VIAD CORP
Form 10-Q
May 06, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________ to

Commission file number: 001-11015

Viad Corp

(Exact name of registrant as specified in its charter)

Delaware	36-1169950
State or other jurisdiction of	(I.R.S. Employer
incorporation or organization	Identification No.)
1850 North Central Avenue, Suite 1900	
Phoenix, Arizona	85004-4565
(Address of principal executive offices)	(Zip Code)

(602) 207-1000

(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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.) Yes x No o

Indicate by check mark whether registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

As of April 30, 2016, there were 20,251,313 shares of Common Stock ($1.50 par value) outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

VIAD CORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in thousands, except share data)	March 31, 2016	December 31, 2015
Assets		
Current assets		
Cash and cash equivalents	$41,335	$ 56,531
Accounts receivable, net of allowances for doubtful accounts of $1,532 and $1,593, respectively	100,529	93,800
Inventories	38,515	27,529
Other current assets	25,149	17,311
Total current assets	205,528	195,171
Property and equipment, net	243,381	189,239
Other investments and assets	38,404	37,631
Deferred income taxes	52,506	50,137
Goodwill	189,266	185,223
Other intangible assets, net	42,563	33,322
Total Assets	$771,648	$ 690,723
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$87,701	$ 65,497
Customer deposits	61,780	33,128
Accrued compensation	18,169	23,154
Other current liabilities	32,396	29,238
Current portion of debt and capital lease obligations	74,640	34,554
Total current liabilities	274,686	185,571
Long-term debt and capital lease obligations	88,057	92,849
Pension and postretirement benefits	29,471	29,629
Other deferred items and liabilities	44,349	47,336
Total liabilities	436,563	355,385
Commitments and contingencies		
Stockholders' equity		
Viad Corp stockholders' equity:		
Common stock, $1.50 par value, 200,000,000 shares authorized, 24,934,981 shares issued	37,402	37,402
Additional capital	572,910	576,523
Retained deficit	(26,875)	(17,866)

Unearned employee benefits and other	113	109
Accumulated other comprehensive income (loss):		
Unrealized gain on investments	345	346
Cumulative foreign currency translation adjustments	(15,215)	(23,257)
Unrecognized net actuarial loss and prior service credit, net	(11,192)	(11,265)
Common stock in treasury, at cost, 4,694,065 and 4,771,443 shares, respectively	(234,998)	(239,411)
Total Viad stockholders' equity	322,490	322,581
Noncontrolling interest	12,595	12,757
Total stockholders' equity	335,085	335,338
Total Liabilities and Stockholders' Equity	$ 771,648	$ 690,723

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in thousands, except per share data)	Three Months Ended March 31, 2016	2015
Revenue:		
Exhibition and event services	$201,286	$213,252
Exhibits and environments	34,850	43,676
Travel and recreation services	5,226	7,468
Total revenue	241,362	264,396
Costs and expenses:		
Costs of services	214,227	225,261
Costs of products sold	33,415	40,260
Corporate activities	1,911	2,810
Interest income	(56)	(63)
Interest expense	1,284	1,151
Restructuring charges	992	216
Total costs and expenses	251,773	269,635
Loss from continuing operations before income taxes	(10,411)	(5,239)
Income tax benefit	(3,452)	(3,267)
Loss from continuing operations	(6,959)	(1,972)
Loss from discontinued operations	(186)	(148)
Net loss	(7,145)	(2,120)
Net loss attributable to noncontrolling interest	162	64
Net loss attributable to Viad	$(6,983)	$(2,056)
Diluted loss per common share:		
Continuing operations attributable to Viad common stockholders	$(0.34)	$(0.10)
Discontinued operations attributable to Viad common stockholders	(0.01)	—
Net loss attributable to Viad common stockholders	$(0.35)	$(0.10)
Weighted-average outstanding and potentially dilutive common shares	19,914	19,736
Basic loss per common share:		
Continuing operations attributable to Viad common stockholders	$(0.34)	$(0.10)
Discontinued operations attributable to Viad common stockholders	(0.01)	—
Net loss attributable to Viad common stockholders	$(0.35)	$(0.10)
Weighted-average outstanding common shares	19,914	19,736
Dividends declared per common share	$0.10	$0.10
Amounts attributable to Viad common stockholders		
Loss from continuing operations	$(6,797)	$(1,908)
Loss from discontinued operations	(186)	(148)
Net loss	$(6,983)	$(2,056)

Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in thousands)	Three Months Ended March 31, 2016	2015
Net loss	$(7,145)	$(2,120)
Other comprehensive income (loss):		
Unrealized gains (losses) on investments, net of tax[1]	(1)	159
Unrealized foreign currency translation adjustments, net of tax[1]	8,042	(17,579)
Change in net actuarial gain, net of tax[1]	158	168
Change in prior service cost, net of tax[1]	(85)	(86)
Comprehensive income (loss)	969	(19,458)
Comprehensive loss attributable to noncontrolling interest	162	64
Comprehensive income (loss) attributable to Viad	$1,131	$(19,394)

[1] The tax effect on other comprehensive income (loss) is not significant.
Refer to Notes to Condensed Consolidated Financial Statements.

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VIAD CORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in thousands)	Three Months Ended March 31, 2016	2015
Cash flows from operating activities		
Net loss	$(7,145)	$(2,120)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	8,370	8,708
Deferred income taxes	(1,380)	(955)
Loss from discontinued operations	186	148
Restructuring charges	992	216
Gains on dispositions of property and other assets	(150)	(37)
Share-based compensation expense	1,066	1,231
Excess tax benefit from share-based compensation arrangements	(28)	(283)
Other non-cash items, net	937	964
Change in operating assets and liabilities (excluding the impact of acquisitions):		
Receivables	(6,942)	(21,807)
Inventories	(9,807)	(3,150)
Accounts payable	21,366	20,067
Restructuring liabilities	(1,314)	(603)
Accrued compensation	(7,147)	(4,141)
Customer deposits	26,684	20,542
Income taxes payable	(2,080)	(281)
Other assets and liabilities, net	(6,569)	(235)
Net cash provided by operating activities	17,039	18,264
Cash flows from investing activities		
Capital expenditures	(7,323)	(5,300)
Cash received (paid) for acquired businesses	(57,766)	279
Proceeds from dispositions of property and other assets	229	36
Net cash used in investing activities	(64,860)	(4,985)
Cash flows from financing activities		
Proceeds from borrowings	50,000	20,000
Payments on debt and capital lease obligations	(15,029)	(23,279)
Dividends paid on common stock	(2,024)	(2,000)
Debt issuance costs	(339)	—
Common stock purchased for treasury	(651)	(4,702)
Excess tax benefit from share-based compensation arrangements	28	283
Proceeds from exercise of stock options	—	225
Net cash provided by (used in) financing activities	31,985	(9,473)
Effect of exchange rate changes on cash and cash equivalents	640	(2,943)
Net change in cash and cash equivalents	(15,196)	863

Cash and cash equivalents, beginning of year	56,531	56,990
Cash and cash equivalents, end of period	$41,335	$57,853
Supplemental disclosure of cash flow information		
Cash paid for income taxes	$3,497	$2,203
Cash paid for interest	$1,089	$908
Property and equipment acquired under capital leases	$515	$—
Property and equipment purchases in accounts payable and accrued liabilities	$3,105	$223

Refer to Notes to Condensed Consolidated Financial Statements.

VIAD CORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of Viad Corp ("Viad" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, these financial statements do not include all of the information required by GAAP or Securities and Exchange Commission ("SEC") rules and regulations for complete financial statements. In the opinion of management, these financial statements reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of the results for the full year. These unaudited condensed consolidated financial statements should be read in conjunction with Viad's Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 11, 2016.

The condensed consolidated financial statements include the accounts of Viad and its subsidiaries. All significant intercompany account balances and transactions have been eliminated in consolidation.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Estimates and assumptions are used in accounting for, among other things, the fair value of Viad's reporting units used to perform annual impairment testing of recorded goodwill, allowances for uncollectible accounts receivable, provisions for income taxes, including uncertain tax positions, valuation allowances related to deferred tax assets, liabilities for losses related to self-insured liability claims, liabilities for losses related to environmental remediation obligations, sublease income associated with restructuring liabilities, assumptions used to measure pension and postretirement benefit costs and obligations, assumptions used to determine share-based compensation costs under the fair value method, and allocation of purchase price of acquired businesses. Actual results could differ from these and other estimates.

Nature of Business

Viad is an international experiential services company with operations in the United States, Canada, the United Kingdom, continental Europe, and the United Arab Emirates. Viad is committed to providing best in class experiences to its clients, customers, and guests by offering products and services designed to meet their current and future needs. Viad operates through three reportable business segments: the Marketing & Events U.S. Segment (the "U.S. Segment"), the Marketing & Events International Segment (the "International Segment") (collectively, the "Marketing & Events Group"), and the Travel & Recreation Group.

Marketing & Events Group

The Marketing & Events Group, comprised of Global Experience Specialists, Inc. and affiliates ("GES"), is a global, full-service provider for live events that produces exhibitions, congresses and conferences, corporate events, consumer events, exhibits, and entertainment experiences. GES provides a comprehensive range of live event services, including official show services, audio-visual services, cutting-edge creative and design, strategic marketing and measurement services, registration, and event accommodations – all with a global reach.

GES' clients include event organizers and corporate brand marketers. Corporate brand marketers include exhibitors and domestic and international corporations that want to promote their brands, services and innovations, feature new products, and build business relationships. GES serves corporate brand marketers when they exhibit at shows and when GES is engaged to manage their global exhibit program or produce their proprietary corporate events.

Travel & Recreation Group

The Travel & Recreation Group offers guests distinctive and world renowned experiences in iconic natural and cultural destinations in North America through its collection of unique hotels, lodges, recreational attractions, and transportation services. The Travel & Recreation Group is composed of four lines of business: (i) Hospitality; (ii) Attractions; (iii) Package Tours; and (iv) Transportation. These four lines of business work together, driving economies of scope and meaningful scale in and around the iconic destinations of Banff, Jasper, and Waterton Lakes National Parks in Canada, and Glacier, Denali, and Kenai Fjords National Parks in the United States. The Travel & Recreation Group is composed of Brewster Inc. ("Brewster"), Glacier Park, Inc. ("Glacier Park"), and Alaskan Park Properties, Inc. ("Alaska Denali Travel").

Impact of Recent Accounting Pronouncements

The following table provides a brief description of recent accounting pronouncements:

Standard	Description	Date of adoption	Effect on the financial statements
Standards Not Yet Adopted			
ASU 2014-09, Revenue from Contracts with Customers (Topic 606) ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)	The standard establishes a new recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. The Company may adopt either retrospectively to each prior period presented with the option to elect certain practical expedients or with the cumulative effect recognized at the date of initial application and providing certain disclosures. ASU 2016-08 improves the operability and understandability of the implementation guidance on principal versus agent considerations.	January 1, 2018	The Company is currently evaluating the potential impact of the adoption of this new guidance on its financial position or results of operations, including the method of adoption to be used.
ASU 2015-11, Inventory (Topic 330) - Simplifying the Measurement of Inventory	The amendment applies to inventory measures using first-in, first-out or average cost and will require entities to measure inventory at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the normal course of business, minus the cost of completion, disposal and transportation. Replacement cost and net realizable value less a normal profit margin will no longer be considered.	January 1, 2017	The adoption of this guidance is not expected to have a significant effect on Viad's consolidated financial statements.
ASU 2016-02, Leases (Topic 842)	The amendment requires lessees to recognize on their balance sheet a right-of-use asset and a lease liability for leases with lease terms greater than one year. The amendment requires additional disclosures about leasing arrangements, and requires a modified retrospective approach to adoption. Early adoption is permitted.	January 1, 2019	The Company is currently evaluating the potential impact of the adoption of this new guidance on its financial position or results of operations.
ASU 2016-09, Compensation - Stock Compensation (Topic	The amendment identifies areas for simplification involving several aspects of	January 1, 2017	The Company is currently evaluating the potential

718) - Improvements to Employee Share-Based Payment Accounting	accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, an option to recognize gross stock compensation expense with actual forfeitures recognized as they occur, as well as certain classifications on the statement of cash flows. Early adoption is permitted.		impact of the adoption of this new guidance on its financial position or results of operations.
Standards Recently Adopted			
ASU 2014-12, Compensation - Stock Compensation (Topic 718) - Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period	The amendment requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award.	January 1, 2016	The Company adopted this guidance prospectively to all awards granted after the effective date. The adoption of this guidance did not have a material impact on the consolidated financial statements.
ASU 2015-03, Interest - Imputation of Interest Simplifying the Presentation of Debt Issuance Costs ASU 2015-15, Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements	The amendments require debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. For line-of-credit arrangements, an entity may defer and present debt issuance costs as an asset and subsequently amortize the deferred debt issuance costs ratably over the term of the line-of-credit arrangement.	January 1, 2016	The adoption of this guidance resulted in the reclassification of unamortized debt issuance costs of $1.6 million from other long-term assets to a reduction in long-term debt on the December 31, 2015 consolidated balance sheet.
ASU 2015-16, Business Combinations (Topic 805) - Simplifying the Accounting for Measurement-Period Adjustments	The amendment requires an acquirer to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined.	January 1, 2016	The adoption of this guidance did not have a material impact on the consolidated financial statements.

Note 2. Share-Based Compensation

The following table summarizes share-based compensation expense:

(in thousands)	Three Months Ended March 31, 2016	2015
Restricted stock	$498	$594
Performance unit incentive plan ("PUP")	535	612
Restricted stock units	33	25
Share-based compensation before income tax benefit	1,066	1,231
Income tax benefit	(398)	(462)
Share-based compensation, net of income tax benefit	$668	$769

Viad recorded $0.2 million of share-based compensation expense through restructuring expense for the three months ended March 31, 2016 and none for the three months ended March 31, 2015. The 2016 amount was related to PUP awards.

The following table summarizes the activity of the outstanding share-based compensation awards:

	Restricted Stock		PUP Awards		Restricted Stock Units	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Balance at December 31, 2015	279,217	$ 25.65	231,165	$ 26.15	16,447	$ 25.69
Granted	73,800	$ 26.98	137,784	$ 26.34	5,500	$ 26.98
Vested	(70,675)	$ 26.92	(73,188)	$ 27.35	(5,965)	$ 27.18
Forfeited	(5,424)	$ 25.35	(6,556)	$ 25.85	—	$ —
Balance at March 31, 2016	276,918	$ 25.69	289,205	$ 25.94	15,982	$ 25.58

Restricted Stock

As of March 31, 2016, the unamortized cost of all outstanding restricted stock awards was $4.1 million, which Viad expects to recognize in the consolidated financial statements over a weighted-average period of approximately 1.9 years. During the three months ended March 31, 2016 and 2015, the Company repurchased 23,625 shares for $0.7 million and 32,806 shares for $0.9 million, respectively, related to tax withholding requirements on vested share-based awards. As of March 31, 2016, there were 890,954 total shares available for future grant in accordance with the provisions of the 2007 Viad Corp Omnibus Incentive Plan (the "2007 Plan").

PUP Awards

In February 2016, the PUP Plan was amended to provide that PUP awards earned under the 2007 Plan may be payable in the form of cash or in shares of Viad common stock (or a combination of both). Previously, payouts could only be made in cash. The vesting of shares is based upon achievement of certain performance-based criteria. The performance period of the shares is for a three-year period.

During the three months ended March 31, 2016, Viad granted $3.6 million PUP awards of which $0.9 million are payable in shares. As of March 31, 2016 and December 31, 2015, Viad had recorded liabilities of $2.7 million and $2.4 million, respectively, related to PUP awards. In March 2016, the PUP awards granted in 2013 vested and cash payouts of $0.2 million were distributed. In March 2015, the PUP awards granted in 2012 vested and cash payouts of $2.4 million were distributed.

Restricted Stock Units

As of March 31, 2016 and December 31, 2015, Viad had aggregate liabilities recorded of $0.2 million and $0.3 million, respectively, related to restricted stock units. In February 2016, portions of the 2011, 2012, and 2013 restricted stock units vested and cash payouts of $0.2 million were distributed. Similarly, in February 2015, portions of the 2010, 2011, and 2012 restricted stock units vested and cash payouts of $0.3 million were distributed.

Stock Options

During the three months ended March 31, 2016, there was no stock option activity. As of both March 31, 2016 and December 31, 2015 there were 63,773 stock options outstanding and exercisable with a weighted-average exercise price of $16.62. As of March 31, 2016, there were no unrecognized costs related to non-vested stock option awards.

Note 3. Acquisition of Businesses

Maligne Lake Tours

On January 4, 2016, the Company acquired the assets and operations of Maligne Tours Ltd. (“Maligne Lake Tours”), which provides interpretive boat tours and related services at Maligne Lake, the largest lake in Jasper National Park. The purchase price was $20.9 million Canadian dollars (approximately $15.0 million U.S. dollars) in cash, subject to certain adjustments.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date. Due to the recent timing of the acquisition, the purchase price allocation is not yet finalized and is subject to change within the measurement period (up to one year from the acquisition date) as the assessment of property and equipment, intangible assets, and working capital is finalized.

(in thousands)		
Purchase price paid as:		
Cash		$14,962
Fair value of net assets acquired:		
Inventories	$246	
Prepaid expenses	2	
Property and equipment	4,133	
Intangible assets	9,244	
Total assets acquired	13,625	
Customer deposits	15	
Total liabilities assumed	15	
Total fair value of net assets acquired		13,610
Excess purchase price over fair value of net assets acquired (“goodwill”)		$1,352

Under the acquisition method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The excess purchase price over the fair value of net assets acquired was recorded as goodwill. Goodwill is included in the Travel & Recreation Group and the primary factor that contributed to the purchase price resulting in the recognition of goodwill relates to future growth opportunities when combined with the Company’s other businesses. Goodwill is expected to be deductible for tax purposes pursuant to Canadian tax regulations. The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Transaction costs associated with the acquisition of Maligne Lake Tours were $0.1 million in 2016 and $0.2 million in 2015, and were included in corporate activities in Viad’s condensed consolidated statements of operations.

Identified intangible assets acquired in the Maligne Lake Tours acquisition totaled $9.2 million and consist of operating licenses, customer relationships, and trade names. The weighted-average amortization period related to the intangible assets is 26.7 years, largely attributable to operating licenses amortized over the remaining Parks Canada lease of 29 years.

The results of operations of Maligne Lake Tours have been included in Viad’s condensed consolidated financial statements from the date of acquisition. During the three months ended March 31, 2016, revenue of $7,000 and an operating loss of $0.1 million, related to Maligne Lake Tours, were included in Viad’s condensed consolidated statements of operations.

CATC

On March 11, 2016, the Company acquired 100 percent of the equity interest in CIRI Alaska Tourism Corporation (“CATC”), the operator of an Alaskan tourism business that includes a marine sightseeing tour business, three lodges, and a package tour business. The purchase price was $45.0 million in cash, subject to certain adjustments.

The following table summarizes the preliminary recording of the fair values of the assets acquired and liabilities assumed as of the acquisition date. Due to the recent timing of the acquisition, the purchase price allocation is not yet finalized and is subject to change within the measurement period (up to one year from the acquisition date) as the assessment of property and equipment, intangible assets, and working capital is finalized.

(in thousands)				
Purchase price paid as:				
Cash			$	45,000
Estimated working capital adjustment				54
Cash acquired				(2,196)
Purchase price, net of cash acquired				42,858
Fair value of net assets acquired:				
Accounts receivable	$	8		
Inventories		921		
Prepaid expenses		82		
Property and equipment		43,470		
Intangible assets		980		
Total assets acquired		45,461		
Accounts payable		201		
Accrued liabilities		450		
Customer deposits		1,952		
Total liabilities assumed		2,603		
Total fair value of net assets acquired				42,858
Excess purchase price over fair value of net assets acquired (“goodwill”)			$	—

Under the acquisition method of accounting, the purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values. The estimated values of current assets and liabilities were based upon their historical costs on the date of acquisition due to their short-term nature. Transaction costs associated with the acquisition of CATC were $0.1 million in 2016 and $0.6 million in 2015 and were included in corporate activities in Viad’s condensed consolidated statements of operations.

Identified intangible assets acquired in the CATC acquisition totaled $1.0 million and consist of customer relationships and trade names. The weighted-average amortization period related to the intangible assets is 5.8 years.

The results of operations of CATC have been included in Viad’s condensed consolidated financial statements from the date of acquisition. During the three months ended March 31, 2016, revenue of $45,000 and an operating loss of $0.6 million, related to CATC, were included in Viad’s condensed consolidated statements of operations.

Supplementary pro forma financial information

The following table summarizes the unaudited pro forma results of operations attributable to Viad, assuming the above acquisitions had each been completed on January 1, 2015:

	Three Months Ended March 31,	
(in thousands, except per share data)	2016	2015
Revenue	$241,441	$264,528
Depreciation and amortization	$8,898	$9,314
Loss from continuing operations	$(8,352)	$(4,709)
Net loss attributable to Viad	$(8,376)	$(4,793)
Diluted loss per share	$(0.41)	$(0.24)
Basic loss per share	$(0.41)	$(0.24)

Note 4. Inventories

The components of inventories consisted of the following:

(in thousands)	March 31, 2016	December 31, 2015
Raw materials	$ 16,047	$ 14,383
Work in process	22,468	13,146
Inventories	$ 38,515	$ 27,529

Note 5. Other Current Assets

Other current assets consisted of the following:

(in thousands)	March 31, 2016	December 31, 2015
Income tax receivable	$ 6,699	$ 4,643
Prepaid vendor payments	5,894	2,140
Prepaid insurance	1,985	2,024
Prepaid software maintenance	1,640	2,026
Prepaid rent	1,639	1,406
Prepaid taxes	1,142	1,261
Prepaid other	4,664	2,777
Other	1,486	1,034
Other current assets	$ 25,149	$ 17,311

Note 6. Property and Equipment

Property and equipment consisted of the following:

(in thousands)	March 31, 2016	December 31, 2015				
Land and land interests	$29,525	$ 29,032				
Buildings and leasehold improvements	189,251	135,381				
Equipment and other	279,620	270,957				
Gross property and equipment	498,396	435,370				
Accumulated depreciation	(255,015)	(246,131)				
Property and equipment, net	$	$ (1,950)				
3 Month Libor	1.0%	50,000	5/4/2014	988		(988)
		$ 150,000		$ 2,938	$	$ (2,938)

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

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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2014

(in thousands, except share amounts)

Note 8. Debt

Unsecured Senior Notes

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

Revolving and Term Loan Facility

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

Senior Secured Notes

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

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

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

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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2014

(in thousands, except share amounts)

Note 9. Financial Highlights and Senior Securities Table

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

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

(a) Calculated using the average shares outstanding method.
(b) Total return is based on the change in market price per share during the period and takes into account distributions, if any, reinvested in accordance with the dividend reinvestment plan.
(c) Not annualized for periods less than one year.

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2014

(in thousands, except share amounts)

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

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

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

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

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

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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2014

(in thousands, except share amounts)

Note 10. Crystal Financial LLC

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

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

Note 11. Stock Repurchase Program

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

Note 12. Commitments and Contingencies

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

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SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)

September 30, 2014

(in thousands, except share amounts)

Note 13. Senior Secured Unitranche Loan Program

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

Note 14. Subsequent Events

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

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

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. (the Company) as of September 30, 2014, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2014 and 2013, the consolidated statement of changes in net assets for the nine-month period ended September 30, 2014, and the related consolidated statements of cash flows for the nine month periods ended September 30, 2014 and 2013. These consolidated financial statements are the responsibility of the Company s management.

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

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

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

/s/ KPMG LLP

New York, New York

November 4, 2014

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

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

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

- our future operating results;
- our business prospects and the prospects of our portfolio companies;
- the impact of investments that we expect to make;
- our contractual arrangements and relationships with third parties;
- the dependence of our future success on the general economy and its impact on the industries in which we invest;
- the ability of our portfolio companies to achieve their objectives;
- our expected financings and investments;
- the adequacy of our cash resources and working capital; and
- the timing of cash flows, if any, from the operations of our portfolio companies.

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

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

Overview

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

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

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

Solar Capital Ltd. (Solar Capital , the Company or we), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company (BDC) under the Investment Company Act of 1940, as amended (the 1940 Act). Furthermore, as the Company is an investment company, it continues to apply the guidance in FASB Accounting Standards Codification (ASC) Topic 946. In addition, for tax purposes, the Company has elected to be treated as a regulated investment company (RIC) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code).

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

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

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

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

Recent Developments

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

Investments

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

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Revenue

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

Expenses

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

- investment advisory and management fees;
- expenses incurred by the Investment Adviser payable to third parties, including agents, consultants or other advisors, in monitoring our financial and legal affairs and in monitoring our investments and performing due diligence on our prospective portfolio companies;
- calculation of our net asset value (including the cost and expenses of any independent valuation firm utilized);
- direct costs and expenses of administration, including independent registered public accounting and legal costs;
- costs of preparing and filing reports or other documents with the SEC;
- interest payable on debt, if any, incurred to finance our investments;
- offerings of our common stock and other securities;
- registration and listing fees;
- fees payable to third parties, including agents, consultants or other advisors, relating to, or associated with, evaluating and making investments;
- transfer agent and custodial fees;

taxes;

independent directors fees and expenses;

marketing and distribution-related expenses;

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

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

organizational costs; and

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

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

Portfolio and Investment Activity

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

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

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

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

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

Crystal Financial LLC

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

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

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

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

Stock Repurchase Program

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

Senior Secured Unitranche Loan Program

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

Critical Accounting Policies

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

Valuation of Portfolio Investments

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

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

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

(1) our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals of the Investment Adviser responsible for the portfolio investment;

(2) preliminary valuation conclusions are then documented and discussed with senior management of the Investment Adviser;

(3) independent valuation firms engaged by our Board conduct independent appraisals and review the Investment Adviser s preliminary valuations and make their own independent assessment;

(4) the audit committee of the Board reviews the preliminary valuation of the Investment Adviser and that of the independent valuation firm and responds to the valuation recommendation of the independent valuation firm to reflect any comments; and

(5) the Board discusses valuations and determines the fair value of each investment in our portfolio in good faith based on the input of the Investment Adviser, the respective independent valuation firm and the audit committee.

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

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

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

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

Level 3: Unobservable inputs for the asset or liability.

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

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

Valuation of Senior Secured Credit Facility and Senior Secured Notes

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

Revenue Recognition

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

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

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

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

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

Income Taxes

Solar Capital Ltd., a U.S. corporation, has elected to be treated as a RIC under Subchapter M of the Code, as amended. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. Depending on the level of taxable income earned in a given tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year distributions, the Company accrues an estimated excise tax, if any, on estimated excess taxable income. As of September 30, 2014, the accrual for excise tax was $0.

RESULTS OF OPERATIONS

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

Investment Income

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

Expenses

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

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

Net Investment Income

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

Net Realized Loss

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

Net Change in Unrealized Gain (Loss)

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

Net Increase (Decrease) in Net Assets From Operations

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

LIQUIDITY AND CAPITAL RESOURCES

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

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

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

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

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

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

Cash Equivalents

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

Debt

Unsecured Senior Notes

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

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

Revolving & Term Loan Facility

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

Senior Secured Notes

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

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

Contractual Obligations

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

Payments Due by Period (in millions)

	Total	Less than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Revolving credit facility [1]	$	$	$	$	$
Unsecured senior notes	100.0				100.0
Senior secured notes	75.0		75.0		
Term Loans	50.0			50.0	

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

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

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

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

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

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

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

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

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

Off-Balance Sheet Arrangements

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

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

Distributions

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

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

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

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

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

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

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

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

Related Parties

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

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

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls Over Financial Reporting

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

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

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

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Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended.*
32.1	Certification of Chief Executive Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*
32.2	Certification of Chief Financial Officer pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.*

(1) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Pre-Effective Amendment No. 7 (File No. 333-148734) filed on January 7, 2010.
(2) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 (File No 333-148734) filed on February 9, 2010.
(3) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 6 (File No. 333-172968) filed on November 16, 2012.
(4) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 (File No. 333-148734) filed on January 18, 2008.
(5) Previously filed in connection with Solar Capital Ltd. s report on Form 8-K filed on November 29, 2010.
(6) Previously filed in connection with Solar Capital Ltd. s report on Form 10-Q filed on July 31, 2013.
(7) Previously filed in connection with Solar Capital Ltd. s report on Form 10-K filed on February 25, 2014.
(8) Previously filed in connection with Solar Capital Ltd. s registration statement on Form N-2 Post-Effective Amendment No. 10 (File No. 333-172968) filed on November 12, 2013.
* Filed herewith.

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SIGNATURES

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

SOLAR CAPITAL LTD.

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

Chief Executive Officer

(Principal Executive Officer)

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

Chief Financial Officer

(Principal Financial and Accounting Officer)