01%</u>
Net investment income without incentive fees <sup>(b)</sup>	9.58%

(a) Calculated using the weighted average shares outstanding method

(b) Annualized

(c) Total return = [(ending market price per share – IPO price per share + dividends declared per share) / IPO price per share]

**Note 12. New Accounting Pronouncements and Accounting Standards Updates**

***Fair Value Measurements and Disclosures***

In January 2010, the FASB issued an update to ASC 820, Fair Value Measurements and Disclosures Topic, which will require additional disclosures about inputs into valuation techniques, disclosures about significant transfers into or out of Levels 1 and 2, and disaggregation of purchases, sales, issuances, and settlements in the Level 3 rollforward disclosure. The guidance is effective for interim and annual reporting periods beginning after December 15, 2009 except for the disclosures about purchases, sales issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

**Note 13. Related Parties**

From July 2006 through approximately the first quarter of 2009, Mr. Gross, the Company’s chairman and chief executive officer, was a partner in Magnetar Capital Partners LP. Mr. Spohler, our chief operating officer together with Solar Capital Partners LLC’s other investment professionals, advised Magnetar Financial LLC (“Magnetar”) on certain investments which coincide with those of Solar Capital. Certain entities affiliated with Magnetar own as of September 30, 2010 and December 31, 2009, either directly or indirectly, approximately 19.53% and 42.84%, respectively, of our outstanding equity.

**SOLAR CAPITAL LTD.**  
**SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**  
**(unaudited)**  
**(in thousands, except shares)**

Schedule 12-14

Portfolio Company	Investment	As of September 30, 2010 Number of Shares/ Principal Amount	Nine-Month Period ended September 30, 2010		As of September 30, 2010 Fair Value
			Amount of dividends and interest included in income	Amount of equity in net profit and loss	
<b>Investments Owned Greater than 25%</b>					
National Specialty Alloys, LLC	Equity	1,000,000	\$ 300	\$ —	\$ 10,000
<b>Total Investments Owned Greater than 25%</b>			<b>\$ 300</b>	<b>\$ —</b>	<b>\$ 10,000</b>
<b>Investments Owned Greater than 5% and Less than 25%</b>					
National Interest Security Corp.	Senior Debt	\$ —	\$ 3,544	\$ —	\$ —
National Interest Security Corp.	Subordinated	\$ —	4,075	—	—
National Interest Security Corp.	Equity	—	—	—	—
Ark Real Estate Partners LP	Equity	34,806,121	—	—	24,966
<b>Total Investments Owned Greater than 5% and Less than 25%</b>			<b>\$ 7,619</b>	<b>\$ —</b>	<b>\$ 24,966</b>

The table below represents the balance at the beginning of the period, December 31, 2009 and any gross additions and reductions and net unrealized gain (loss) made to such investments as well as the ending fair value as of September 30, 2010.

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

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

	Beginning Fair Value December 31, 2009	Gross additions	Gross reductions	Change in Unrealized Gain (Loss)	Fair Value as of June 30, 2010
National Specialty Alloys, LLC	\$ 9,000	\$ —	\$ —	\$ 1,000	\$ 10,000
National Interest Security Corp.	26,152	—	(24,740)	(1,412)	—
National Interest Security Corp.	31,303	—	(30,230)	(1,073)	—
National Interest Security Corp.	16,293	—	(2,126)	(14,167)	—
Ark Real Estate Partners LP	19,675	6,800	—	(1,509)	24,966

**SOLAR CAPITAL LTD.**  
**SCHEDULE OF INVESTMENTS IN AND ADVANCES TO AFFILIATES**  
**(unaudited)**  
**(in thousands, except shares)**

Schedule 12-14

Portfolio Company	Investment	As of December 31, 2009 Number of Shares Principal Amount	Year ended December 31, 2010		As of December 31, 2009 Fair Value
			Amount of dividends and interest included in income	Amount of equity in net profit and loss	
<b>Investments Owned Greater than 25%</b>					
National Specialty Alloys, LLC	Equity	1,000,000	\$ —	\$ —	\$ 9,000
<b>Total Investments Owned Greater than 25%</b>			<b>\$ —</b>	<b>\$ —</b>	<b>\$ 9,000</b>
<b>Investment Owned Greater than 5% and Less than 25%</b>					
National Interest Security Corp.	Senior Debt	\$ 25,182	\$ 4,163	\$ —	\$ 26,152
National Interest Security Corp.	Subordinated	\$ 30,539	5,027	—	31,303
National Interest Security Corp.	Equity	2,265,023	—	—	16,293
Ark Real Estate Partners LP	Equity	28,006,121	—	—	19,675
<b>Total Investments Owned Greater than 5% and Less than 25%</b>			<b>\$ 9,109</b>	<b>\$ —</b>	<b>\$ 93,423</b>

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

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

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

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

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

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

### ***Overview***

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

On February 9, 2010, Solar Capital Ltd. priced its initial public offering (the "IPO") selling 5.68 million shares, including the underwriters' over-allotment, at a price of \$18.50 per share. Net of underwriting fees the Company raised a total of \$97.7 million and its shares began to trade on the NASDAQ Global Select Market under the ticker "SLRC". In addition, Solar Capital Ltd. sold 0.60 million shares at \$18.50 in a concurrent private placement to management.

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

Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in leveraged middle market companies in the form of senior secured loans, mezzanine loans and equity securities. From time to time, we may also invest in public companies that are thinly traded. Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$20 million and \$100 million each, although we expect that this investment size will vary proportionately with the size of our capital base. We are managed by Solar Capital Partners LLC. Solar Capital Management LLC provides the administrative services necessary for us to operate.

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

As of September 30, 2010, our long term investments totaled \$906.0 million and our net asset value was \$732.7 million. Our portfolio was comprised of debt and equity investments in 34 portfolio companies and our income producing assets, which represented 92.9% of our total portfolio, had a weighted average annualized yield on fair value of approximately 14.1%.

### ***Recent Developments***

#### ***Dividend***

On November 2, 2010, our board of directors declared a quarterly dividend of \$0.60 per share payable on December 30, 2010 to holders of record as of December 17, 2010. We expect the dividend to be paid from taxable earnings with specific tax characteristics reported to stockholders after the end of the calendar year.

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### *Critical Accounting Policies*

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

#### *Valuation of Portfolio Investments*

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

Securities for which market quotations are readily available on an exchange are valued at the closing price on the valuation date. We may also obtain quotes with respect to certain of our investments from pricing services or brokers or dealers in order to value assets. When doing so, we determine whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, we use the quote obtained.

Securities for which reliable market quotations are not readily available or for which the pricing source does not provide a valuation or methodology or provides a valuation or methodology that, in the judgment of our investment adviser or board of directors, does not represent fair value, shall be valued as follows: (i) each portfolio company or investment is initially valued by the investment professionals responsible for the portfolio investment; (ii) preliminary valuation conclusions are documented and discussed with our senior management; (iii) independent third-party valuation firms engaged by, or on behalf of, the board of directors will conduct independent appraisals and review management’s preliminary valuations and make their own assessment for all material assets; (iv) the board of directors will discuss valuations and determine the fair value of each investment in our portfolio in good faith based on the input of the investment adviser and, where appropriate, the respective third-party valuation firms.

The recommendation of fair value will generally be based on the following factors, as relevant:

- the nature and realizable value of any collateral;
- the portfolio company’s ability to make payments;
- the portfolio company’s earnings and discounted cash flow;
- the markets in which the issuer does business; and
- comparisons to publicly traded securities.

Securities for which market quotations are not readily available or for which a pricing source is not sufficient may include, but are not limited to, the following:

- private placements and restricted securities that do not have an active trading market;
- securities whose trading has been suspended or for which market quotes are no longer available;
- debt securities that have recently gone into default and for which there is no current market;
- securities whose prices are stale;
- securities affected by significant events; and
- securities that the investment adviser believes were priced incorrectly.

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

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

**Level 1.** Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company has the ability to access (examples include active exchange-traded equity securities and exchange-traded derivatives).

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

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);
- c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and
- d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

**Level 3.** Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability (examples include certain of our private debt and equity investments) and long-dated or complex derivatives (including certain equity and currency derivatives).

At September 30, 2010 the fair value of investments classified as Level 3 was \$745.5 million or 58.7% of total assets. There were no investments transferred into Level 3 during the first, second, or third quarter of 2010. During the second quarter of 2010, two investments with a then current total market value of \$98.0 million were transferred from Level 3 to Level 2 due to the reliability of broker quotes for these assets resulting from increased market liquidity. During the third quarter of 2010, one investment with a current market value of \$0.3 million was transferred from Level 2 to Level 1, when its listed common stock became freely tradable as restrictions expired, and one investment with a current market value of \$12.3 million was transferred from Level 3 to Level 2, as it completed an initial public offering and its shares became listed on an exchange but were still restricted from sale.

### *Revenue Recognition*

Our revenue recognition policies are as follows:

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

*Interest Income:* Interest income, adjusted for amortization of premium and accretion of discount, is recorded on an accrual basis. Origination, closing and/or commitment fees associated with investments in portfolio companies are accreted into interest income over the respective terms of the applicable loans. Upon the prepayment of a loan or debt security, any prepayment penalties and unamortized loan origination, closing and commitment fees are recorded as part of interest income. We have loans in our portfolio that contain a PIK provision. PIK interest is accrued at the contractual rates and added to the loan principal on the reset dates. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even though we have not collected any cash with respect to PIK securities.

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

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[Table of Contents](#)**Portfolio Investments**

At September 30, 2010, we had investments in securities of 34 portfolio companies with a total fair value of approximately \$906.0 million compared to investments in securities of 36 portfolio companies with a total fair value of approximately \$863.1 million at December 31, 2009. At September 30, 2010, we had investments in debt and preferred securities of 28 portfolio companies, totaling approximately \$847.1 million, and equity investments in 9 portfolio companies, totaling approximately \$58.9 million. At December 31, 2009, we had investments in debt and preferred securities of 31 portfolio companies, totaling approximately \$805.5 million, and equity investments in 10 portfolio companies, totaling approximately \$57.6 million.

During the three months ended September 30, 2010, we originated approximately \$72.3 million of investments in one new and three existing portfolio companies. We also received principal repayments of approximately \$6.6 million and sold securities in one portfolio company for approximately \$2.9 million. During the three months ended September 30, 2009, we invested approximately \$4.9 million in one existing portfolio company, had approximately \$4.2 million in principal repayments in five portfolio companies, and sold securities in six portfolio companies for approximately \$39.9 million.

During the nine months ended September 30, 2010, we originated approximately \$178.9 million of investments in five new and one existing portfolio company. We also received principal repayments of approximately \$187.4 million and sold securities in four portfolio companies for approximately \$23.5 million. During the nine months ended September 30, 2009, we invested approximately \$79.2 million in four existing and two new portfolio companies, had approximately \$32.2 million in principal repayments in seven portfolio companies, and sold securities in eight portfolio companies for approximately \$57.2 million.

For the three months ended September 30, 2010 we had net unrealized and realized gains on 15 portfolio company investments totaling approximately \$21.0 million, which was offset by net unrealized and realized losses on 15 portfolio company investments totaling approximately \$6.1 million. For the three months ended September 30, 2009 we had net unrealized and realized gains on 31 portfolio company investments totaling approximately \$40.3 million, which was offset by net unrealized and realized losses on 10 portfolio company investments totaling approximately \$15.7 million.

For the nine months ended September 30, 2010 we had net unrealized and realized gains on 28 portfolio company investments totaling approximately \$58.7 million, which was offset by net unrealized and realized losses on 11 portfolio company investments totaling approximately \$10.8 million. For the nine months ended September 30, 2009 we had net unrealized and realized gains on 28 portfolio company investments totaling approximately \$122.9 million, which was offset by net unrealized and realized losses on 17 portfolio company investments totaling approximately \$112.2 million.

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2010 and December 31, 2009:

(in thousands)	September 30, 2010 (unaudited)		December 31, 2009	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 189,852	\$185,689	\$ 170,896	\$163,499
Subordinated Debt/Corporate Notes	722,705	661,289	778,163	641,992
Preferred Equity	39	42	39	40
Common Equity/Partnership Interests/Warrants	118,562	58,959	114,890	57,609
<b>Total</b>	<b>\$1,031,158</b>	<b>\$905,979</b>	<b>\$1,063,988</b>	<b>\$863,140</b>

As of September 30, 2010, the weighted average yield on income producing investments in our portfolio was approximately 14.1%, compared to 14.8% at December 31, 2009. The decrease in yield during the first nine months of 2010 was primarily due to an increase in fair value of portfolio assets and the repayment of certain assets since December 2009.

As of September 30, 2010, there were two investments on non-accrual status with a market value of \$5.1 million compared to three assets with a market value of zero at December 31, 2009. At the end of 2009, there were three assets that were performing but interest payments were being applied as principal payments ("cost-recovery assets"), rather than being included in interest income because management believed, at that time, that it was unlikely there would be a full repayment of principal. As of September 30, 2010, there were no performing cost-recovery assets.

[Table of Contents](#)**Results of Operations for the Quarter Ended September 30, 2010 compared to the Quarter Ended September 30, 2009***Revenue*

	Three Months Ended September 30, (unaudited)		% Change
	2010	2009	
	(in thousands)		
Investment income	\$29,403	\$27,785	6%

The increase in investment income for the three months ended September 30, 2010 compared to the three months ended September 30, 2009 was primarily due to higher average interest rates on higher income producing invested balances during the third quarter of 2010.

*Expenses*

	Three Months Ended September 30, (unaudited)		% Change
	2010	2009	
	(in thousands)		
Investment advisory and management fees	\$ 4,607	\$ 4,273	8%
Performance-based incentive fee	3,887	4,096	(5%)
Interest and other credit facility expenses	3,943	536	636%
Administrative service fee	387	479	(19%)
Other general and administrative expenses	972	1,947	(50%)
Total operating expenses	<u>\$13,796</u>	<u>\$11,331</u>	22%

Combined performance-based incentive fee, which is calculated as a percentage of net investment income above a certain hurdle rate, and investment advisory and management fees, which are calculated based on average gross assets, were comparable for the three months ended September 30, 2010 and 2009.

Interest and other credit facility expenses for the three months ended September 30, 2010 were higher than the comparable period in 2009 primarily due to higher average debt balances outstanding, including the newly issued \$35 million senior secured term loan (the "Term Loan"), higher loan fee amortization expense, and higher unused facility fees.

Administrative service fees and other general and administrative fees were lower during the third quarter of 2010 because the third quarter of 2009 included costs related to pre-IPO private fund administration and reporting.

*Net Realized and Unrealized Gains and Losses*

	Three Months Ended September 30, (unaudited)	
	2010	2009
	(in thousands)	
Net realized (loss) on investments	\$ (24)	\$(151,269)
Net realized gain (loss) on forward contracts	(8,832)	(1,844)
Net realized (loss) on foreign currency exchange	—	(284)
Net unrealized gain (loss) on investments	14,942	175,839
Net unrealized gain (loss) on forward contracts	(669)	1,726
Net unrealized gain (loss) on foreign currency exchange	41	(1,987)
Total realized and unrealized gain	<u>\$ 5,458</u>	<u>\$ 22,181</u>

Total realized and unrealized gain was \$5.5 million for the third quarter of 2010 compared to \$22.2 million for the same period in 2009. The combined net gain during the third quarter of 2010 was primarily due to continued credit improvement in the portfolio. The net gain during the third quarter of 2009 was primarily due to certain asset valuations that were beginning to recover from technical recession lows. We analyze this section on a combined basis because offsets may exist in the individual line items due to foreign exchange fluctuations and movements from unrealized to realized.

Our investments denominated in Euro, British Pounds and Australian dollars are converted into U.S. dollars at the balance sheet date, and as such, we are exposed to movements in exchange rates. To limit our exposure to movements in foreign currency exchange rates we enter into foreign exchange forward contracts or borrow in foreign currencies under our multi-currency revolving credit facility. For the third quarter of 2010 the total net realized and unrealized gain on forward contracts and foreign currency exchange was \$9.5 million compared to a loss of \$2.4 million for the same line items in the third quarter of 2009. This was due to the weakening of the U.S. dollar during the third quarter 2010.



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**Results of Operations for the Nine Months Ended September 30, 2010 compared to the Nine Months Ended September 30, 2009**

*Revenue*

	Nine Months Ended September 30, (unaudited)		% Change
	2010	2009	
	(in thousands)		
Investment income	\$92,997	\$81,214	15%

The increase in investment income for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 was primarily due to prepayment premiums and the accelerated amortization of fees resulting from debt assets repaying during the first half of 2010. This was offset by lower average LIBOR rates during the nine months ended September 30, 2010 compared to the same period in 2009.

*Expenses*

	Nine Months Ended September 30, (unaudited)		% Change
	2010	2009	
	(in thousands)		
Investment advisory and management fees	\$13,404	\$12,348	9%
Performance-based incentive fee	12,958	12,395	5%
Interest and other credit facility expenses	10,540	1,565	573%
Administrative service fee	1,098	1,512	(27%)
Other general and administrative expenses	2,978	3,590	(17%)
Total operating expenses	<u>\$40,978</u>	<u>\$31,410</u>	30%

The performance-based incentive fee was higher for the nine months ended September 30, 2010 primarily due to higher investment income resulting from prepayment premiums received and accelerated amortization of fees as a result of debt assets repaying before maturity. Investment advisory and management fees, which are calculated based on average gross assets, were higher during the nine months ended September 30, 2010 compared to the same period in 2009 due to higher average gross assets during the nine months ended September 30, 2010 compared to the same period in 2009.

Interest and other credit facility expenses were higher for the nine months ended September 30, 2010 primarily due to higher average debt balances outstanding during the period, including the newly issued Senior Unsecured Notes and Term Loan, higher loan fee amortization expense, and higher unused facility fees.

Administrative service fees and other general and administrative expenses were lower during the first nine months of 2010 because the first nine months of 2009 included costs related to pre-IPO private fund administration and reporting.

*Net Realized and Unrealized Gains and Losses*

	Nine Months Ended September 30, (unaudited)	
	2010	2009
	(in thousands)	
Net realized (loss) on investments	\$(27,836)	\$(227,191)
Net realized gain (loss) on forward contracts	916	(9,674)
Net realized gain (loss) on foreign currency exchange	3,531	(751)
Net unrealized gain on investments	75,750	237,940
Net unrealized (loss) on forward contracts	(3,995)	(963)
Net unrealized gain (loss) on foreign currency exchange	(667)	(1,958)
Total realized and unrealized gain (loss)	<u>\$ 47,699</u>	<u>\$ (2,597)</u>

The combination of the net realized and unrealized gains or losses resulted in a net gain of \$47.7 million for the nine months ended September 30, 2010 compared to a net loss of \$2.6 million for the same period in 2009. The net gain for the nine months ended September 30, 2010 was primarily due to increases in the fair value of our portfolio assets during the period as well as realizations in excess of prior valuations. The net increase in the fair value of our portfolio assets was primarily due to continued credit improvement in the portfolio, the tightening of credit spreads in the high yield market and portfolio realizations. The net loss during the nine months ended September 30, 2009 was primarily due to overall weakening in the economy during the period resulting in lower portfolio asset values. We analyze this section on a combined basis because offsets may exist in the individual line items due to foreign exchange fluctuations and movements from unrealized to realized.

Our investments denominated in Euro, British Pounds and Australian dollars are converted into U.S. dollars at the balance sheet date, and as such, we are exposed to movements in exchange rates. To limit our exposure to movements in foreign currency exchange rates we enter into foreign exchange forward contracts or borrow in foreign currencies under our multi-currency revolving credit facility. For the nine months ended September 30, 2010 the total net realized and unrealized loss on forward contracts and foreign currency exchange was \$0.2 million compared to a loss of \$13.3 million for the same line items for the nine months ended September 30, 2009. This is due to a lower relative weakening of the U.S. dollar during the nine months ended September 30, 2010 compared to the same period in 2009.

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### ***Liquidity and Capital Resources***

The Company's liquidity is generated and generally available through its multi-currency \$355 million revolving credit facility maturing in February 2013, its \$35 million Term Loan maturing in September 2013, from cash flows from operations, investment sales of liquid assets, repayments of senior and subordinated loans, income earned on investments and cash equivalents, and we expect through periodic follow-on equity offerings. On February 9, 2010, Solar Capital Ltd. priced its initial public offering selling 5.68 million shares, including the underwriters over-allotment, at a price of \$18.50 per share. Net of underwriting fees the Company raised a total of \$97.7 million and its shares began to trade on the NASDAQ Global Select Market under the ticker "SLRC". In addition, Solar Capital Ltd. sold 0.60 million shares at \$18.50 in a concurrent private placement to management. The primary use of our liquidity is expected to be for repayment of indebtedness, investments in portfolio companies, cash distributions to our shareholders or for other general corporate purposes.

At September 30, 2010 and December 31, 2009, we had cash and cash equivalents of approximately \$334.4 million and \$5.7 million, respectively. Cash provided by operating activities for the nine months ended September 30, 2010 and 2009 was approximately \$73.4 million and \$11.8 million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

### ***Credit Facility, Term Loan, and Senior Unsecured Notes***

***Credit Facility.*** On February 12, 2010, Solar Capital Ltd. amended and restated Solar Capital LLC's \$250 million Senior Secured Revolving Credit Facility (the "Credit Facility"), extending the maturity to February 2013 and increasing the total commitments under the facility to \$270 million. Per the amended agreement, borrowings bear interest at a rate per annum equal to the base rate plus 3.25% or the alternate base rate plus 2.25%. The commitment fee on unused balances is 0.375%. The amendment also reduced the advance rates permitted on certain asset types and placed limitations on the secured borrowing amount. On May 26, 2010, the Credit Facility was amended to remove the limitations on the secured borrowing and increase the advance rates permitted on certain asset types. Total commitments under the Credit Facility have been increased to \$355 million as a result of the addition of two new lenders on May 12, 2010 and June 23, 2010. The facility size may be increased up to \$600 million with additional new lenders or the increase in commitments of current lenders. The Credit Facility contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change of control. 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 debt to total assets ratio. As of November 2, 2010, no borrowings were outstanding under the Credit Facility.

***Term Loan.*** On September 2, 2010, Solar Capital Ltd. entered into a fully funded \$35 million senior secured term loan, which matures in September 2013, bears interest at a rate per annum equal to the base rate plus 3.25%, and has terms substantially similar to the Credit Facility. The Term Loan contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change of control. In addition, the Term Loan contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholder's equity and a minimum debt to total assets ratio.

***Senior Unsecured Notes.*** In February 2010, as a component of the Solar Capital Merger, Solar Capital Ltd. issued \$125 million of Senior Unsecured Notes. The Senior Unsecured Notes mature in February 2014 and have a coupon of 8.75%, payable quarterly in cash beginning May 1, 2010. The Senior Unsecured Notes are redeemable at any time, in whole or in part, at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Further, we must use the net cash proceeds from the issuance of any other senior notes either to redeem or make an offer to purchase the outstanding Senior Unsecured Notes at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. The Senior Unsecured Notes subject us to customary covenants, including, among other things, (i) a requirement to maintain an "asset coverage ratio" of at least 2.00 to 1.00; (ii) a requirement that in the event of a "change of control" (as defined in the agreement governing the Senior Unsecured Notes) we will be required to offer to repurchase the Senior Unsecured Notes at a price of 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase; and (iii) a restriction on incurring any debt on a junior lien basis, or any debt that is contractually subordinated in right of payment to any other debt unless it is also subordinated to the Senior Unsecured Notes on substantially identical terms. The agreement under which the Senior Unsecured Notes have been issued contains customary events of default.

Certain covenants 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.

### ***Contractual Obligations***

A summary of our significant contractual payment obligations as of September 30, 2010:

(in millions)	Payments Due by Period				
	(unaudited)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Senior secured revolving credit facility <sup>(1)</sup>	\$300.0	\$ —	\$ 300.0	\$ —	\$ —
Senior secured term loan	\$ 35.0	\$ —	\$ 35.0	\$ —	\$ —
Senior Unsecured Notes	\$125.0	\$ —	\$ —	\$ 125.0	\$ —

(1) As of September 30, 2010, we had \$55.0 million of unused borrowing capacity under our credit facility. As of November 2, 2010, no borrowings were outstanding under the Credit Facility.

We have certain commitments pursuant to our Investment Advisory and Management Agreement entered into with Solar Capital Partners, LLC (“Solar Capital Partners”). We have agreed to pay a fee for investment advisory and management services consisting of two components—a base management fee and an incentive fee. Payments under the Investment Advisory and Management Agreement are equal to (1) a percentage of the value of our average gross assets and (2) a two-part incentive fee. We have also entered into a contract with Solar Capital Management LLC, (“Solar Capital Management”) to serve as our administrator. Payments under the Administration Agreement are equal to an amount based upon our allocable portion of Solar Capital Management’s overhead in performing its obligation under the agreement, including rent, fees, and other expenses inclusive of our allocable portion of the compensation of our chief financial officer and any administrative staff.

#### *Off-Balance Sheet Arrangements*

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

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### *Borrowings*

We had borrowings of \$460.0 million and \$88.1 million outstanding as of September 30, 2010 and December 31, 2009, respectively.

### *Distributions and Dividends*

On November 2, 2010, our board of directors declared a quarterly dividend of \$0.60 per share payable on December 30, 2010 to holders of record as of December 17, 2010. For the three and nine months ended September 30, 2010, declared dividends to stockholders totaled \$0.60 per share or \$19.9 million and \$1.54 per share or \$50.9 million, respectively. The \$0.34 dividend declared during the first quarter of 2010 was a \$0.60 dividend prorated for the number of days that remained in the quarter after our initial public offering. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Our quarterly dividends, if any, will be determined by our board of directors.

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

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

### *Related Parties*

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

- We have entered into an Investment Advisory and Management Agreement with Solar Capital Partners. Mr. Gross, our chairman and chief executive officer, is the managing member and a senior investment professional of, and has financial and controlling interests in, Solar Capital Partners. In addition, Mr. Spohler, our chief operating officer is a partner and a senior investment professional of, and has financial interests in, Solar Capital Partners.
- Solar Capital Management provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff. Solar Capital Partners, our investment adviser, is the sole member of and controls Solar Capital Management.
- We have entered into a license agreement with Solar Capital Partners, pursuant to which Solar Capital Partners has granted us a non-exclusive, royalty-free license to use the name “Solar Capital.”
- Certain entities affiliated with Magnetar Financial LLC own as of November 2, 2010, approximately 19.47% of our outstanding shares of common stock.

Solar Capital Partners and its affiliates may also manage other funds in the future that may have investment mandates that are similar, in whole and in part, with ours. Solar Capital Partners and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Solar Capital Partners’ allocation procedures. In addition, we have adopted a formal code of ethics that governs the conduct of our officers and directors. Our officers and directors also remain subject to the duties imposed by both the 1940 Act and the Maryland General Corporation Law.

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**Item 3. Quantitative and Qualitative Disclosure about Market Risk**

We are subject to financial market risks, including changes in interest rates. During the three months ended September 30, 2010, certain of the loans in our portfolio had floating interest rates. Interest rates on these loans are typically based on floating LIBOR and reset to current market rates every one to six months. As we increase our investments in mezzanine and other subordinated loans we expect that our portfolio will have an increased percentage of fixed rate assets. A change in interest rates would not have a material effect on our net investment income. However, we may hedge against interest rate fluctuations from time-to-time by using standard hedging instruments such as futures, options and forward contracts subject to the requirements of the 1940 Act. While hedging activities may insulate us against adverse changes in interest rates, they may also limit our ability to participate in the benefits of higher interest rates with respect to our portfolio of investments. During the three months ended September 30, 2010, we did not engage in interest rate hedging activities.

The following table quantifies the potential changes in interest income net of interest expense should interest rates increase by 100 or 200 basis points or decrease by 25 basis points. Investment income is calculated as revenue from loans and other lending investments held at September 30, 2010. Interest expense is calculated separately for each of our borrowings. For our fixed rate \$125 million Senior Unsecured Notes we use the balance as of September 30, 2010 and the stated rate of interest and do not adjust for hypothetical changes in interest rates. For our floating rate \$35 million Term Loan we use the balance and interest rate as of September 30, 2010 and adjust the interest rate based on the hypothetical changes below. For our floating rate Credit Facility we use the average balance for the nine months ended September 30, 2010 as it fluctuates with our periodic cash requirements and we calculate interest expense using the interest rate as of September 30, 2010, adjusted for the hypothetical changes in rates below. The base interest rate case assumes the rates on our portfolio investments remain as they were on September 30, 2010. All of the hypothetical calculations are based on a model of our portfolio for the twelve months subsequent to September 30, 2010 and assume no change to any input other than the underlying base interest rates.

Actual results could differ significantly from those estimated in the table.

<u>Change in Interest Rates</u>	<u>Estimated Percentage Change in Interest Income Net of Interest Expense (unaudited)</u>
-25 Basis Points	(0.26)%
Base Interest Rate	0.00%
+100 Basis Points	0.91%
+200 Basis Points	1.99%

We have exposure to foreign currencies (Euro, British Pounds and Australian dollars) through various investments. These investments are converted into U.S. dollars at the balance sheet date, exposing us to movements in exchange rates. To limit our exposure to fluctuations in exchange rates, we enter into foreign exchange forward contracts or borrow in those currencies under our multi-currency revolving credit facility. Our foreign currency exchange contracts are short term contracts that are continuously rolled forward to hedge the longer term portfolio investments. The table below presents our exchange rate sensitive assets and liabilities as of September 30, 2010:

	<u>Australian Dollar</u>	<u>Euro</u>	<u>Pounds Sterling</u>
<b>Portfolio Investments (Long) (unaudited)</b>			
Par Amount, Fair Value for Equity (in Currency in millions)	30.9	19.5	36.2
Par Amount, Fair Value for Equity (\$ in millions)	\$ 29.9	\$ 26.6	\$ 56.9
Fair Value (\$ in millions)	\$ 28.4	\$ 18.1	\$ 46.2
<b>Forward Contracts (Short) (unaudited)</b>			
Notional Amount (in Currency in millions)	30.4	12.6	37.1
Contractual Exchange Rate	0.914	1.273	1.546
Contract Amount (\$ in millions)	\$ 27.7	\$ 16.0	\$ 57.3
Fair Value (\$ in millions)	\$ (1.6)	\$ (1.2)	\$ (1.0)

**Item 4. Controls and Procedures**

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

As of September 30, 2010 (the end of the period covered by this report), we, including our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the 1934 Act). Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective and provided reasonable assurance that information required to be disclosed in our periodic SEC filings is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. However, in evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of such possible controls and procedures.

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

Management has not identified any change in the Company's internal control over financing reporting that occurred during the third quarter of 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, which could materially affect our business, financial condition and/or operating results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results. There have been no material changes during the nine months ended September 30, 2010 to the risk factors discussed in Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

While we did not engage in unregistered sales of equity securities during the three months ended September 30, 2010, we issued a total of 138,231 shares of common stock under the dividend reinvestment plan. This issuance was not subject to the registration requirements under the Securities Act of 1933. The aggregate valuation price for the shares of common stock issued under the dividend reinvestment plan was approximately \$18.91 per share.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Reserved

[Intentionally left blank]

### Item 5. Other Information

None.

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**Item 6. Exhibits**

**(a) Exhibits**

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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Articles of Amendment and Restatement**
3.2	Amended and Restated Bylaws**
4.1	Form of Common Stock Certificate****
4.2	Form of Note Agreement for Senior Unsecured Notes****
4.3	Form of Senior Unsecured Notes****
10.1	Dividend Reinvestment Plan**
10.2	Form of Amended and Restated Senior Secured Revolving Credit Agreement by and between the Registrant, the Lenders and Citibank, N.A., as administrative agent****
10.3	Form of Senior Secured Term Loan Agreement by and between the Registrant and ING Capital LLC, as lender and administrative agent, dated as of September 2, 2010*****
10.4	Investment Advisory and Management Agreement by and between Registrant and Solar Capital Partners, LLC*
10.5	Form of Custodian Agreement****
10.6	Administration Agreement by and between Registrant and Solar Capital Management, LLC*
10.7	Form of Indemnification Agreement by and between Registrant and each of its directors**
10.8	Registration Rights Agreement by and between Registrant, Solar Cayman Limited, Solar Offshore Limited, Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and purchasers in the initial private placement*
10.9	First Amendment to the Registration Rights Agreement by and between Registrant, Solar Cayman Limited, Solar Offshore Limited, Citigroup Global Markets Inc., J.P. Morgan Securities Inc. and purchasers in the initial private placement**
10.10	Registration Rights Agreement by and between Registrant, Magnetar Capital Fund, LP and Solar Offshore Limited*
10.11	Trademark License Agreement by and between Registrant and Solar Capital Partners, LLC**
10.12	Form of Share Purchase Agreement by and between Registrant and Solar Capital Investors II, LLC****
11	Computation of Per Share Earnings (included in the notes to the audited financial statements contained in this report).
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

\* Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 (File No. 333-148734) filed on January 18, 2008.



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- \*\* Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 Pre-Effective Amendment No. 7 (File No. 333-148734) filed on January 7, 2010.
- \*\*\* Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 Pre-Effective Amendment No. 8 (File No. 333-148734) filed on January 27, 2010.
- \*\*\*\* Previously filed in connection with Solar Capital Ltd.'s registration statement on Form N-2 (File No. 333-148734) filed on February 9, 2010.
- \*\*\*\*\* Previously filed in connection with Solar Capital Ltd.'s current report on Form 8-K (File No. 814-00754) filed on September 7, 2010.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on November 2, 2010.

SOLAR CAPITAL LTD.

By:                   /s/ MICHAEL S. GROSS                    
                  Michael S. Gross  
                  Chief Executive Officer  
                  (Principal Executive Officer)

By:                   /s/ NICHOLAS RADESCA                    
                  Nicholas Radesca  
                  Chief Financial Officer  
                  (Principal Financial and Accounting Officer)

**CERTIFICATION PURSUANT TO SECTION 302**  
**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Michael S. Gross, Chief Executive Officer of Solar Capital Ltd., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Solar Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this day of November 2, 2010

/s/ MICHAEL S. GROSS  
\_\_\_\_\_  
Michael S. Gross

**CERTIFICATION PURSUANT TO SECTION 302**  
**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Nicholas Radesca, Chief Financial Officer of Solar Capital Ltd., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Solar Capital Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated this day of November 2, 2010

/s/ NICHOLAS RADESCA  
\_\_\_\_\_  
Nicholas Radesca

**CERTIFICATION PURSUANT TO SECTION 906**  
**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**  
**PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2010 (the "Report") of Solar Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, MICHAEL S. GROSS, the Chief Executive Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ MICHAEL S. GROSS

**Name:** \_\_\_\_\_  
**Date:** Michael S. Gross  
November 2, 2010

**CERTIFICATION PURSUANT TO SECTION 906  
CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

In connection with the Quarterly Report on Form 10-Q for the period ended September 30, 2010 (the "Report") of Solar Capital Ltd. (the "Registrant"), as filed with the Securities and Exchange Commission on the date hereof, I, NICHOLAS RADESCA, the Chief Financial Officer of the Registrant, hereby certify, to the best of my knowledge, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ NICHOLAS RADESCA

**Name:** \_\_\_\_\_  
**Date:** \_\_\_\_\_

Nicholas Radesca  
November 2, 2010