Solar Capital Ltd.
Form 10-Q
August 02, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarter Ended June 30, 2011

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

SOLAR CAPITAL LTD.

(Exact name of registrant as specified in its charter)

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

(212) 993-1670

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of the registrant s Common Stock, $.01 par value, outstanding as of August 2, 2011 was 36,501,373.

SOLAR CAPITAL LTD.

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2011

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Solar Capital Ltd.:

We have reviewed the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. (the Company) as of June 30, 2011, and the related consolidated statements of operations for the three and six-month periods ended June 30, 2011 and 2010, the statement of changes in net assets for the six-month period ended June 30, 2011 and statements of cash flows for the six-month periods ended June 30, 2011 and 2010. 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 accounting and reporting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the accompanying consolidated statement of assets and liabilities, including the consolidated schedule of investments, of Solar Capital Ltd. as of December 31, 2010, and the related consolidated statement of changes in net assets for the year ended December 31, 2010 and we expressed an unqualified opinion on them in our report dated March 1, 2011.

/s/ KPMG LLP

New York, New York

August 2, 2011

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES

(in thousands, except shares)

	June 30, 2011 (unaudited)	December 31, 2010
Assets		
Investments at value:		
Companies more than 25% owned (cost: $35,004 and $20,511, respectively)	$ 38,104	$ 20,508
Companies 5% to 25% owned (cost: $38,086 and $34,806, respectively)	31,825	29,235
Companies less than 5% owned (cost: $993,943 and $1,008,244 respectively)	934,566	926,478
Total investments (cost: $1,067,033 and $1,063,561, respectively)	1,004,495	976,221
Cash and cash equivalents	374,450	288,732
Interest and dividends receivable	7,066	5,592
Deferred credit facility costs	4,768	5,904
Fee revenue receivable	4,061	3,935
Derivative assets (cost $2,938 and $0, respectively)	2,517	604
Receivable for investments sold	2,441	10,560
Deferred offering costs	367	
Prepaid expenses and other receivables	337	243
Total Assets	1,400,502	1,291,791
Liabilities		
Credit facilities payable	400,356	400,000
Term Loan	35,000	35,000
Payable for investments purchased	82,630	14,625
Dividend payable	21,869	
Due to Solar Capital Partners LLC:		
Investment advisory and management fee payable	5,096	4,892
Performance-based incentive fee payable	5,269	4,347
Interest payable	1,018	597
Deferred fee revenue	738	1,242
Due to Solar Capital Management LLC	450	773
Derivative liabilities	300	1,539
Income taxes payable	471	329
Other accrued expenses and payables	1,046	1,453
Total Liabilities	554,243	464,797
Net Assets		
Common stock, par value $0.01 per share 36,447,607 and 36,383,158 shares issued and outstanding, respectively, 200,000,000 authorized	364	364
Paid-in capital in excess of par	928,553	926,991
Distributions in excess of net investment income	(4,726)	(1,545)
Accumulated net realized losses	(14,984)	(10,541)
Net unrealized depreciation	(62,948)	(88,275)
Total Net Assets	$ 846,259	$ 826,994

Number of shares outstanding		36,447,607		36,383,158
Net Asset Value Per Share	$	23.22	$	22.73

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except shares)

	Three months ended June 30, 2011 (unaudited)	Three months ended June 30, 2010 (unaudited)	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
INVESTMENT INCOME:				
Interest and dividends:				
Companies more than 25% owned	$ 753	$	$ 1,448	$
Companies 5% to 25% owned				7,619
Other interest and dividend income	34,530	28,284	66,129	55,975
Total interest and dividends	35,283	28,284	67,577	63,594
Total investment income	35,283	28,284	67,577	63,594
EXPENSES:				
Investment advisory and management fees	5,096	4,431	10,083	8,797
Performance-based incentive fee	5,269	3,792	10,057	9,071
Interest and other credit facility expenses	1,895	3,646	3,932	6,597
Administrative service fee	279	258	717	711
Other general and administrative expenses	1,376	991	2,270	2,141
Total operating expenses	13,915	13,118	27,059	27,317
Net investment income	21,368	15,166	40,518	36,277
REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, DERIVATIVES AND FOREIGN CURRENCIES:				
Net realized gain (loss):				
Investments:				
Companies 5% to 25% owned				16,397
Companies less than 5% owned	2,304	(481)	5,106	(44,209)
Net realized gain(loss) on investments	2,304	(481)	5,106	(27,812)
Derivatives	(4,872)	8,196	(9,235)	9,748
Foreign currency exchange	(242)	(5)	(314)	3,531
Net realized gain (loss)	(2,810)	7,710	(4,443)	(14,533)
Net change in unrealized gain (loss):				
Investments:				
Companies more than 25% owned	1,478		3,103	
Companies 5% to 25% owned	(430)	(1,403)	(690)	(18,080)
Companies less than 5% owned	(8,478)	(2,300)	22,389	78,888
Net change in unrealized gain (loss) on investments	(7,430)	(3,703)	24,802	60,808
Derivatives	473	(2,555)	214	(3,326)

Foreign currency exchange	783	(104)	311	(708)
Net change in unrealized gain (loss)	(6,174)	(6,362)	25,327	56,774
Net realized and unrealized gain (loss) on investments, derivatives and foreign currencies	(8,984)	1,348	20,884	42,241
NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS	$ 12,384	$ 16,514	$ 61,402	$ 78,518
Earnings per share	$ 0.34	$ 0.50	$ 1.69	$ 2.39

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

(in thousands, except shares)

	Six months ended June 30, 2011 (unaudited)	Year ended December 31, 2010
Increase (decrease) in net assets resulting from operations:		
Net investment income	$ 40,518	$ 69,212
Net realized loss	(4,443)	(38,968)
Net change in unrealized gain	25,327	111,641
Net increase in net assets resulting from operations	61,402	141,885
Dividends and distributions declared	(43,699)	(72,657)
Capital share transactions:		
Proceeds from shares sold		184,215
Common stock offering costs		(10,198)
Senior notes issued in Solar Capital Merger		(125,000)
Reinvestment of dividends	1,562	10,846
Net increase in net assets resulting from capital share transactions	1,562	59,863
Net increase in net assets	19,265	129,091
Net assets at beginning of period	826,994	697,903
Net assets at end of period	$ 846,259	$ 826,994

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands except shares)

	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
Cash Flows from Operating Activities:		
Net increase in net assets from operations	$ 61,402	$ 78,518
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:		
Net realized (gain) loss from investments	(5,106)	27,812
Net realized (gain) loss from foreign currency exchange	314	(3,536)
Net change in unrealized gain on investments	(24,802)	(60,808)
Net change in (gain) loss on derivatives	(214)	3,326
(Increase) decrease in operating assets:		
Purchase of investment securities	(235,039)	(136,755)
Proceeds from disposition of investment securities	236,359	213,587
Receivable for investments sold	8,119	(10,204)
Interest and dividends receivable	(1,474)	(324)
Purchase of interest rate caps	(2,938)	
Deferred credit facility costs	1,136	(4,213)
Fee revenue receivable	(126)	1,453
Deferred offering costs	(367)	1,478
Prepaid expenses and other receivables	(94)	(208)
Increase (decrease) in operating liabilities:		
Payable for investments purchased	68,005	24,375
Investment advisory and management fee payable	204	(4,232)
Performance-based incentive fee payable	922	(4,725)
Deferred fee revenue	(504)	(1,579)
Due to Solar Capital Management LLC	(323)	(414)
Interest payable	421	1,670
Income taxes payable	142	210
Other accrued expenses and payables	(407)	130
Net Cash Provided by Operating Activities	105,630	125,561
Cash Flows from Financing Activities:		
Proceeds from shares sold		116,198
Common stock offering costs		(10,069)
Cash distributions paid	(20,268)	(84,032)
Proceeds from borrowings on credit facilities	767,611	88,000
Repayments of borrowings on credit facilities	(767,255)	(172,578)
Net Cash Used in Financing Activities	(19,912)	(62,481)
NET INCREASE IN CASH AND CASH EQUIVALENTS	85,718	63,080
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	288,732	5,675
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 374,450	$ 68,755

Supplemental disclosure of cash flow information:

Cash paid for interest	$	1,681	$	1,435
Cash paid for income taxes	$	312	$	18
Non-cash financing activity:				
Dividends payable	$	21,869	$	19,818
Reinvestment of dividends	$	1,562	$	2,300
Issuance of Senior Notes	$		$	125,000

See notes to consolidated financial statements.

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Description[(1)]	Industry	Interest[(2)]	Maturity	Par Amount/ Shares	Cost	Fair Value
Bank Debt/Senior Secured Loans 30.20%						
Asurion Corporation (19)	Insurance	9.00%	5/24/2019	$ 40,000	$ 39,802	$ 40,225
Airvana Network Solutions Inc.	Telecommunications	10.00%	3/25/2015	15,245	14,963	15,246
AviatorCap SII, LLC I (10)	Aerospace & Defense	12.00%	12/31/2014	4,026	3,965	3,965
AviatorCap SII, LLC II (10)(20)	Aerospace & Defense	11.00%	12/31/2014	6,175	6,083	6,082
Direct Buy Inc. (19)	Home and Office Furnishing, Consumer Products	12.00%	2/1/2017	25,000	24,286	10,250
Fulton Holding Corp (19)	Retail Stores	13.79%	5/28/2016	35,000	34,059	35,000
Grakon, LLC	Machinery	12.00%	12/31/2015	9,524	7,602	9,048
Isotoner Corporation (7)	Personal and Non-durable Consumer Products	10.75%	1/8/2018	38,000	36,860	36,860
NewCo (8)	Insurance	13.00%	2/15/2017	20,900	20,482	20,482
Roundy s Supermarkets, Inc. 2nd Lien (19)	Grocery	10.00%	4/16/2016	22,000	21,648	22,296
Spencer Spirits Holdings, Inc.	Retail Stores	11.00%	4/14/2011	10,000	10,000	10,150
USAW 767 (10)	Aerospace & Defense	14.50%	12/31/2012	5,849	5,749	5,849
ViaWest Inc (19)	Personal, Food and Misc. Services	13.50%	5/20/2016	33,003	32,189	32,508
Vision Holding Corp. (19)	Healthcare, Education, and Childcare	12.00%	11/23/2016	37,950	37,267	37,950
VPSI, Inc. (19)	Personal Transportation	12.00%	12/23/2015	17,646	17,228	17,469
Total Bank Debt/Senior Secured Loans				**$ 320,318**	**$ 312,183**	**$ 303,380**
Subordinated Debt/Corporate Notes 60.55%						
Adams Outdoor Advertising	Diversified / Conglomerate Service	18.00%	12/8/2015	$ 42,500	$ 41,827	$ 42,500
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.30%	6/13/2012	26,424	26,313	24,046
Crosman Corporation	Leisure, Motion Pictures, Entertainment	13.00%	10/15/2016	15,064	14,627	14,612
DSW Group, Inc.	Beverage, Food, and Tobacco	15.00%	4/24/2012	116,039	115,649	104,435
Earthbound Farm (19)	Farming & Agriculture	14.25%	6/21/2017	58,947	57,609	58,947
Fleetpride Corporation (19)	Cargo Transport	11.50%	10/1/2014	43,000	43,107	43,323
Grakon Holdings LLC Sr	Machinery	14.00%	12/31/2015	1,483	1,482	1,260
Grakon Holdings LLC Jr	Machinery	12.00%	12/31/2015	14,251	11,464	6,413
Granite Global Solutions Corp. (3)(16)	Insurance	13.50%	5/31/2016	31,673	30,207	30,881
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00%	4/28/2014	19,064	18,578	18,492
Midcap Financial Intermediate Holdings, LLC (19)	Banking	14.25%	7/9/2015	75,000	73,362	75,000
ProSieben Sat.1 Media AG (3)(6)	Broadcasting & Entertainment	8.30%	3/6/2017	23,265	19,795	18,946
Richelieu Foods, Inc. (18)	Beverage, Food, and Tobacco	13.75%	5/18/2016	22,500	21,925	22,050
Rug Doctor L.P. (19)	Personal, Food and Misc. Services	14.96%	10/31/2014	50,462	48,846	46,930
Seven Media Group Pty Limited (3)	Broadcasting & Entertainment	11.55%	12/29/2013	21,718	16,328	21,718
Shoes For Crews, LLC (18)	Textiles and Leather	13.75%	7/23/2016	15,650	15,283	15,650
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25%	8/2/2013	22,978	22,904	22,978
Weetabix Group (3)(5)	Beverage, Food, and Tobacco	9.12%	9/14/2016	15,791	17,874	13,028
Weetabix Group (3)(5)	Beverage, Food, and Tobacco	10.03%	5/3/2017	33,723	40,048	26,978

Total Subordinated Debt/Corporate Notes	**$ 649,532**	**$ 637,228**	**$ 608,187**

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

June 30, 2011

(in thousands, except shares)

(unaudited)

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
Preferred Equity 0.92%						
SODO Corp. (10)(13)(21)	Aerospace & Defense	9.31%		899	$ 922	$ 922
SOCAY Corp. (10)(13)(22)	Aerospace & Defense	9.31%		8,081	8,286	8,286
Wyle Laboratories	Aerospace & Defense	8.00%	7/17/2015	387	39	45
Total Preferred Equity					**$ 9,247**	**$ 9,253**
Common Equity / Partnership Interests / Warrants 8.33%						
Ark Real Estate Partners LP (9)(11)(12)	Real Estate			38,085,500	$ 38,086	$ 31,825
Direct Buy Inc.	Home and Office Furnishing, Consumer Products			5,000,000	5,000	250
Global Garden Products (3)(4)(6)	Farming & Agriculture			88,483		
Grakon, LLC	Machinery			1,714,286	1,714	
Grakon, LLC Warrants	Machinery			3,518,001		
Great American Group Inc. (14)	Personal, Food and Misc. Services			572,800	2,681	172
Great American Group Inc. (15)	Personal, Food and Misc. Services			187,500	3	56
National Specialty Alloys, LLC(10)	Mining, Steel, Iron, and Nonprecious Metals			1,000,000	10,000	13,000
Nuveen Investments, Inc.	Finance			3,486,444	30,875	19,524
NXP Semiconductors Netherlands B.V.(3) (17)	Electronics			645,292	17,592	16,947
Seven West Media Limited	Broadcasting & Entertainment			437,687	2,424	1,901
Total Common Equity/Partnerships Interests / Warrants					**$ 108,375**	**$ 83,675**
Total Investments					**$ 1,067,033**	**$ 1,004,495**

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.

(2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of June 30, 2011.

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

(4) Solar Capital Ltd. s investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(5) Solar Capital Ltd. s investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
(6) Solar Capital Ltd. s investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
(7) Includes an unfunded commitment of $36,860.
(8) Includes an unfunded commitment of $20,482.
(9) Solar Capital Ltd. has an unfunded commitment of $6,612.
(10) Denotes a Control Investment. Control Investments are defined in the 1940 Act as investments in those companies that the Company is deemed to Control. Generally, under the Investment Company Act of 1940, as amended (the 1940 Act), the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.
(11) Denotes an Affiliate Investment. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.
(12) Solar Capital Ltd. s investments in Ark Real Estate Partners LP are held though wholly-owned SLRC ADI Corp., which is taxed as a U.S. corporation.
(13) Solar Capital Ltd. s investments in SODO Corp. and SOCAY Corp. each include a one dollar investment in common shares.
(14) Founders Shares.
(15) Contingent Founders Shares.
(16) Includes an unfunded commitment of $15,600 Canadian Dollars or $16,176 U.S Dollars as of June 30, 2011.
(17) Comprised of 75,751 unrestricted shares and 569,541 restricted shares.
(18) Indicates an investment held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC. Such investments are pledged as collateral under the Senior Secured Loan Facility (see Note 6 to the consolidated financial statements) and are not generally available to the creditors of Solar Capital Ltd. Unless otherwise noted, as of June 30, 2011, all other investments were pledged as collateral for the Senior Secured Revolving Credit Facility and the Term Loan (see Note 6 to the consolidated financial statements).
(19) Indicates an investment partially held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC. (See note 18 above for further explanation.) Par amounts held through Solar Capital Funding II LLC include: Asurion $14,224; Direct Buy $15,000; Fulton Holding Corp. $18,000; Roundy s Supermarkets Inc. $10,000; ViaWest Inc. $15,123; Vision Holding Corp $14,050; VPSI Inc. $14,241; Earthbound $23,500; Fleetpride Corporation $23,500; Midcap Financial Intermediate Holdings, LLC $23,500; and Rug Doctor L.P. $9,443. Remaining par balances are held directly by Solar Capital Ltd.
(20) Includes an unfunded commitment of $6,083.
(21) Includes an unfunded commitment of $303.
(22) Includes an unfunded commitment of $2,726.

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

June 30, 2011

(unaudited)

Industry Classification	Percentage of Total Investments (at fair value) as of June 30, 2011 (unaudited)
Beverage, Food, and Tobacco	16%
Personal, Food and Misc. Services	9%
Insurance	8%
Banking	7%
Farming & Agriculture	6%
Aerospace & Defense	5%
Retail Stores	4%
Broadcasting & Entertainment	4%
Cargo Transport	4%
Diversified / Conglomerate Service	4%
Leisure, Motion Pictures, Entertainment	4%
Healthcare, Education, and Childcare	4%
Personal and Non-durable Consumer Products	4%
Real Estate	3%
Grocery	2%
Finance	2%
Hotels, Motels, Inns & Gaming	2%
Personal Transportation	2%
Electronics	2%
Machinery	2%
Textiles and Leather	2%
Telecommunications	2%
Home and Office Furnishing, Consumer Products	1%
Mining, Steel, Iron, and Nonprecious Metals	1%
	100%

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS

December 31, 2010

(in thousands, except shares)

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
Bank Debt/Senior Secured Loans 25.3%						
Asurion Corporation(18)	Insurance	6.76%	7/3/2015	$ 49,310	$ 49,266	$ 46,609
Classic Cruises Holdings(5)	Leisure, Motion Pictures, Entertainment	10.11%	1/31/2015	26,000	25,478	23,920
Emdeon Business Services LLC	Healthcare, Education, and Childcare	5.26%	5/16/2014	15,000	15,087	14,850
Fulton Holding Corp.(18)	Retail Stores	13.82%	5/28/2016	35,000	33,964	35,000
Ram Energy Resources, Inc.	Oil & Gas	12.75%	11/29/2012	9,270	9,247	8,899
Roundy s Supermarkets, Inc. 2nd Lien(18)	Grocery	10.00%	4/16/2016	22,000	21,612	22,371
USAW 767(10)	Aerospace & Defense	14.50%	12/31/2012	6,753	6,621	6,618
ViaWest Inc(18)	Personal, Food and Misc. Services	13.50%	5/20/2016	32,757	31,863	31,774
Vision Holding Corp.	Healthcare, Education, and Childcare	12.00%	11/23/2016	40,000	39,238	39,225
VPSI, Inc.	Personal Transportation	12.00%	12/23/2015	18,333	17,877	17,875
Total Bank Debt/Senior Secured Loans				**$ 254,423**	**$ 250,253**	**$ 247,141**
Subordinated Debt/Corporate Notes 66.6%						
Ares Capital Corporation(17)	Finance	6.00%	4/1/2012	$ 15,393	$ 12,046	$ 15,947
Ares Capital Corporation(18)	Finance	6.63%	7/15/2011	14,500	12,552	14,784
Adams Outdoor Advertising	Diversified / Conglomerate Service	18.00%	12/8/2015	42,500	41,784	41,775
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	5.30%	6/13/2012	25,729	25,564	23,414
Booz Allen Hamilton Inc.	Aerospace & Defense	13.00%	7/31/2016	17,362	17,103	17,927
Direct Buy Inc.(18)	Home and Office Furnishing, Consumer Products	16.00%	5/30/2013	38,100	37,724	34,614
DSW Group, Inc.	Beverage, Food, and Tobacco	15.00%	4/24/2012	107,759	107,158	100,216
Earthbound Farm(18)	Farming & Agriculture	14.25%	6/21/2017	58,947	57,475	58,358
Fleetpride Corporation(18)	Cargo Transport	11.50%	10/1/2014	43,000	43,119	41,065
Grakon, LLC(12)	Machinery	14.00%	6/19/2013	22,084	18,620	6,625
Iglo Birds Eye Group Limited(3)(4)	Beverage, Food, and Tobacco	11.79%	11/3/2016	5,100	5,131	5,144
Iglo Birds Eye Group Limited(3)(4)	Beverage, Food, and Tobacco	11.33%	11/3/2016	12,378	15,257	12,427
Magnolia River, LLC	Hotels, Motels, Inns & Gaming	14.00%	4/28/2014	19,064	18,492	18,111
Midcap Financial Intermediate Holdings, LLC(16)(18)	Banking	14.25%	7/9/2015	75,000	73,205	73,125
ProSieben Sat.1 Media AG(3)(8)	Broadcasting & Entertainment	8.14%	3/6/2017	21,059	19,813	17,247
Richelieu Foods, Inc.(17)	Beverage, Food, and Tobacco	13.75%	5/18/2016	22,500	21,901	21,881
Rug Doctor L.P.(18)	Personal, Food and Misc. Services	14.96%	10/31/2014	49,715	47,828	47,229
Seven Media Group Pty Limited(3)	Broadcasting & Entertainment	11.18%	12/29/2013	20,712	16,328	20,297
Seven Media Group Pty Limited(3)	Broadcasting & Entertainment	12.00%	12/29/2013	8,794	6,212	8,003
Shoes For Crews, LLC(17)	Textiles and Leather	13.75%	7/23/2016	15,650	15,249	15,650
Tri-Star Electronics International, Inc.	Aerospace & Defense	15.25%	8/2/2013	22,834	22,743	21,236
Weetabix Group(3)(7)	Beverage, Food, and Tobacco	10.53%	9/14/2016	14,586	17,092	11,304
Weetabix Group(3)(7)	Beverage, Food, and Tobacco	10.03%	5/7/2017	31,206	38,421	23,405
Total Subordinated Debt/Corporate Notes				**$ 703,972**	**$ 690,817**	**$ 649,784**

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2010

(in thousands, except shares)

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
Preferred Equity 0.4%						
SODO Corp.(10)(20)	Aerospace & Defense	10.00%		388	$ 390	$ 390
SOCAY Corp.(10)(20)	Aerospace & Defense	10.00%		3,484	3,500	3,500
Wyle Laboratories	Aerospace & Defense	8.00%	7/17/2015	387	39	44
Total Preferred Equity					**$ 3,929**	**$ 3,934**
Common Equity / Partnership Interests 7.7%						
Ark Real Estate Partners LP(9)(11)(19)	Real Estate			34,806,121	$ 34,806	$ 29,235
Direct Buy Inc.	Home and Office Furnishing, Consumer Products			5,000,000	5,000	2,500
Global Garden Products(3)(6)	Farming & Agriculture			88,483		
Grakon, LLC	Machinery			1,714,286	1,714	
Great American Group Inc.(13)	Personal, Food and Misc. Services			572,800	2,681	281
Great American Group Inc.(14)	Personal, Food and Misc. Services			187,500	3	92
National Specialty Alloys, LLC(10)	Mining, Steel, Iron, and Nonprecious Metals			1,000,000	10,000	10,000
Nuveen Investments, Inc.	Finance			3,000,000	30,000	7,500
NXP Semiconductors Netherlands B.V.(3)(15)	Electronics			1,139,081	31,057	21,897
Seven Media Group Pty Limited(3)	Broadcasting & Entertainment			4,285,714	3,301	3,857
Total Common Equity/Partnerships Interests					**$ 118,562**	**$ 75,362**
Total Investments					**$ 1,063,561**	**$ 976,221**

(1) We generally acquire our investments in private transactions exempt from registration under the Securities Act of 1933, as amended (the Securities Act). Our investments are therefore generally subject to certain limitations on resale, and may be deemed to be restricted securities under the Securities Act.

(2) A majority of the variable rate debt investments bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which reset daily, quarterly or semi-annually. For each debt investment we have provided the current interest rate in effect as of December 31, 2010.

(3) The following entities are domiciled outside the United States and the investments are denominated in either Euro, British Pounds or Australian Dollars: Iglo Birds Eye Group Limited, Global Garden Products and Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; and Seven Media Group Pty Limited in Australia. NXP Semiconductors Netherlands B.V. is domiciled in the Netherlands and is denominated in U.S. dollars. All other investments are domiciled in the United States.

(4) Solar Capital Ltd. s investments in Iglo Birds Eye Group Limited are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(5) Solar Capital Ltd. s investments in Classic Cruises Holdings are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(6) Solar Capital Ltd. s investments in Global Garden Products are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(7) Solar Capital Ltd. s investments in Weetabix Group are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(8) Solar Capital Ltd. s investments in ProSieben Sat. 1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.

(9) Solar Capital Ltd. has an unfunded commitment of $9,946.

(10) Denotes a Control Investment. Control Investments are defined in the Investment Company Act of 1940, as amended (the 1940 Act) as investments in those companies that the Company is deemed to Control. Generally, under the 1940 Act, the Company is deemed to Control a company in which it has invested if it owns 25% or more of the voting securities of such company or has greater than 50% representation on its board.

(11) Denotes an Affiliate Investment. Affiliate Investments are investments in those companies that are Affiliated Companies of the Company, as defined in the 1940 Act, which are not Control Investments. The Company is deemed to be an Affiliate of a company in which it has invested if it owns 5% or more but less than 25% of the voting securities of such company.

(12) Investment is on non-accrual status

(13) Founders Shares

(14) Contingent Founders Shares

(15) Administrative agent to NXP management equity plan

(16) Includes an unfunded par commitment of $15,000.

(17) Indicates an investment held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC. Such investments are pledged as collateral under the Senior Secured Loan Facility (see Note 6 to the consolidated financial statements) and are not generally available to the creditors of Solar Capital Ltd. Unless otherwise noted, as of December 31, 2010, all other investments were pledged as collateral for the Senior Secured Revolving Credit Facility and the Term Loan (see Note 6 to the consolidated financial statements).

(18) Indicates an investment partially held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC. (See note 17 above for further explanation.) Par amounts held through Solar Capital Funding II LLC include: Asurion $14,224; Fulton Holding Corp. $18,000; Roundy s Supermarkets Inc. $10,000; ViaWest Inc. $15,054; Ares Capital Corporation $12,000; Direct Buy Inc. $15,000; Earthbound $23,500; Fleetpride Corporation $23,500; Midcap Financial Intermediate Holdings, LLC $23,500; and Rug Doctor L.P. $9,371. Remaining par balances are held directly by Solar Capital Ltd.

(19) Solar Capital Ltd. s investments in Ark Real Estate Partners LP are held though it wholly-owned subsidiary SLRC ADI Corp.

(20) Solar Capital Ltd. s investments in SODO Corp. and SOCAY Corp. each include a one dollar investment in common shares.

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)

December 31, 2010

Industry Classification	Percentage of Total Investments (at fair value) as of December 31, 2010
Beverage, Food, and Tobacco	18%
Personal, Food and Misc. Services	8%
Banking	7%
Farming & Agriculture	6%
Healthcare, Education, and Childcare	5%
Aerospace & Defense	5%
Broadcasting & Entertainment	5%
Leisure, Motion Pictures, Entertainment	5%
Insurance	5%
Diversified / Conglomerate Service	4%
Cargo Transport	4%
Finance	4%
Home and Office Furnishing, Consumer Products	4%
Retail Stores	4%
Real Estate	3%
Grocery	2%
Electronics	2%
Hotels, Motels, Inns & Gaming	2%
Personal Transportation	2%
Textiles and Leather	2%
Mining, Steel, Iron, and Nonprecious Metals	1%
Oil & Gas	1%
Machinery	1%
	100%

See notes to consolidated financial statements.

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Note 1. Organization

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

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

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

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

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

Note 2. Significant Accounting Policies

Basis of Presentation The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP), and include the accounts of the Company and its wholly-owned subsidiaries, Solar Capital Luxembourg I S.a.r.l., which was incorporated under the laws of the Grand Duchy of Luxembourg on April 26, 2007, and Solar Capital Funding II LLC (SC Funding II), a Delaware limited liability company formed on December 8, 2010. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments, consisting solely of normal recurring accruals considered necessary for the fair presentation of financial statements for the interim period, have been included. The current period s results of operations will not necessarily be indicative of results that ultimately may be achieved for the fiscal year ending December 31, 2011.

Certain prior period amounts have been reclassified to conform to current period presentation. As required by ASC 260-10, *Earnings Per Share*, 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.

Investments The Company applies fair value accounting in accordance with GAAP. The Company generally values its assets on a quarterly basis, or more frequently if required under the 1940 Act. Securities transactions are accounted for on trade date. Securities for which market quotations are readily available on an exchange are valued at such price as of the closing price on the valuation date. The Company may also obtain quotes with respect to certain of its investments from pricing services or brokers or dealers in order to value assets. When doing so, the Company determines whether the quote obtained is sufficient according to GAAP to determine the fair value of the security. If determined adequate, the Company uses the quote obtained.

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

1) The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;

2) Preliminary valuation conclusions are then documented and discussed with senior management;

3) Third-party valuation firms are engaged by, or on behalf of, the Board to conduct independent appraisals and review management s preliminary valuations and make their own independent assessment, for all material assets; and

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

Valuation methods, among other measures and as applicable, may include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company s ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, and other relevant factors.

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

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

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

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

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

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

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

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

Fee Revenue Receivable Fee revenue receivable consists of premium payments owed to the Company at the maturity of certain loans. The premium payments are recorded as a receivable at the inception of the loan and are accreted into interest income over the respective terms of the applicable loans.

Deferred Fee Revenue Deferred fee revenue represents the unearned portion of premium payments owed to the Company at the maturity of certain loans.

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

Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For six months ended June 30, 2011, there was $399 of U.S. Federal excise tax accrued.

Although we file federal and state tax returns, our major tax jurisdiction is federal. Our inception-to-date federal tax years remain subject to examination by the Internal Revenue Service. The Company is also subject to taxes in Luxembourg, through Solar Capital Luxembourg I S.a.r.l., a wholly-owned subsidiary. Under the laws of Luxembourg, the Company pays a corporate income tax and a municipal business tax on its subsidiary s taxable income.

The Company evaluates tax positions taken or expected to be taken in the course of preparing its financial statements to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold are reversed and recorded as a tax benefit or expense in the current year. All penalties and interest associated with income taxes are included in income tax expense. Conclusions regarding tax positions are subject to review and may be adjusted at a later date based on factors including, but not limited to, on-going analyses of tax laws, regulations and interpretations thereof. We did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did we have any unrecognized tax benefits as of the periods presented herein.

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

Dividends Dividends and distributions to common stockholders are recorded on the ex-dividend date. Quarterly dividend payments are determined by the Board and are generally based upon taxable earnings estimated by management. Net realized capital gains, if any, are distributed at least annually, although we may decide to retain such capital gains for investment. We have adopted a dividend reinvestment plan that provides for reinvestment of any distributions we declare in cash on behalf of our stockholders, unless a stockholder elects to receive cash. As a result, if our Board authorizes, and we declare, a cash dividend, then our stockholders who have not opted out of our dividend reinvestment plan will have their cash dividends automatically reinvested in additional shares of our common stock, rather than receiving the cash dividend. While we generally use newly issued shares to implement the plan (especially if our shares are trading at a premium to net asset value), we may purchase shares in the open market in connection with our obligations under the plan. In particular, if our shares are trading at a significant enough discount to net asset value and we are otherwise permitted under applicable law to purchase such shares, we intend to purchase shares in the open market in connection with our obligations under our dividend reinvestment plan.

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Foreign Currency The accounting records of the Company are maintained in U.S. dollars. Foreign currency amounts are translated into U.S. dollars on the following basis:

(i) Market value of investment securities, other assets and liabilities at the current rates of exchange.

(ii) Purchase and sales of investment securities, income and expenses at the rates of exchange prevailing on the respective date of such transactions.

The Company does not isolate that portion of the results of operations resulting from changes in foreign currency rates on investments from the fluctuations arising from changes in market prices of securities held. Net realized foreign currency transactions gains or losses arise from sales of investment securities and maturities of forward currency contracts, currency gains or losses realized between the trade and settlement date on securities transactions, and the difference between the amounts of interest and dividends recorded on the Company s books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from the changes in the values of assets and liabilities, including investments in securities at period end, resulting from changes in the exchange rate.

The Company s investments in foreign securities may involve certain risks such as foreign exchange restrictions, expropriation, taxation or other political, social or economic risks, all of which could affect the market and/or credit risk of the investment. In addition, changes in the relationship of foreign currencies to the U.S. dollar can significantly affect the value of these investments and therefore the earnings of the Company.

Derivative Instruments and Hedging Activity In accordance with GAAP, the Company recognizes derivatives as either assets or liabilities at their fair value on its Consolidated Statements of Assets and Liabilities. At this time, the Company does not document formal hedge relationships because the hedged items are recorded at fair value with realized and unrealized gains and losses recognized in current earnings. Realized and unrealized gains and losses from derivatives are also recorded in current earnings. Realized gains or losses from derivatives are recognized when contracts are settled. The Company primarily uses foreign exchange forward contracts to economically hedge its foreign currency risk. The fair value of foreign exchange forward contracts is determined by recognizing the difference between the contract exchange rate and the current market exchange rate. These fair values are recognized as either derivative assets or derivative liabilities in the Company s Consolidated Statements of Assets and Liabilities. The Company may also borrow in foreign currencies on its multicurrency credit lines to reduce foreign currency exposure. Fluctuations in market values of assets and liabilities denominated in the same foreign currency offset in earnings providing a natural foreign currency hedge.

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

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

Receivable for Investments Sold Receivable for investments sold represents funds that have not been received for investments that were sold.

Payable for Investments Purchased Payable for investments purchased represents funds that have not been disbursed for investment purchases.

Deferred Credit Facility Costs Deferred credit facility costs are being amortized over the life of the related credit facility.

Note 3. Investments

Investments consisted of the following as of June 30, 2011 and December 31, 2010:

	June 30, 2011 (unaudited)		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	$ 312,183	$ 303,380	$ 250,253	$ 247,141
Subordinated Debt/Corporate Notes	637,228	608,187	690,817	649,784
Preferred Equity	9,247	9,253	3,929	3,934
Common Equity/Partnership Interests/Warrants	108,375	83,675	118,562	75,362
Total	$ 1,067,033	$ 1,004,495	$ 1,063,561	$ 976,221

As of June 30, 2011, the Company had no non-accrual investments. As of December 31, 2010, the Company had one non-accrual asset with a total market value of $6.6 million.

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Note 4. Agreements

Solar Capital has an Investment Advisory and Management Agreement with the Investment Adviser, under which the Investment Adviser manages the day-to-day operations of, and provides investment advisory services to, Solar Capital. For providing these services, the Investment Adviser receives a fee from Solar Capital, consisting of two components a base management fee and an incentive fee. The base management fee is determined by taking the average value of Solar Capital s gross assets at the end of the two most recently completed calendar quarters calculated at an annual rate of 2.00%. The incentive fee has two parts, as follows: one part is calculated and payable quarterly in arrears based on Solar Capital s pre-incentive fee net investment income for the immediately preceding calendar quarter. For this purpose, pre-incentive fee net investment income means interest income, dividend income and any other income (including any other fees (other than fees for providing managerial assistance), such as commitment, origination, structuring, diligence and consulting fees or other fees that we receive from portfolio companies) accrued during the calendar quarter, minus Solar Capital s operating expenses for the quarter (including the base management fee, any expenses payable under the Administration Agreement, and any interest expense and dividends paid on any issued and outstanding preferred stock, but excluding the incentive fee). Pre-incentive fee net investment income does not include any realized capital gains computed net of all realized capital losses and unrealized capital depreciation. Pre-incentive fee net investment income, expressed as a rate of return on the value of Solar Capital s net assets at the end of the immediately preceding calendar quarter, is compared to the hurdle rate of 1.75% per quarter (7% annualized). Our net investment income used to calculate this part of the incentive fee is also included in the amount of our gross assets used to calculate the 2% base management fee. Solar Capital pays the Investment Adviser an incentive fee with respect to Solar Capital s pre-incentive fee net investment income in each calendar quarter as follows: (1) no incentive fee in any calendar quarter in which Solar Capital s pre-incentive fee net investment income does not exceed the hurdle rate; (2) 100% of Solar Capital s pre-incentive fee net investment income with respect to that portion of such pre-incentive fee net investment income, if any, that exceeds the hurdle rate but is less than 2.1875% in any calendar quarter; and (3) 20% of the amount of Solar Capital s pre-incentive fee net investment income, if any, that exceeds 2.1875% in any calendar quarter. These calculations are appropriately pro-rated for any period of less than three months and adjusted for any share issuances or repurchases during the relevant quarter. The second part of the incentive fee is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date), commencing on February 12, 2007, and equals 20% of Solar Capital s cumulative realized capital gains less cumulative realized capital losses, unrealized capital depreciation (unrealized depreciation on a gross investment-by-investment basis at the end of each calendar year) and all capital gains upon which prior performance-based capital gains incentive fee payments were previously made to the Investment Adviser. For financial statement purposes, the second part of the incentive fee is accrued based upon 20% of cumulative net realized and unrealized capital appreciation. As of June 30, 2011, there is no accrual.

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

Note 5. Derivatives

The Company is exposed to interest rate risk both as a lender and a borrower. The Company s borrowing facilities and term loan bear interest at a floating rate, which means that rising interest rates would increase our cost of borrowing. To partially mitigate this risk, in 2011, the Company purchased two interest rate cap contracts, which effectively limit the interest rate payable on $150 million of Libor based borrowings. The Company had no interest rate derivatives prior to 2011. The following table highlights the outstanding interest rate caps:

		June 30, 2011 (unaudited)					
Index Rate	**Cap Rate**	**Notional Amount**	**Expiration**	**Cost**	**Fair Value**	**Unrealized appreciation (depreciation)**	**Counterparty**
3 Month Libor	1.0%	$ 100,000	1/13/2014	$ 1,950	$ 906	$ (1,044)	Wells Fargo
3 Month Libor	1.0%	50,000	5/4/2014	988	659	(329)	Wells Fargo
		$ 150,000		$ 2,938	$ 1,565	$ (1,373)	

The Company is also exposed to foreign exchange risk through its investments denominated in foreign currencies. The Company mitigates this risk through the use of foreign currency forward contracts. As an investment company, all changes in the fair value of assets, including changes caused by foreign currency fluctuation, flow through current earnings. The forward contracts serve as an economic hedge with their realized and unrealized gains and losses also recorded in current earnings. During the quarter ended June 30, 2011, the Company entered into 9 foreign currency forward contracts with durations of 1 month and an average U.S. dollar value of $36,762. During the year ended December 31, 2010, the Company entered into 77 foreign currency forward contracts with durations of 1 month and an average U.S. dollar value of $28,181.

As of June 30, 2011, there were three open forward foreign currency contracts denominated in Australian Dollars, Euros, and British Pounds, all of which terminate on July 12, 2011. As of December 31, 2010, there were three open forward foreign currency contracts denominated in Australian Dollars, Euros, and British Pounds, all of which terminated on January 7, 2011. There was no fixed collateral held by counterparties for the open contracts and no credit-related contingent features associated with any of the open forward contracts. The contract details are as follows:

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

	June 30, 2011 (unaudited)				December 31, 2010			
SOLD	Foreign Currency	USD Value	Unrealized appreciation (depreciation)	Counterparty	Foreign Currency	USD Value	Unrealized appreciation (depreciation)	Counterparty
AUD	20,458	$ 21,653	$ (289)	Wells Fargo	30,639	$ 31,337	$ (1,348)	SunTrust Bank
EUR	16,364	23,719	(11)	Wells Fargo	18,307	24,464	(191)	SunTrust Bank
GBP	31,918	52,179	952	Wells Fargo	37,942	59,155	604	SunTrust Bank
		$ 97,551	$ 652			$ 114,956	$ (935)	

The Company had no derivatives designated as hedging instruments at June 30, 2011 or December 31, 2010.

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

Fair Value of Derivative Instruments

	Derivative Assets			
	June 30, 2011 (unaudited)		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments [a]				
Foreign exchange contracts	Derivative assets	$ 952	Derivative assets	$ 604
Interest rate caps	Derivative assets	1,565	Derivative assets	
Total derivatives not designated as hedging instruments [a]		$ 2,517		$ 604
Total derivative assets		$ 2,517		$ 604

	Derivative Liabilities			
	June 30, 2011 (unaudited)		December 31, 2010	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments [a]				

Foreign exchange contracts	Derivative liabilities	$	300	Derivative liabilities	$ 1,539
Total derivatives not designated as hedging instruments [a]		$	300		$ 1,539
Total derivative liabilities		$	300		$ 1,539

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

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Effect of Derivative Instruments on the Consolidated Statements of Operations

Derivatives not designated as hedging instruments[(a)]	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative			
		Three months ended June 30, 2011 (unaudited)	Three months ended June 30, 2010 (unaudited)	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
Foreign exchange contracts	Realized gain (loss): Derivatives	$ (4,872)	$ 8,196	$ (9,235)	$ 9,748
Foreign exchange contracts	Unrealized gain (loss): Derivatives	1,876	(2,555)	1,587	(3,326)
Interest rate caps	Unrealized gain (loss): Derivatives	(1,403)		(1,373)	
Total		$ (4,399)	$ 5,641	$ (9,021)	$ 6,422

Note 6. Borrowing Facilities, Senior Unsecured Notes, and Term Loan

Senior Secured Revolving Credit Facility On January 11, 2008, Solar Capital LLC entered into a $200 million Senior Secured Revolving Credit Facility (the $355 million Credit Facility) with Citigroup Global Markets, Inc. (CGMI), various lenders, and Citibank, N.A., as administrative agent for the lenders. CGMI acted as the sole lead bookrunner and the sole lead arranger for the $355 million Credit Facility.

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

Term Loan On September 2, 2010, Solar Capital Ltd. entered into a fully funded $35 million senior secured term loan (the Term Loan), which matures in September 2013, bears interest at a rate per annum equal to the base rate plus 3.25%, and has terms substantially similar to the $355 million Credit Facility. The Term Loan contains certain customary affirmative and negative covenants and events of default, including the occurrence of a change of control. In addition, the Term Loan contains certain financial covenants that among other things, requires the Company to maintain a minimum shareholders equity and a minimum debt to total assets ratio.

Senior Secured Loan Facility On December 17, 2010, Solar Capital Ltd. entered into a new $100 million Senior Secured Credit Facility (the $100 million Credit Facility) with Wells Fargo Securities LLC, as administrative agent. Solar Capital entered into (i) a Purchase and Sale Agreement (the Purchase and Sale Agreement) with SC Funding II, pursuant to which Solar Capital will sell to SC Funding II certain loans that it has originated or acquired, or will originate or acquire (the Loans) from time to time; (ii) a Loan and Servicing Agreement (the Loan and Servicing Agreement and, together with the Purchase and Sale Agreement, the Agreements) with SC Funding II as borrower; and (iii) various supporting documentation. The $100 million Credit Facility is secured by all of the assets held by SC Funding II. The $100 million Credit Facility II, among other things, matures on December 17, 2015 and bears interest based on LIBOR plus 3.00%. Under the Agreements, Solar Capital, and SC Funding II, as applicable, are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities. The Purchase and Sale Agreement includes usual and customary events of default for credit facilities of this nature.

Senior Unsecured Notes On February 9, 2010, in connection with the Merger, senior unsecured notes (the Senior Unsecured Notes) of Solar Capital Ltd. were issued to certain equity holders. The Senior Unsecured Notes were scheduled to mature in February 2014 and had a coupon of 8.75%, payable quarterly in cash beginning May 1, 2010. The Senior Unsecured Notes were redeemable at any time, in whole or in part, at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Further, net cash proceeds from the issuance of any other senior notes had to be used either to redeem or make an offer to purchase the outstanding Senior Unsecured Notes at a price of 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. The Senior Unsecured Notes subjected Solar Capital Ltd. to customary covenants, including, among other things, (i) a requirement to maintain an asset coverage ratio of at least 2.00 to 1.00; (ii) a requirement that in the event of a change of control (as defined in the agreement governing the Senior Unsecured Notes) Solar Capital Ltd. will be required to offer to repurchase the Senior Unsecured Notes at a price of 101% of their principal amount, plus accrued and unpaid interest to the date of repurchase; and (iii) a restriction on incurring any debt on a junior lien basis, or any debt that is contractually subordinated in right of payment to any other debt unless it is also subordinated to the Senior Unsecured Notes on substantially identical terms. The agreement under which the Senior Unsecured Notes have been issued contained customary events of default. The Senior Unsecured Notes were repaid in full in December 2010 at par plus accrued interest.

The weighted average annualized interest cost for all outstanding borrowings for the six months ended June 30, 2011 and 2010 was 3.53% and 7.65%, respectively. These costs are exclusive of commitment fees and for other prepaid expenses related to establishing the $355 million Credit Facility, the $100 million Credit Facility, the Senior Unsecured Notes, and the Term Loan (collectively the Credit Facilities.) The average debt outstanding for the six months ended June 30, 2011 and for the year ended December 31, 2010 was $117,092 and $140,301, respectively. The maximum amounts borrowed on the Credit Facilities during the six months ended June 30, 2011 and the year ended December 31, 2010 were $435,356 and $435,000, respectively. There was $435,356 and $435,000 drawn on the Credit Facilities as of June 30, 2011 and December 31, 2010, respectively. At June 30, 2011, outstanding borrowings included 13,846 Canadian dollars. At June 30, 2011 and December 31, 2010, the Company was in compliance with all financial and operational covenants required by the Credit Facilities.

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Note 7. Fair Value

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

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

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

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

a) Quoted prices for similar assets or liabilities in active markets;

b) Quoted prices for identical or similar assets or liabilities in non-active markets (examples include corporate and municipal bonds, which trade infrequently);

c) Pricing models whose inputs are observable for substantially the full term of the asset or liability (examples include most over-the-counter derivatives, including foreign exchange forward contracts); and

d) Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

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

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

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2011 and December 31, 2010:

Fair Value Measurements

As of June 30, 2011

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans		40,225	263,155	303,380
Subordinated Debt / Corporate Notes		18,946	589,241	608,187
Preferred Equity			9,253	9,253
Common Equity / Partnership Interests / Warrants	2,129	16,947	64,599	83,675
Derivative assets interest rate cap		1,565		1,565
Derivative assets forward contracts		952		952
Liabilities:				
Derivative liabilities forward contracts		300		300

20

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Fair Value Measurements

As of December 31, 2010

	Level 1	Level 2	Level 3	Total
Assets:				
Bank Debt/Senior Secured Loans	$	$ 46,609	$ 200,532	$ 247,141
Subordinated Debt / Corporate Notes		83,476	566,308	649,784
Preferred Equity			3,934	3,934
Common Equity / Partnership Interests / Warrants	373	21,897	53,092	75,362
Derivative assets forward contracts		604		604
Liabilities:				
Derivative liabilities forward contracts		1,539		1,539

The following table provides a summary of the changes in fair value of Level 3 assets and liabilities for the six months ended June 30, 2011 and the year ended December 31, 2010, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at June 30, 2011 and December 31, 2010:

Fair Value Measurements Using Level 3 Inputs

As of June 30, 2011

	Bank Debt/ Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Partnership Interests/ Warrants
Fair value, January 1, 2011	$ 200,532	$ 566,308	$ 3,934	$ 53,092
Total gains or losses included in earnings:				
Net realized gain (loss)	(87)	3,135		(284)
Net change in unrealized gain (loss)	(8,771)	14,416		10,599
Purchase of investment securities	128,776	52,465	5,319	4,209
Proceeds from dispositions of investment securities	(57,295)	(47,083)		(3,017)
Transfers in/out of Level 3				
Fair value, June 30, 2011	$ 263,155	$ 589,241	$ 9,253	$ 64,599

Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized gain:	$ (10,914)	$ 1,101	$	$ 11,155

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

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Fair Value Measurements Using Level 3 Inputs

As of December 31, 2010

	Bank Debt/Senior Secured Loans	Subordinated Debt/ Corporate Notes	Preferred Equity	Common Equity/ Partnership Interests/Warrants
Fair value, January 1, 2010	$ 163,499	$ 576,031	$ 40	$ 55,121
Total gains or losses included in earnings:				
Net realized gain (loss)	463	(54,012)		15,316
Net change in unrealized gain (loss)	3,704	86,974	4	(4,006)
Purchases, sales, issuances, and settlements (net)	84,566	315	3,890	(11,642)
Transfers out of Level 3	(51,700)	(43,000)		(1,697)
Fair value, December 31, 2010	**$ 200,532**	**$ 566,308**	**$ 3,934**	**$ 53,092**
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period:				
Net change in unrealized gain:	$ 5,522	$ 18,999	$ 4	$ 9,161

During 2010, one asset with a fair value of $0.4 million was transferred from Level 2 to Level 1 when trading restrictions expired on a publicly traded equity investment. The Company had no assets or liabilities measured at fair value on a nonrecurring basis during the period.

Note 9. Stockholders Equity

The table below illustrates the effect of certain transactions on our capital accounts through June 30, 2011:

	Common Stock							
	Shares	**Par Amount**	**Partners Capital**	**Paid in Capital in Excess of Par**	**Distributions in Excess of Net Investment Income**	**Accumulated Net Realized Gain/(Loss)**	**Net Unrealized Depreciation**	**Total Stockholders Equity**
Balance at December 31, 2009		$	$ 697,903	$	$	$	$	$ 697,903

Issuance of Senior Notes								
Solar Capital Merger [1]	26,647,312	266	(697,903)	772,553			(199,916)	(125,000)
Issuances of common stock in IPO[2]	6,280,945	63		106,088				106,151
Issuances of common stock in private placement[3]	2,965,000	30		67,836				67,866
Reinvestment of dividends	489,901	5		10,841				10,846
Net increase in stockholders equity resulting from operations					69,212	(38,968)	111,641	141,885
Dividends declared ($2.14 per share)					(65,457)	(7,200)		(72,657)
Permanent tax differences				(30,327)	(5,300)	35,627		
Balance at December 31, 2010	36,383,158	$ 364	$	$ 926,991	$ (1,545)	$ (10,541)	$ (88,275)	$ 826,994
Reinvestment of dividends	64,449			1,562				1,562
Net increase in stockholders equity resulting from operations					40,518	(4,443)	25,327	61,402
Dividends declared ($1.20 per share)					(43,699)			(43,699)
Balance at June 30, 2011	36,447,607	$ 364	$	$ 928,553	$ (4,726)	$ (14,984)	$ (62,948)	$ 846,259

22

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Note 10. Earnings Per Share

The following information sets forth the computation of basic and diluted net increase in shareholders equity per share resulting from operations for the three and six months ended June 30, 2011 and 2010:

	Three months ended June 30, 2011 (unaudited)	Three months ended June 30, 2010 (unaudited)	Six months ended June 30, 2011 (unaudited)	Six months ended June 30, 2010 (unaudited)
Numerator for basic and diluted earnings per share:	$ 12,384	$ 16,514	$ 61,402	$ 78,518
Denominator for basic and diluted weighted average share:	36,444,775	33,029,516	36,414,137	32,792,734
Basic and diluted net increase in share holders equity resulting from operations per share:	$ 0.34	$ 0.50	$ 1.69	$ 2.39

As required by ASC 260-10, *Earnings Per Share*, 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.

Note 11. Pre-Merger Taxation

The Company intends to elect to be treated as a RIC under subchapter M of the Code and operates in a manner so as to qualify for the tax treatment applicable to RICs. In order to qualify as a RIC, among other things, the Company is required to timely distribute to its stockholders at least 90% of investment company taxable income, as defined by the Code, for each year. Additionally, as a BDC, the Company 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 its total assets are qualifying assets (with certain limited exceptions). Qualifying assets include investments in eligible portfolio companies. The Company, among other things, has made and intends to continue to make the requisite distributions to its stockholders, which will generally relieve the Company from U.S. federal, state, and local income taxes, excluding excise taxes which may be imposed under the Code. However, the Company may be subject to withholding taxes imposed on investment income and/or gains recognized associated with certain securities of issuers not resident in the U.S.

Prior to the February 9, 2010, the Company was classified as a partnership for U.S. tax purposes, and therefore was generally not subject to federal and state income taxes. Each partner took into account separately on their tax return their share of the taxable income, gains, losses, deductions or credits for the partnership s taxable year. Accordingly, no provisions were made in the accompanying financial statements for federal and state income tax. The Company was subject to New York City unincorporated business tax (UBT), which is imposed on the business income of every unincorporated business that is carried on in New York City. The UBT is imposed for each taxable year at a rate of approximately 4 percent of taxable income that is allocable to New York City.

Table of Contents

SOLAR CAPITAL LTD.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(in thousands, except shares)

(unaudited)

Note 12. Financial Highlights

The following is a schedule of financial highlights for the six months ended June 30, 2011 and 2010:

	Six months ended June 30, 2011	Six months ended June 30, 2010
Per Share Data: [a]		
Net asset value, beginning of year	$ 22.73	$ 21.24
Net investment income	1.11	1.11
Net realized and unrealized gain (loss)	0.58	1.28
Net increase in net assets resulting from operations	1.69	2.39
Effect of dilution		(0.31)
Offering Costs		(0.31