

Solar Capital Ltd.  
Form 497  
August 23, 2012  
**Table of Contents**

**Filed pursuant to Rule 497**

**Registration No. 333-172968**

**PROSPECTUS SUPPLEMENT**

**(to Prospectus dated July 10, 2012)**

**2,000,000 Shares**

**Solar Capital Ltd.**

**Common Stock**

**\$22.51 per share**

We are an externally managed finance company. Our investment objective is to generate both current income and capital appreciation through debt and equity investments. We invest primarily in leveraged companies, including middle-market companies, in the form of senior secured loans, mezzanine loans and equity securities.

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and commenced operations in March 2007. On February 9, 2010, Solar Capital LLC was merged with and into Solar Capital Ltd., an externally managed, non-diversified, closed-end management investment company that has elected to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act. We are managed by Solar Capital Partners, LLC. Solar Capital Management, LLC provides the administrative services necessary for us to operate.

We are offering 2,000,000 shares of our common stock directly to certain institutional investors. We have not retained any underwriter or placement agent, and we will not pay any commission or underwriting discount in connection with this offering. See Plan of Distribution

## Edgar Filing: Solar Capital Ltd. - Form 497

beginning on page S-34 of this prospectus supplement for more information regarding this offering.

Our common stock is listed on the NASDAQ Global Select Market under the symbol SLRC. On August 21, 2012, the last reported sales price on the NASDAQ Global Select Market for our common stock was \$23.05 per share.

This prospectus supplement and the accompanying prospectus contains important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus supplement and the accompanying prospectus before investing and keep it for future reference. We are required to file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information is available free of charge by contacting us by mail at 500 Park Avenue, 5<sup>th</sup> Floor, New York, NY 10022, by telephone at (212) 993-1670 or on our website at <http://www.solarcapltd.com>. The Securities and Exchange Commission also maintains a website at <http://www.sec.gov> that contains such information. Information contained on our website is not incorporated by reference into this prospectus supplement and the accompanying prospectus, and you should not consider that information to be part of this prospectus supplement and the accompanying prospectus.

**An investment in our common stock is very risky and highly speculative. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 17 of the accompanying prospectus to read about factors you should consider, including the risk of leverage, before investing in our common stock.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement and the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$ 22.51	\$ 45,020,000
Proceeds to Solar Capital Ltd. (before expenses)(1)	\$ 22.51	\$ 45,020,000

(1) We estimate that the expenses payable by us in connection with this offering will be immaterial.

August 23, 2012

**Table of Contents**

**TABLE OF CONTENTS**

**PROSPECTUS SUPPLEMENT**

	<b>Page</b>
<u>Prospectus Supplement Summary</u>	S-2
<u>Offering</u>	S-9
<u>Fees and Expenses</u>	S-12
<u>Selected Financial and Other Data</u>	S-15
<u>Cautionary Statement Regarding Forward-Looking Statements</u>	S-18
<u>Capitalization</u>	S-19
<u>Use of Proceeds</u>	S-20
<u>Price Range of Common Stock and Distributions</u>	S-21
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	S-23
<u>Plan of Distribution</u>	S-34
<u>Available Information</u>	S-35
<u>Index to Financial Statements</u>	F-1

**PROSPECTUS**

	<b>Page</b>
Summary	1
Fees and Expenses	11
Selected Financial and Other Data	14
Risk Factors	17
Cautionary Statement Regarding Forward-Looking Statements	36
Use of Proceeds	37
Price Range of Common Stock and Distributions	38
Management's Discussion and Analysis of Financial Condition and Results of Operations	40
Senior Securities	54
Business	55
Portfolio Companies	69
Management	73
Portfolio Management	82
Investment Advisory and Management Agreement	83
Administration Agreement	89
License Agreement	89
Certain Relationships and Transactions	90
Control Persons and Principal Stockholders	91
Regulation as a Business Development Company	92
Determination of Net Asset Value	97
Dividend Reinvestment Plan	99
Material U.S. Federal Income Tax Considerations	101
Sale of Our Common Stock Below Net Asset Value	108
Issuance of Warrants or Securities to Subscribe For or Convertible Into Shares of Our Common Stock	114
Description of Our Capital Stock	115
Description of Our Preferred Stock	122
Description of Our Warrants	123
Description of Our Debt Securities	124
Description of Our Units	137
Shares Eligible for Future Sale	138
Plan of Distribution	139



**Table of Contents**

	<b>Page</b>
Brokerage Allocation and Other Practices	141
Legal Matters	141
Independent Registered Public Accounting Firm	141
Available Information	142
Index to Financial Statements	F-1

**Table of Contents**

**ABOUT THIS PROSPECTUS SUPPLEMENT**

**You should rely only on the information contained in this prospectus supplement and the accompanying prospectus. We have not authorized any other person to provide you with different information from that contained in this prospectus supplement or the accompanying prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to buy, any shares of our common stock by any person in any jurisdiction where it is unlawful for that person to make such an offer or solicitation or to any person in any jurisdiction to whom it is unlawful to make such an offer or solicitation. The information contained in this prospectus supplement and the accompanying prospectus is complete and accurate only as of their respective dates, regardless of the time of their delivery or sale of our common stock. This prospectus supplement supersedes the accompanying prospectus to the extent it contains information different from or additional to the information in that prospectus.**

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering of common stock and also adds to and updates information contained in the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information and disclosure. To the extent the information contained in this prospectus supplement differs from the information contained in the accompanying prospectus, the information in this prospectus supplement shall control. You should read this prospectus supplement and the accompanying prospectus together with the additional information described under the heading *Available Information* before investing in our common stock.

---

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights some of the information in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in the accompanying prospectus and the documents to which we have referred.*

*We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and commenced operations in March 2007 after conducting a private placement of units of membership interest ( "units" ). On February 9, 2010, Solar Capital LLC was merged with and into Solar Capital Ltd., a Maryland corporation, which we refer to as the "Solar Capital Merger," concurrent with the pricing of our initial public offering, leaving Solar Capital Ltd. as the surviving entity. Except where the context suggests otherwise, the terms "we," "us," "our" and "Solar Capital" refer to Solar Capital LLC prior to the Solar Capital Merger, and Solar Capital Ltd. after the Solar Capital Merger. In addition, the terms "Solar Capital Partners" or "investment adviser" refer to Solar Capital Partners, LLC, and "Solar Capital Management" or the "administrator" refers to Solar Capital Management, LLC.*

*In this prospectus supplement, we use the term "leveraged" to refer to companies of any size with non-investment grade debt outstanding or, if not explicitly rated, those which we believe would be rated as non-investment grade based on their leverage levels and other terms. In addition, we use the term "middle-market" to refer to companies with annual revenues between \$50 million and \$1 billion.*

**Solar Capital**

Solar Capital Ltd., 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 we have 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" ). 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 Solar Capital Merger. Solar Capital Ltd. had no assets or operations prior to completion of the Solar Capital Merger and as a result, the books and records of Solar Capital LLC have become the books and records of the surviving entity. 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 our credit facility established in December 2010.

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 model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$20 million and \$100 million each, although we expect that this investment size will





## **Table of Contents**

vary proportionately with the size of our capital base. We are managed by Solar Capital Partners. Solar Capital Management 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 June 30, 2012, our long term investments totaled \$1.19 billion and our net asset value was \$824.9 million. Our portfolio was comprised of debt and equity investments in 41 portfolio companies and our income producing assets, which represented 94.0% of our total portfolio, had a weighted average annualized yield on a fair value basis of approximately 13.9%.

### **About Solar Capital Partners**

Solar Capital Partners, our investment adviser, is controlled and led by Michael S. Gross, our chairman and chief executive officer, and Bruce Spohler, our chief operating officer. They are supported by a team of dedicated investment professionals, including senior team members Brian Gerson, Cedric Henley, David Mait and Suhail Shaikh. We refer to Messrs. Gross, Spohler, Gerson, Henley, Mait and Shaikh as Solar Capital Partners' senior investment professionals. Solar Capital Partners' investment team has extensive experience in the private equity and leveraged lending industries, as well as significant contacts with financial sponsors operating in those industries.

In addition, Solar Capital Partners presently serves as the investment adviser for Solar Senior Capital Ltd., or Solar Senior, a publicly traded business development company with more than \$300 million of investable capital that invests in the senior debt securities of leveraged middle-market companies similar to those we intend to target for investment. The investment team led by Messrs. Gross and Spohler has invested in approximately 100 different portfolio companies for Solar Capital and Solar Senior, which investments involved an aggregate of approximately 90 different financial sponsors, through June 30, 2012. Since Solar Capital's inception, these investment professionals have used their relationships in the middle-market financial sponsor and financial intermediary community to generate deal flow. As of August 21, 2012, Mr. Gross and Mr. Spohler beneficially owned, either directly or indirectly, approximately 5.8% and 5.6%, respectively, of our outstanding common stock.

Mr. Gross has 25 years of experience in the private equity, distressed debt and mezzanine lending businesses and has been involved in originating, structuring, negotiating, consummating and managing private equity, distressed debt and mezzanine lending transactions. We also rely on the 25 years of experience of Mr. Spohler, who has served as our chief operating officer and a partner of Solar Capital Partners since its inception. In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment professionals include Messrs. Gerson, Henley, Mait and Shaikh, each of whom has extensive experience in originating, evaluating and structuring investments in the types of middle-market companies we currently target.

Solar Capital Partners' senior investment professionals have been active participants in the primary and secondary leveraged credit markets throughout their careers. They have effectively managed portfolios of distressed and mezzanine debt as well as other investment types. The depth of their experience and credit market expertise has led them through various stages of the economic cycle as well as several market disruptions.

## **Table of Contents**

### **Market Opportunity**

Solar Capital invests primarily in senior secured loans, mezzanine loans and equity securities of middle-market leveraged companies. We believe that the size of this market, coupled with leveraged companies' need for flexible sources of capital at attractive terms and rates, creates an attractive investment environment for us. See **Business** **Market Opportunity**.

*Middle-market companies have faced increasing difficulty in accessing the capital markets.* While many middle-market companies were formerly able to raise funds by issuing high-yield bonds, we believe this approach to financing has become more difficult in recent years as institutional investors have sought to invest in larger, more liquid offerings. In addition, many private finance companies that historically financed their lending and investing activities through securitization transactions have lost that source of funding and reduced lending significantly. Moreover, consolidation and the illiquid nature of investments have resulted in fewer middle-market lenders and market participants.

*There is a large pool of uninvested private equity capital likely to seek additional capital to support their investments.* There is currently over \$520 billion of uninvested private equity capital seeking debt financing to support acquisitions. We expect that middle-market private equity firms will continue to invest the approximately \$185 billion raised since 2000 in middle-market companies and that those private equity firms will seek to support their investments with mezzanine loans from sources such as Solar Capital. Additionally, over \$17.4 billion was raised by middle-market sponsors during 2011, which we believe demonstrates the continued appetite for middle-market acquisitions that require debt financing.

*The significant amount of debt maturing through 2018 should provide additional demand for capital.* A high volume of financings were completed between the years 2004 and 2007, which are expected to mature over the next few years. We believe that this supply of prospective lending opportunities coupled with a lack of available credit in the middle-market lending space may offer attractive risk-adjusted returns to investors.

*Investing in private middle-market debt provides an attractive risk reward profile.* In general, terms for illiquid, middle-market subordinated debt have been more attractive than those for larger corporations which are typically more liquid. We believe this is because fewer institutions are able to invest in illiquid asset classes. In 2011, on average, the total debt to EBITDA ratio for middle-market leveraged buyouts ( LBOs ) was 4.3x, versus 5.4x for large capitalization LBOs. This reduced leverage provides further cushion for borrowers to meet debt service obligations.

Therefore, we believe that there is an attractive opportunity to invest in senior secured loans, mezzanine loans and equity securities of leveraged companies, and that we are well positioned to serve this market.

### **Competitive Advantages and Strategy**

We believe that we have the following competitive advantages over other providers of financing to leveraged companies. See **Business** **Competitive Advantages and Strategy**.

### ***Management Expertise***

## Edgar Filing: Solar Capital Ltd. - Form 497

As managing partner, Mr. Gross has principal management responsibility for Solar Capital Partners, to which he currently dedicates substantially all of his time. Mr. Gross has 25 years of experience in leveraged finance, private equity and distressed debt investing. Mr. Spohler, our chief operating officer and a partner of Solar Capital Partners, has 25 years of experience in evaluating and executing leverage finance transactions. We believe that Messrs. Gross and Spohler have developed a strong reputation in the capital markets, and that this experience provides us with a competitive advantage in identifying and investing in leveraged companies with the potential to generate returns.

S-4

## **Table of Contents**

In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment team includes Messrs. Gerson, Henley, Mait and Shaikh, each of whom has extensive experience in originating, evaluating and structuring investments in the types of middle-market companies we currently target. Solar Capital Partners' senior investment professionals have an average of over 20 years of experience in the private equity and leveraged lending industries.

### ***Investment Portfolio***

Our portfolio investments consist of portfolio companies that have strong cash flows and have maintained financial and operating performance despite the recent economic climate. As of June 30, 2012, 98.2% of our total portfolio value of income producing assets, measured at fair value, was comprised of performing assets.

### ***Investment Capacity***

The proceeds from our initial public offering and the Concurrent Private Placement, the borrowing capacity under our credit facilities, term loan and our \$75 million of senior secured notes (the "Senior Notes"), and the expected repayments of existing investments provide us with a substantial amount of capital available for deployment into new investment opportunities. We believe we are well positioned for the current marketplace.

### ***Solar Capital's Limited Leverage***

As of June 30, 2012, we had outstanding borrowings of \$229.9 million. We believe our relatively low level of leverage provides us with a competitive advantage, allowing us to anticipate providing a consistent dividend to our investors, as proceeds from our investments are available for reinvestment as opposed to being consumed by debt repayment. We may increase our relative level of debt in the future. However, we do not currently anticipate operating with a substantial amount of debt relative to our total assets.

### ***Proprietary Sourcing and Origination***

We believe that Solar Capital Partners' senior investment professionals' longstanding relationships with financial sponsors, commercial and investment banks, management teams and other financial intermediaries provide us with a strong pipeline of proprietary origination opportunities. We believe the broad expertise of Solar Capital Partners' senior investment team and their ability to draw upon their average of over 20 years of investment experience enable us to identify, assess and structure investments successfully. We expect to continue leveraging the relationships Mr. Gross established while sourcing and originating investments at Apollo Investment Corporation as well as the financial sponsor relationships Mr. Spohler developed while he was a co-head of CIBC World Markets' U.S. Leveraged Finance Group.

Since its inception, Solar Capital Partners has sourced investments in approximately 100 different portfolio companies for both Solar Capital and Solar Senior, collectively, which investments involved an aggregate of approximately 90 different financial sponsors, through June 30, 2012.

*Versatile Transaction Structuring and Flexibility of Capital*

We believe Solar Capital Partners' senior investment team's broad expertise and ability to draw upon its extensive experience enable us to identify, assess and structure investments successfully across all levels of a company's capital structure and to manage potential risk and return at all stages of the economic cycle. While we are subject to significant regulation as a BDC, we are not subject to many of the regulatory limitations that govern traditional lending institutions such as banks. As a result, we believe that we can be more flexible than such lending institutions in selecting and structuring investments, adjusting investment criteria, transaction

S-5

## **Table of Contents**

structures and, in some cases, the types of securities in which we invest. We believe financial sponsors, management teams and investment banks see this flexibility as a benefit, making us an attractive financing partner.

### ***Emphasis on Achieving Strong Risk-Adjusted Returns***

Solar Capital Partners uses a disciplined investment and risk management process that emphasizes a rigorous fundamental research and analysis framework. Solar Capital Partners seeks to build our portfolio on a bottom-up basis, choosing and sizing individual positions based on their relative risk/reward profiles as a function of the associated downside risk, volatility, correlation with the existing portfolio and liquidity. At the same time, Solar Capital Partners takes into consideration a variety of factors in managing our portfolio and imposes portfolio-based risk constraints promoting a more diverse portfolio of investments and limiting issuer and industry concentration. Our value-oriented investment philosophy focuses on preserving capital and ensuring that our investments have an appropriate return profile in relation to risk. When market conditions make it difficult for us to invest according to our criteria, we are highly selective in deploying our capital. We do not pursue short-term origination targets. We believe this approach enables us to build an attractive investment portfolio that meets our return and value criteria over the long term.

We believe it is critical to conduct extensive due diligence on investment targets. In evaluating new investments we, through Solar Capital Partners, conduct a rigorous due diligence process that draws upon the investment experience, industry expertise and network of contacts of our senior investment professionals, as well as the other members of our investment team.

### ***Deep Industry Focus with Substantial Information Flow***

We concentrate our investing activities in industries characterized by strong cash flow and in which Solar Capital Partners' investment professionals have deep investment experience. During his time with the Apollo entities, Mr. Gross oversaw investments in over 200 companies in 20 industries. As a result of their investment experience, Messrs. Gross and Spohler, together with Solar Capital Partners' other senior investment professionals, have long-term relationships with management consultants and management teams in the industries we target, as well as substantial information concerning those industries.

### ***Longer Investment Horizon***

Unlike private equity and venture capital funds, we will not be subject to standard periodic capital return requirements. Such requirements typically stipulate that the capital of these funds, together with any capital gains on such invested funds, can only be invested once and must be returned to investors after a pre-agreed time period. We believe that our flexibility to make investments with a long-term view and without the capital return requirements of traditional private investment vehicles provides us with the opportunity to generate favorable returns on invested capital and enables us to be a better long-term partner for our portfolio companies.

## **Risk Factors**

## Edgar Filing: Solar Capital Ltd. - Form 497

The value of our assets, as well as the market price of shares of our common stock, will fluctuate. Our investments may be risky, and you may lose all or part of your investment in us. Investing in Solar Capital involves other risks, including the following:

We operate in a highly competitive market for investment opportunities;

The lack of liquidity in our investments may adversely affect our business;

S-6

**Table of Contents**

We may borrow money, which would magnify the potential for gain or loss on amounts invested and may increase the risk of investing in us;

To the extent we use debt to finance our investments, changes in interest rates will affect our cost of capital and net investment income;

There will be uncertainty as to the value of our portfolio investments;

We may experience fluctuations in our quarterly results;

We will become subject to corporate-level income tax on all of our income if we are unable to continue to qualify as a regulated investment company, or RIC, under Subchapter M of the Code, which would have a material adverse effect on our financial performance;

We are dependent upon Solar Capital Partners' key personnel for our future success;

We cannot assure you that shares of our common stock will not trade at a market price below our net asset value per share;

The net asset value per share of our common stock may be diluted if we sell shares of our common stock in one or more offerings at prices below the then current net asset value per share of our common stock or securities convertible into shares of our common stock;

Our common stock price may be volatile and may decrease substantially;

There is a risk that our stockholders may not receive distributions or that our distributions may not grow over time;

Sales of substantial amounts of our common stock in the public market may have an adverse effect on the market price of our common stock; and

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital. As a BDC, the necessity of raising additional capital may expose us to risks, including the typical risks associated with leverage.

See "Risk Factors" beginning on page 17 of the accompanying prospectus and the other information included in the accompanying prospectus for additional discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

**Operating and Regulatory Structure**

Immediately prior to the pricing of our initial public offering, Solar Capital LLC was merged with and into Solar Capital Ltd., a Maryland corporation that is an externally managed, non-diversified closed-end management investment company which has elected to be treated as a BDC under the 1940 Act. As a BDC, we are required to meet regulatory tests, including the requirement to invest at least 70% of our total assets in qualifying assets. Qualifying assets generally include, among other things, securities of eligible portfolio companies. Eligible portfolio



## Edgar Filing: Solar Capital Ltd. - Form 497

companies generally include U.S. companies that are not investment companies and that do not have securities listed on a national exchange. See Regulation as a Business Development Company. We may also borrow funds to make investments. In addition, we have elected to be treated for federal income tax purposes, and intend to continue to qualify annually, as a RIC under Subchapter M of the Code. See Material U.S. Federal Income Tax Considerations.

Our investment activities are managed by Solar Capital Partners and supervised by our board of directors. Solar Capital Partners is an investment adviser that is registered under the Investment Advisers Act of 1940, as amended (the Advisers Act ). Under our investment advisory and management agreement, which we refer to as the Investment Advisory and Management Agreement, we have agreed to pay Solar Capital Partners an annual

S-7

**Table of Contents**

base management fee based on our gross assets as well as an incentive fee based on our performance. See Investment Advisory and Management Agreement. We have also entered into an administration agreement, which we refer to as the Administration Agreement, under which we have agreed to reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including furnishing us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities, as well as providing us with other administrative services. See Administration Agreement.

**Our Corporate Information**

Our offices are located at 500 Park Avenue, New York, New York 10022, and our telephone number is (212) 993-1670.

S-8

**Table of Contents**

**THE OFFERING**

Common Stock Offered by Us	2,000,000 shares.
Common Stock Outstanding Prior to This Offering	36,667,198 shares.
Common Stock Outstanding After This Offering	38,667,198 shares.
Use of Proceeds	We intend to use the net proceeds of this offering for general corporate purposes, which includes, among other things, (a) investing in portfolio companies in accordance with our investment objective and strategies and market conditions and (b) repaying indebtedness.
See Use of Proceeds.	
NASDAQ Global Select Market symbol	SLRC
Distributions	To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders. The amount of our dividends, if any, will be determined by our board of directors. Any dividends to our stockholders will be declared out of assets legally available for distribution. The specific tax characteristics of our dividends will be reported to shareholders after the end of each calendar year. We may issue preferred stock from time to time, although we have no immediate intention to do so. If we issue shares of preferred stock, holders of such preferred stock will be entitled to receive cash dividends at an annual rate that will be fixed or will vary for the successive dividend periods for each series. In general, the dividend periods for fixed rate preferred stock will be quarterly.
Taxation	We have elected to be treated for federal income tax purposes, and intend to continue to qualify annually, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level federal income taxes on any ordinary income or capital gains that we distribute to our stockholders as dividends. To obtain and maintain our RIC tax treatment, we must meet specified source-of-income and asset diversification requirements and distribute annually 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. See Plan of Distribution and Material U.S. Federal Income Tax Considerations in the accompanying prospectus.
Leverage	We have historically and will in the future borrow funds to make investments. As a result, we will be exposed to the risks of leverage, which may be considered a speculative investment technique. The use of leverage magnifies the potential for gain and loss on amounts invested and therefore increases the risks associated with investing in our securities. In addition, the costs associated with our borrowings,

**Table of Contents**

including any increase in the management fee payable to our investment adviser, Solar Capital Partners, will be borne by our common stockholders.

Investment Advisory Fees

We pay Solar Capital Partners a fee for its services under the Investment Advisory and Management Agreement consisting of two components – a base management fee and an incentive fee. The base management fee is calculated at an annual rate of 2.00% of our gross assets, which includes any borrowings for investment purposes. The incentive fee consists of two parts. The first part is calculated and payable quarterly in arrears and equals 20% of our pre-incentive fee net investment income for the immediately preceding quarter, subject to a preferred return, or hurdle, and a catch up feature. The second part is determined and payable in arrears as of the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement) in an amount equal to 20% of our realized capital gains, if any, on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. See Investment Advisory and Management Agreement in the accompanying prospectus.

Administration Agreement

We reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including furnishing us with office facilities, equipment and clerical, bookkeeping and record keeping services at such facilities, as well as providing us with other administrative services. In addition, we reimburse Solar Capital Management for the fees and expenses associated with performing compliance functions, and our allocable portion of the compensation of our chief financial officer and any administrative support staff. See Administration Agreement in the accompanying prospectus.

Trading

Shares of closed-end investment companies frequently trade at a discount to their net asset value. The risk that our shares may trade at a discount to our net asset value is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether our shares will trade above, at or below net asset value.

License Agreement

We have entered into a license agreement with Solar Capital Partners, pursuant to which Solar Capital Partners has agreed to grant us a non-exclusive license to use the name Solar Capital. See License Agreement in the accompanying prospectus.

Dividend Reinvestment Plan

We have adopted an opt out dividend reinvestment plan. If your shares of common stock are registered in your own name, your distributions will automatically be reinvested under our dividend reinvestment plan in additional whole and fractional shares of

**Table of Contents**

common stock, unless you opt out of our dividend reinvestment plan so as to receive cash dividends by delivering a written notice to our plan administrator. If your shares are held in the name of a broker or other nominee, you should contact the broker or nominee for details regarding opting out of our dividend reinvestment plan. Stockholders who receive distributions in the form of stock will be subject to the same federal, state and local tax consequences as stockholders who elect to receive their distributions in cash. See *Dividend Reinvestment Plan* in the accompanying prospectus.

Certain Anti-Takeover Measures

Our charter and bylaws, as well as certain statutory and regulatory requirements, contain certain provisions that may have the effect of discouraging a third party from making an acquisition proposal for us. These anti-takeover provisions may inhibit a change in control in circumstances that could give the holders of our common stock the opportunity to realize a premium over the market price for our common stock. See *Description of Our Capital Stock* in the accompanying prospectus.

Available Information

We are required to file periodic reports, current reports, proxy statements and other information with the SEC. This information is available at the SEC's public reference room at 100 F Street, NE, Washington, D.C. 20549 and on the SEC's website at <http://www.sec.gov>. The public may obtain information on the operation of the SEC's public reference room by calling the SEC at (202) 551-8090. This information is also available free of charge by contacting us at Solar Capital Ltd., 500 Park Avenue, New York, NY 10022, by telephone at (212) 993-1670 or on our website at <http://www.solarcapltd.com>.

**Table of Contents****FEES AND EXPENSES**

The following table is intended to assist you in understanding the costs and expenses that you will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. Except where the context suggests otherwise, whenever this prospectus supplement and the accompanying prospectus contains a reference to fees or expenses paid by us or Solar Capital, or that we will pay fees or expenses, you will indirectly bear such fees or expenses as an investor in Solar Capital Ltd.

**Stockholder transaction expenses:**

Sales load borne by us (as a percentage of offering price)	
Offering expenses borne by us (as a percentage of offering price)	(1)
Dividend reinvestment plan expenses	(2)
<b>Total stockholder transaction expenses (as a percentage of offering price)</b>	<b>(1)</b>

**Annual expenses (as a percentage of net assets attributable to common stock):**

Base management fee	2.66%(3)
Incentive fees payable under our Investment Advisory and Management Agreement	2.15%(4)
Interest payments on borrowed funds	2.85%(5)
Other expenses (estimated)	0.93%(6)
<b>Total annual expenses (estimated)</b>	<b>8.59%</b>

- (1) The offering expenses of this offering are estimated to be immaterial.
- (2) The expenses of the dividend reinvestment plan are included in other expenses.
- (3) Our base management fee under the Investment Advisory and Management Agreement is based on our gross assets, which is defined as all the assets of Solar Capital, including those acquired using borrowings for investment purposes, and assumes the base management fee remains consistent with fees incurred for the six months ended June 30, 2012. See Investment Advisory and Management Agreement.
- (4) Assumes that annual incentive fees earned by our investment adviser, Solar Capital Partners, remain consistent with the incentive fees earned by Solar Capital Partners for the six months ended June 30, 2012. The incentive fee consists of two parts:

The first part, which was payable quarterly in arrears, equals 20% of the excess, if any, of our Pre-Incentive Fee Net Investment Income that exceeds a 1.75% quarterly (7.00% annualized) hurdle rate, which we refer to as the Hurdle, subject to a catch-up provision measured at the end of each calendar quarter. The first part of the incentive fee is computed and paid on income that may include interest that is accrued but not yet received in cash. The operation of the first part of the incentive fee for each quarter is as follows:

no incentive fee is payable to our investment adviser in any calendar quarter in which our Pre-Incentive Fee Net Investment Income does not exceed the Hurdle of 1.75%;

100% of our 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 but is less than 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser. We refer to this portion of our Pre-Incentive Fee Net Investment Income (which exceeds the Hurdle but is less than 2.1875%) as the catch-up. The catch-up is meant to provide our investment adviser with 20% of our Pre-Incentive Fee Net Investment Income, as if a Hurdle did not apply when our Pre-Incentive Fee Net Investment Income exceeds 2.1875% in any calendar quarter; and 20% of the amount of our Pre-Incentive Fee Net Investment Income, if any, that exceeds 2.1875% in any calendar quarter (8.75% annualized) is payable to our investment adviser (once the Hurdle is reached and the catch-up is achieved, 20% of all Pre-Incentive Fee Investment Income thereafter is allocated to our investment adviser).

**Table of Contents**

The second part of the incentive fee equals 20% of our Incentive Fee Capital Gains, if any, which equals our realized capital gains on a cumulative basis from inception through the end of each calendar year, computed net of all realized capital losses and unrealized capital depreciation on a cumulative basis, less the aggregate amount of any previously paid capital gain incentive fees. The second part of the incentive fee is payable, in arrears, at the end of each calendar year (or upon termination of the Investment Advisory and Management Agreement, as of the termination date). For a more detailed discussion of the calculation of this fee, see Investment Advisory and Management Agreement in the accompanying prospectus.

- (5) We may borrow funds from time to time to make investments to the extent we determine that the economic situation is conducive to doing so. The costs associated with our outstanding borrowings are indirectly born by our investors. For purposes of this section, we have computed interest expense using the average balance outstanding for all borrowings during the six months ended June 30, 2012. We used the LIBOR rate on June 30, 2012 and the interest rate on our revolving credit facilities and the Senior Notes on June 30, 2012. We have also included the estimated amortization of fees incurred in establishing our revolving credit facilities and the Senior Notes. Additionally, we included the estimated cost of commitment fees for unused balances on our revolving credit facilities. As of June 30, 2012, we had \$119.9 million outstanding and \$430.1 million remaining available to us under our revolving credit facilities and had \$75 million and \$35 million outstanding under the Senior Notes and Term Loan, respectively. We may also issue preferred stock, subject to our compliance with applicable requirements under the 1940 Act.
- (6) Other expenses are based on the amounts incurred for the year ended December 31, 2011 and include our overhead expenses, including payments under our Administration Agreement based on our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement. See Administration Agreement in the accompanying prospectus.

**Example**

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed that our annual operating expenses would remain at the levels set forth in the table above and have excluded performance-based incentive fees. See Note 5 above for additional information regarding certain assumptions regarding our level of leverage. Sales load applicable to this offering has been included in our calculations, but other transaction expenses are not included in the following example.

	1 Year	3 Years	5 Years	10 Years
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 64	\$ 190	\$ 312	\$ 603

**Table of Contents**

**The example and the expenses in the tables above should not be considered a representation of our future expenses, and actual expenses may be greater or less than those shown.** While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. The incentive fee under the Investment Advisory and Management Agreement, which, assuming a 5% annual return, would either not be payable or would have an insignificant impact on the expense amounts shown above, is not included in the example. This illustration assumes that we will not realize any capital gains (computed net of all realized capital losses and unrealized capital depreciation) in any of the indicated time periods. If we achieve sufficient returns on our investments, including through the realization of capital gains, to trigger an incentive fee of a material amount, our expenses and returns to our investors would be higher. For example, if we assumed that we received our 5% annual return completely in the form of net realized capital gains on our investments, computed net of all cumulative unrealized depreciation on our investments, the projected dollar amount of total cumulative expenses set forth in the above illustration would be as follows:

	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>
You would pay the following expenses on a \$1,000 investment, assuming a 5% annual return	\$ 74	\$ 218	\$ 354	\$ 667

In addition, the example assumes no sales load. Also, while the example assumes reinvestment of all dividends at net asset value, participants in our dividend reinvestment plan will receive a number of shares of our common stock, determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the dividend payment date, which may be at, above or below net asset value. See **Dividend Reinvestment Plan** in the accompanying prospectus for additional information regarding our dividend reinvestment plan.



**Table of Contents****SELECTED FINANCIAL AND OTHER DATA**

The selected financial and other data below should be read in conjunction with our Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and notes thereto. Financial information is presented for the fiscal years ended December 31, 2011, 2010, 2009 and 2008 and for the period from March 13, 2007 (Solar Capital LLC inception) through December 31, 2007. Financial information for the periods ending December 31, 2011, 2010, 2009, 2008 and 2007 has been derived from our audited financial statements. The financial information at and for the six months ended June 30, 2012 was derived from our unaudited financial statements and related notes. 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 periods, have been included. Our results for the interim period may not be indicative of our results for the full year. See Management's Discussion and Analysis of Financial Condition and Results of Operations and Senior Securities in the accompanying prospectus for more information.

	Six Months ended	Year ended	Year ended	Year ended	Year ended	Period from March 13,
(\$ in thousands, except per share data)	June 30,	December 31,	December 31,	December 31,	December 31,	2007 (inception) through
	2012	2011	2010	2009	2008	December 31,
	(unaudited)					2007
<b>Income statement data:</b>						
Total investment income	\$ 71,142	\$ 138,900	\$ 124,641	\$ 109,670	\$ 133,959	\$ 78,455
Total expenses	\$ 35,674	\$ 56,996	\$ 55,429	\$ 42,408	\$ 46,560	\$ 25,461
Net investment income	\$ 35,468	\$ 81,904	\$ 69,212	\$ 67,262	\$ 87,399	\$ 52,994
Net realized loss	\$ (9,989)	\$ (2,393)	\$ (38,968)	\$ (264,898)	\$ (937)	\$ (10,489)
Net change in unrealized gain (loss)	\$ 36,741	\$ (18,196)	\$ 111,641	\$ 284,572	\$ (492,290)	\$ 6,595
Net increase (decrease) in net assets resulting from operations	\$ 62,220	\$ 61,315	\$ 141,885	\$ 86,936	\$ (405,828)	\$ 49,100
<b>Other data (unaudited):</b>						
Weighted average annualized yield on income producing investments:						
On fair value(1)(4)	13.9%	14.2%	14.3%	14.8%	17.1%	12.9%
On cost(2)(4)	13.8%	13.2%	13.8%	13.7%	11.9%	12.7%
Number of portfolio companies at period end(4)	41	40	36	36	44	38
	As of	As of	As of	As of	As of	As of
	June 30,	December	December	December	December	December 31,
	2012	31,	31,	31,	31,	2007
	(unaudited)	2011	2010	2009	2008	
<b>Balance sheet data:</b>						
Total investment portfolio	\$ 1,193,602	\$ 1,045,043	\$ 976,221	\$ 863,140	\$ 768,215	\$ 1,178,736
Total cash and cash equivalents	\$ 12,019	\$ 11,787	\$ 288,732	\$ 5,675	\$ 65,841	\$ 169,692
Total assets	\$ 1,219,883	\$ 1,079,431	\$ 1,291,791	\$ 885,421	\$ 873,026	\$ 1,396,545
Revolving credit facilities	\$ 119,860	\$ 201,355	\$ 400,000	\$ 88,114	\$	\$
Senior secured notes	\$ 75,000	\$	\$	\$	\$	\$
Senior secured term loan	\$ 35,000	\$ 35,000	\$ 35,000	\$	\$	\$
Net assets	\$ 824,923	\$ 805,941	\$ 826,994	\$ 697,903	\$ 852,673	\$ 1,258,501
<b>Per share data:(3)</b>						
Net asset value per share	\$ 22.51	\$ 22.02	\$ 22.73	\$ 21.24	\$ 25.95	\$ 38.30
Net investment income	\$ 0.96	\$ 2.25	\$ 2.08	\$ 2.05	\$ 2.66	\$ 1.62
Net realized and unrealized gain (loss)	\$ 0.73	\$ (0.57)	\$ 2.19	\$ 0.60	\$ (15.01)	\$ (0.12)
Dividends and distributions declared	\$ 1.20	\$ 2.40	\$ 2.14	\$ 7.36	\$	\$

## Edgar Filing: Solar Capital Ltd. - Form 497

- (1) Throughout this document, the weighted average yield on income producing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities, plus the

S-15

**Table of Contents**

- effective interest yield on preferred shares divided by (b) total income producing investments at fair value. The weighted average yield is computed as of the balance sheet date and excludes assets on non-accrual status or on a cost recovery basis as of such date.
- (2) For this calculation, the weighted average yield on income producing investments is computed as the (a) annual stated interest on accruing loans and debt securities plus the annual amortization of loan origination fees, original issue discount, and market discount on accruing loans and debt securities, plus the effective interest yield on preferred shares divided by (b) total income producing investments at cost. The weighted average yield is computed as of the balance sheet date and excludes assets on non-accrual status or on a cost recovery basis as of such date.
- (3) The number of shares used to calculate weighted average shares for use in computations on a per share basis has 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 Solar Capital Merger. The per-share calculations are based on 32,860,454 weighted average shares outstanding as of and for the years and period ended December 31, 2009, 2008, and 2007, 36,383,158 shares outstanding and 33,258,402 weighted average shares outstanding for the year ended December 31, 2010, and 36,608,038 shares outstanding and 36,470,384 weighted average shares outstanding for the year ended December 31, 2011.
- (4) Unaudited.

**Selected Quarterly Financial Data (Unaudited)****(dollar amounts in thousands, except per share data)**

	2012	
	Q2	Q1
Total investment income	\$ 34,833	\$ 36,309
Net investment income	\$ 14,369	\$ 21,099
Net realized and unrealized gain (loss)	\$ 1,693	\$ 25,059
Net increase (decrease) in net assets resulting from operations	\$ 16,062	\$ 46,158
Earnings per share(1)	\$ 0.44	\$ 1.26
Net asset value per share at the end of the quarter(2)	\$ 22.51	\$ 22.68

  

	2011			
	Q4	Q3	Q2	Q1
Total investment income	\$ 35,994	\$ 35,329	\$ 35,283	\$ 32,294
Net investment income	\$ 20,675	\$ 20,711	\$ 21,368	\$ 19,150
Net realized and unrealized gain (loss)	\$ 31,182	\$ (72,655)	\$ (8,984)	\$ 29,868
Net increase (decrease) in net assets resulting from operations	\$ 51,857	\$ (51,944)	\$ 12,384	\$ 49,018
Earnings per share(3)	\$ 1.42	\$ (1.42)	\$ 0.34	\$ 1.35
Net asset value per share at the end of the quarter(4)	\$ 22.02	\$ 21.20	\$ 23.22	\$ 23.48

  

	2010			
	Q4	Q3	Q2	Q1
Total investment income	\$ 31,644	\$ 29,403	\$ 28,284	\$ 35,310
Net investment income (loss)	\$ 17,384	\$ 15,551	\$ 15,166	\$ 21,111
Net realized and unrealized gain (loss)	\$ 24,974	\$ 5,458	\$ 1,348	\$ 40,893
Net increase (decrease) in net assets resulting from operations	\$ 42,358	\$ 21,009	\$ 16,514	\$ 62,004
Earnings per share(5)	\$ 1.24	\$ 0.63	\$ 0.50	\$ 1.90
Net asset value per share at the end of the quarter(6)	\$ 22.73	\$ 22.09	\$ 22.07	\$ 22.18

**Table of Contents**

	2009			
	Q4	Q3	Q2	Q1
Total investment income	\$ 28,456	\$ 27,785	\$ 25,252	\$ 28,177
Net investment income (loss)	\$ 17,685	\$ 16,383	\$ 16,099	\$ 17,095
Net realized and unrealized gain (loss)	\$ 22,271	\$ 22,181	\$ 17,899	\$ (42,677)
Net increase (decrease) in net assets resulting from operations	\$ 39,956	\$ 38,564	\$ 33,998	\$ (25,582)
Earnings per share(7)	\$ 1.23	\$ 1.17	\$ 1.03	\$ (0.78)
Net asset value per share at the end of the quarter(8)	\$ 21.24	\$ 22.30	\$ 23.61	\$ 22.57

- (1) Based on 36,639,037 and 36,608,038 weighted average shares of Solar Capital Ltd. outstanding during the second and first quarters of 2012, respectively.
- (2) Based on 36,640,094 and 36,608,038 shares of Solar Capital Ltd. outstanding as of the end of the second and first quarters of 2012, respectively.
- (3) Based on 36,552,979, 36,498,451, 36,444,775 and 36,383,158 weighted average shares of Solar Capital Ltd. outstanding during the fourth, third, second and first quarters of 2011, respectively.
- (4) Based on 36,608,038, 36,501,373, 36,447,607 and 36,383,158 shares of Solar Capital Ltd. outstanding as of the end of the fourth, third, second and first quarters of 2011, respectively.
- (5) Based on 34,267,088, 33,165,867, 33,029,516 and 32,553,322 weighted average shares of Solar Capital Ltd. outstanding during each of the fourth, third, second and first quarters of 2010, respectively.
- (6) Based on 36,383,158, 33,168,872, 33,030,641 and 32,928,257 shares of Solar Capital Ltd. outstanding as of the end of the fourth, third, second and first quarter of 2010, respectively.
- (7) Based on 32,860,454 weighted average shares of Solar Capital Ltd. outstanding during each respective quarter.
- (8) Based on 32,860,454 shares of Solar Capital Ltd. outstanding as of the end of the respective quarter.

**Table of Contents**

**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus supplement contains forward-looking statements that involve substantial risks and uncertainties. These forward-looking statements are not historical facts, but rather are based on current expectations, estimates and projections about Solar Capital, our current and prospective portfolio investments, our industry, our beliefs, and our assumptions. Words such as anticipates, expects, intends, plans, believes, seeks, estimates, would, should, targets, projects, and variations of these words and similar expressions are intended to identify forward-looking statements.

The forward-looking statements contained in this prospectus 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;

our breach of any of the covenants or other provisions in our debt agreements;

the adequacy of our cash resources and working capital; and

the timing of cash flows, if any, from the operations of our portfolio companies.

These statements are not guarantees of future performance and are subject to risks, uncertainties, and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including without limitation:

an economic downturn could impair our portfolio companies' ability to continue to operate, which could lead to the loss of some or all of our investments in such portfolio companies;

a contraction of available credit and/or an inability to access the equity markets could impair our lending and investment activities;

interest rate volatility could adversely affect our results, particularly if we elect to use leverage as part of our investment strategy;

currency fluctuations could adversely affect the results of our investments in foreign companies, particularly to the extent that we receive payments denominated in foreign currency rather than U.S. dollars; and

the risks, uncertainties and other factors we identify in **Risk Factors** and elsewhere in this prospectus supplement, the accompanying prospectus and in our filings with the SEC.

Although we believe that the assumptions on which these forward-looking statements are based are reasonable, any of those assumptions could prove to be inaccurate, and as a result, the forward-looking statements based on those assumptions also could be inaccurate. Important assumptions include our ability to originate new loans and investments, certain margins and levels of profitability and the availability of additional capital. In light of these and other uncertainties, the inclusion of a projection or forward-looking statement in this prospectus should not be regarded as a representation by us that our plans and objectives will be achieved. These risks and uncertainties include those described or identified in **Risk Factors** and elsewhere in the accompanying prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus supplement. However, we will update this prospectus supplement to reflect any material changes to the information contained herein. The forward-looking statements and projections contained in this prospectus supplement are excluded from the safe harbor protection provided by Section 27A of the Securities Act.

**Table of Contents****CAPITALIZATION**

The following table sets forth:

the actual capitalization of Solar Capital Ltd. at June 30, 2012; and

the pro forma capitalization of Solar Capital Ltd. reflects the sale of 2,000,000 shares of our common stock in this offering at a public offering price of \$22.51 per share and our receipt of the gross proceeds from that sale.

	As of June 30, 2012	
	Solar Capital Ltd.	Solar Capital Ltd.
	Actual (unaudited) (in thousands)	Pro Forma (unaudited) (in thousands)
<b>Assets:</b>		
Cash and cash equivalents	\$ 12,019	\$ 57,039
<b>Investments at fair value</b>	<b>\$ 1,193,602</b>	<b>\$ 1,193,602</b>
Other assets	\$ 14,262	\$ 14,262
<b>Total assets</b>	<b>\$ 1,219,883</b>	<b>\$ 1,264,903</b>
<b>Liabilities:</b>		
Revolving credit facilities	\$ 119,860	\$ 119,860
Senior secured notes	\$ 75,000	\$ 75,000
Term loan	\$ 35,000	\$ 35,000
Other Liabilities	\$ 165,100	\$ 165,100
<b>Total Liabilities</b>	<b>\$ 394,960</b>	<b>\$ 394,960</b>
<b>Stockholders equity:</b>		
Common stock, par value \$0.01 per share; 200,000,000 shares authorized, 36,640,094 shares issued and outstanding, 38,667,198 shares issued and outstanding, as adjusted, respectively	\$ 366	\$ 386
Capital in excess of par value	\$ 824,557	\$ 869,557
<b>Total stockholders equity</b>	<b>\$ 824,923</b>	<b>\$ 869,943</b>

**Table of Contents**

**USE OF PROCEEDS**

The gross proceeds from the sale of 2,000,000 shares of our common stock in this offering will be approximately \$45 million. We estimate that the offering expenses payable by us will be immaterial.

We intend to use the net proceeds of this offering for general corporate purposes, which includes, among other things, (a) investing in portfolio companies in accordance with our investment objective and strategies and market conditions and (b) repaying indebtedness.

We estimate that it will take there to six months for us to substantially invest the net proceeds of this offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal.

Pending these uses, we will invest such net proceeds primarily in cash, cash equivalents, and U.S. government securities and other high-quality debt investments that mature in one year or less. The management fee payable by us to our investment adviser will not be reduced while our assets are invested in such securities.

S-20



**Table of Contents****PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS**

Our common stock is traded on the NASDAQ Global Select Market under the symbol SLRC . The following table sets forth, for each fiscal quarter since our initial public offering on February 9, 2010, the net asset value ( NAV ) per share of our common stock, the high and low intraday sales prices for our common stock, such sales prices as a percentage of NAV per share and quarterly distributions per share.

	NAV(1)	Price Range		Premium/Discount of High Sales Price to NAV(2)	Premium/Discount of Low Sales Price to NAV(2)	Cash Distributions Per Share(3)
		High	Low			
<b>Fiscal 2012</b>						
Third Quarter (through August 21, 2012)	*	\$23.35	\$22.12	*	*	*
Second Quarter	\$ 22.51	\$22.60	\$20.05	0.4%	(10.9)%	\$ 0.60
First Quarter	\$ 22.68	\$23.89	\$21.90	5.3%	(3.4)%	\$ 0.60
<b>Fiscal 2011</b>						
Fourth Quarter	\$ 22.02	\$23.66	\$18.90	7.4%	(14.2)%	\$ 0.60
Third Quarter	\$ 21.20	\$25.16	\$19.17	18.7%	(9.6)%	\$ 0.60
Second Quarter	\$ 23.22	\$25.93	\$23.92	11.7%	3.0%	\$ 0.60
First Quarter	\$ 23.48	\$25.45	\$21.87	8.4%	(6.9)%	\$ 0.60
<b>Fiscal 2010</b>						
Fourth Quarter	\$ 22.73	\$25.39	\$21.32	11.7%	(6.2)%	\$ 0.60
Third Quarter	\$ 22.09	\$21.80	\$18.75	(1.3)%	(15.1)%	\$ 0.60
Second Quarter	\$ 22.07	\$24.20	\$18.77	9.7%	(15.0)%	\$ 0.60
First Quarter(4)	\$ 22.18	\$22.22	\$17.29	0.2%	(22.0)%	\$ 0.34

- (1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.
  - (2) Calculated as the respective high or low intraday sales price divided by NAV.
  - (3) Represents the cash distribution declared in the specified quarter.
  - (4) The period from February 9, 2010 through March 31, 2010.
- \* Not determinable at the time of the offering.

On August 21, 2012, the last reported sales price of our common stock was \$23.05 per share. As of August 21, 2012, we had 12 shareholders of record.

Shares of business development companies may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at premiums that are unsustainable over the long term are separate and distinct from the risk that our net asset value will decrease. Since our initial public offering on February 9, 2010, our shares of common stock have traded at both a discount and a premium to the net assets attributable to those shares. As of August 21, 2012, our shares of common stock traded at a premium equal to approximately 2.4% of the net assets attributable to those shares based upon our net asset value as of June 30, 2012. It is not possible to predict whether our shares of common stocks will trade at, above, or below net asset value.

We intend to distribute quarterly dividends to our stockholders. Our quarterly dividends, if any, will be determined by our board of directors.

**Table of Contents**

The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock since our initial public offering:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
<b>Fiscal 2012</b>			
<b>July 31, 2012</b>	September 20, 2012	October 2, 2012	\$ 0.60
<b>May 1, 2012</b>	June 19, 2012	July 3, 2012	0.60
<b>February 22, 2012</b>	March 20, 2012	April 3, 2012	0.60
<b>Total 2012</b>			<b>\$ 1.80</b>
<b>Fiscal 2011</b>			
<b>November 1, 2011</b>	December 15, 2011	December 29, 2011	\$ 0.60
<b>August 2, 2011</b>	September 20, 2011	October 4, 2011	0.60
<b>May 2, 2011</b>	June 17, 2011	July 5, 2011	0.60
<b>March 1, 2011</b>	March 17, 2011	April 4, 2011	0.60
<b>Total 2011</b>			<b>\$ 2.40</b>
<b>Fiscal 2010</b>			
<b>November 2, 2010</b>	December 17, 2010	December 30, 2010	\$ 0.60
<b>August 3, 2010</b>	September 17, 2010	October 4, 2010	0.60
<b>May 4, 2010</b>	June 17, 2010	July 2, 2010	0.60
<b>January 26, 2010</b>	March 18, 2010	April 1, 2010	0.34
<b>Total 2010</b>			<b>\$ 2.14</b>

The \$0.34 dividend declared during the first quarter of 2010 was a \$0.60 dividend prorated for the number of days that remained in the quarter after our initial public offering. Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Our quarterly dividends, if any, will be determined by our board of directors.

We intend to elect to be taxed as a RIC under Subchapter M of the Code. To obtain and 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 dividend, then stockholders cash dividends will be automatically reinvested in additional shares of our common stock, unless they specifically opt out of the dividend reinvestment plan so as to receive cash dividends.

We may not be able to achieve operating results that will allow us to make dividends and distributions at a specific level or to increase the amount of these dividends and distributions from time to time. In addition, we may be limited in our ability to make dividends and distributions due to the asset coverage test for borrowings when applicable to us as a BDC under the 1940 Act and due to provisions in current and future credit facilities. If we do not distribute a certain percentage of our income annually, we will suffer adverse tax consequences, including possible loss of our RIC status. We cannot assure stockholders that they will receive any dividends and distributions or dividends and distributions at a

particular level.

All dividends declared in cash payable to stockholders that are participants in our dividend reinvestment plan are generally automatically reinvested in shares of our common stock. As a result, stockholders that do not participate in the dividend reinvestment plan may experience dilution over time. Stockholders who do not elect to receive dividends in shares of common stock may experience accretion to the net asset value of their shares if our shares are trading at a premium and dilution if our shares are trading at a discount. The level of accretion or discount would depend on various factors, including the proportion of our stockholders who participate in the plan, the level of premium or discount at which our shares are trading and the amount of the dividend payable to a stockholder.

S-22

**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information contained in this section should be read in conjunction with the Selected Financial and Other Data and our Financial Statements and notes thereto appearing elsewhere in this prospectus supplement.*

**Overview**

Solar Capital Ltd., 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 BDC under the 1940 Act. In addition, for tax purposes the Company has elected to be treated as a RIC under Subchapter M of the Code. In February 2010, we completed our initial public offering and a concurrent private offering of shares to management.

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 model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$20 million and \$100 million each, although we expect that this investment size will vary proportionately with the size of our capital base. We are managed by Solar Capital Partners, LLC. Solar Capital Management, LLC provides the administrative services necessary for us to operate.

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

As of June 30, 2012, our investments totaled \$1.19 billion and our net asset value was \$824.9 million. Our portfolio was comprised of debt and equity investments in 41 portfolio companies and our income producing assets, which represented 94.0% of our total portfolio, had a weighted average annualized yield on a fair value basis of approximately 13.9%.

***Recent Developments***

***Dividend***

On July 31, 2012, our board of directors declared a quarterly dividend of \$0.60 per share payable on October 2, 2012 to holders of record as of September 20, 2012. We expect the dividend to be paid from taxable earnings with specific tax characteristics reported to stockholders after the end of the calendar year.

**Critical Accounting Policies**

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

S-23

## **Table of Contents**

### ***Valuation of Portfolio Investments***

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

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

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

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

the nature and realizable value of any collateral including credit risk;

the portfolio company's ability to make payments;

the portfolio company's earnings and discounted cash flow;

the markets in which the issuer does business and; and

comparisons to publicly traded securities.

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

private placements and restricted securities that do not have an active trading market;

## Edgar Filing: Solar Capital Ltd. - Form 497

securities whose trading has been suspended or for which market quotes are no longer available;

debt securities that have recently gone into default and for which there is no current market;

securities whose prices are stale;

securities affected by significant events; and

securities that the investment adviser believes were priced incorrectly.

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

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).

**Table of Contents**

**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).

**Fair Value Measurements**

**As of June 30, 2012**

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans		48,188	462,919	511,107
Subordinated Debt / Corporate Notes		25,849	460,652	486,501
Preferred Equity			145,568	145,568
Common Equity / Partnership Interests / Warrants	8,240		42,186	50,426
Derivative assets – interest rate caps and foreign exchange contracts		94		94
<b>Liabilities:</b>				
Derivative liabilities		721		721
Credit Facilities			131,860	131,860

At June 30, 2012, the fair value of investments classified as Level 3 was approximately \$1,111 million or 91.1% of total assets. There were no investments transferred in or out of Level 3 during the 2nd quarter of 2012.

**Revenue Recognition**



Our revenue recognition policies are as follows:

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

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

*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

S-25

## **Table of Contents**

may be recognized as income or applied to principal depending upon management's judgment about ultimate collectability of principal. Non-accrual loans are restored to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

### ***Payment-in-Kind Interest***

We have investments in our portfolio which contain a PIK interest provision. Over time, PIK interest increases the principal balance of the investment, but is recorded as interest income. For us to maintain our status as a RIC, substantially all of this income must be paid out to stockholders in the form of dividends, even though we have not currently collected cash with respect to the PIK interest.

### ***New Accounting Pronouncements and Accounting Standards Updates***

In May 2011, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs (ASU 2011-04). ASU 2011-04 was issued concurrently with International Financial Reporting Standards No. 13 (IFRS 13), Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements as is currently required under ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820). The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or GAAP. For GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS 13. ASU 2011-04 eliminates the concepts of in-use and in-exchange when measuring fair value of all financial instruments. For Level 3 fair value measurements, the ASU requires that our disclosure include quantitative information about significant unobservable inputs, a qualitative discussion about the sensitivity of the fair value measurement to changes in the unobservable inputs and the interrelationship between inputs, and a description of our valuation process. Public companies are required to apply ASU 2011-04 prospectively for interim and annual periods beginning after December 15, 2011. The adoption of ASU 2011-04 did not have a significant impact on the Company's financial statements or its disclosures.

### **Portfolio Investments**

The total value of our investments was approximately \$1.19 billion and \$1.05 billion at June 30, 2012 and December 31, 2011, respectively. During the three months ended June 30, 2012, we invested approximately \$164.5 million in five new portfolio companies and \$27.8 million in one existing portfolio company. During the six months ended June 30, 2012, we originated approximately \$164.5 million of new investments in five new portfolio companies and approximately \$89.7 million was invested in five existing portfolio companies.

In certain instances, we receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we may receive repayments of certain debt investments prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. Our portfolio activity also reflects sales of securities. For the three months ended June 30, 2012, we had approximately \$5.8 million in debt repayments. For the six month ended June 30, 2012, we had approximately \$112.2 million in debt repayments and sales of securities of two portfolio companies for approximately \$29.4 million.

At June 30, 2012, we had investments in debt and preferred securities of 37 portfolio companies, totaling approximately \$1.14 billion, and equity investments in seven portfolio companies, totaling approximately \$50.4 million. At December 31, 2011, we had investments in debt and

## Edgar Filing: Solar Capital Ltd. - Form 497

preferred securities of 34 portfolio companies, totaling approximately \$973.9 million, and equity investments in seven portfolio companies, totaling approximately \$71.1 million.

S-26

**Table of Contents**

The following table shows the fair value of our portfolio of investments by asset class as of June 30, 2012 and December 31, 2011 (in thousands):

	June 30, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 519,005	\$ 511,107	\$ 426,201	\$ 412,396
Subordinated Debt/Corporate Notes	509,640	486,501	604,157	546,859
Preferred Equity	143,512	145,568	15,107	14,664
Common Equity/Partnership Interests/Warrants	90,854	50,426	107,108	71,124
<b>Total</b>	<b>\$ 1,263,011</b>	<b>\$ 1,193,602</b>	<b>\$ 1,152,573</b>	<b>\$ 1,045,043</b>

As of June 30, 2012 and December 31, 2011, the weighted average yield on income producing investments in our portfolio based on fair market value was approximately 13.9% and 14.2%, respectively. The weighted average yield on income producing investments in our portfolio based on cost was approximately 13.8% and 13.2%, respectively. We had two non-accrual assets with a total market value of \$21.1 million and one asset with a market value of \$5.9 million as of June 30, 2012 and December 31, 2011, respectively.

**Results of Operations for the Quarter Ended June 30, 2012 compared to the Quarter Ended June 30, 2011***Revenue*

	For the Three Months June 30,		% Change
	2012	2011	
	(in thousands)		
Investment income	\$ 34,833	\$ 35,283	(1%)

Investment income for the second quarter of 2012 was comparable to the second quarter of 2011. For the second quarter of 2011 compared same period of 2012, interest income was earned on a larger earning asset balance, offset by a slightly lower weighted average yield.

*Expenses*

	For the Three Months		% Change
	2012	2011	
	June 30, (in thousands)		
Investment advisory and management fees	\$ 5,673	\$ 5,096	11%
Performance-based incentive fee	3,591	5,269	(32%)
Interest and other credit facility expenses	9,051	1,895	378%
Administrative service fee	1,128	279	304%
Other general and administrative expenses	995	1,376	(28%)

## Edgar Filing: Solar Capital Ltd. - Form 497

Total operating expenses	\$ 20,438	\$ 13,915	47%
--------------------------	-----------	-----------	-----

Investment advisory and management fees, which are calculated based on average gross assets, were higher during the three months ended June 30, 2012 due to larger average gross assets. The performance-based incentive fee, which is calculated as a percentage of net investment income above certain hurdle rates, was lower for the three months June 30, 2012 to the comparable period in 2011 due to lower net investment income. Interest and other credit facility expenses for the three months ended June 30, 2012 were higher than during the comparable period in 2011 mainly due to costs associated with the establishment of a credit facility and private notes and for expenses to retire a predecessor credit facility and term loan. Administrative service fees are higher for the three

S-27

**Table of Contents**

months ended June 30, 2012 due to higher operating costs. Other general and administrative expenses for the three months ended June 30, 2012 were lower compared to the same period in 2011 due to tax expenses incurred in 2011, which was presented within this expense item.

*Net Realized and Unrealized Gains and Losses*

	For the Three Months June 30,	
	2012	2011
	(in thousands)	
Net realized gain (loss) on investments	\$ (20,322)	\$ 2,304
Net realized gain (loss) on forward contracts	1,730	(4,872)
Net realized loss on foreign currency exchange	(563)	(242)
Net unrealized gain (loss) on investments	19,286	(7,430)
Net unrealized gain on forward contracts	159	473
Net unrealized gain on foreign currency exchange	1,403	783
<b>Total realized and unrealized gain (loss)</b>	<b>\$ 1,693</b>	<b>\$ (8,984)</b>

The combined net gain during the second quarter of 2012 was primarily due to an increase in the fair value of our portfolio during the period due to improved market trends. During the second quarter of 2011, total realized and unrealized loss of approximately \$9.0 million was attributable to worsening conditions in the credit markets and the widening of spreads. We analyze this section on a combined basis because offsets may exist in the individual line items due to foreign exchange fluctuations and movements from unrealized to realized, which may have impacted income in prior periods.

*Results of Operations for the Six Months Ended June 30, 2012 compared to the Six Months Ended June 30, 2011**Revenue*

	For the Six Months Ended June 30,		% Change
	2012	2011	
	(in thousands)		
Investment income	\$ 71,142	\$ 67,577	5%

Investment income was higher during the first six months of 2012 primarily due to higher interest income earned on a larger earning asset balance and higher prepayment premiums and accelerated amortization of upfront fees related to early repayment of assets compared to the same period in 2011.

*Expenses*

## Edgar Filing: Solar Capital Ltd. - Form 497

	For the Six Months Ended June 30,		% Change
	2012	2011	
	(in thousands)		
Investment advisory and management fees	\$ 10,951	\$ 10,083	9%
Performance-based incentive fee	8,866	10,057	(12%)
Interest and other credit facility expenses	11,746	3,932	199%
Administrative service fee	1,824	717	154%
Other general and administrative expenses	2,004	2,270	(12%)
 Total operating expenses	 \$ 35,391	 \$ 27,059	 31%

Investment advisory and management fees, which are calculated based on average gross assets, were higher during the six months ended June 30, 2012 due to larger average gross assets. The performance-based incentive

S-28

**Table of Contents**

fee, which is calculated as a percentage of net investment income above certain hurdle rates, was lower for the six months June 30, 2012 to the comparable period in 2011 due to lower net investment income. Interest and

other credit facility expenses for the six months ended June 30, 2012 were higher than during the comparable period in 2011 mainly due to costs associated with the establishment of a new credit facility and Private Notes and for expenses to retire a predecessor credit facility and term loan. Administrative service fees are higher for the six months ended June 30, 2012 due to higher operating costs. Other general and administrative expenses for the six months ended June 30, 2012 are lower compared to the same period in 2011 due to tax expenses incurred in 2011, which was presented within this expense item.

*Net Realized and Unrealized Gains and Losses*

	For the Six Months Ended June 30,	
	2012	2011
	(in thousands)	
Net realized gain (loss) on investments	\$ (10,045)	\$ 5,106
Net realized gain (loss) on derivatives	786	(9,235)
Net realized gain (loss) on foreign currency exchange	55	(314)
Net unrealized gain on investments	38,120	24,802
Net unrealized gain (loss) on derivatives	(1,276)	214
Net unrealized gain (loss) on foreign currency exchange	(103)	311
<b>Total net realized and unrealized gain</b>	<b>\$ 27,537</b>	<b>\$ 20,884</b>

The combined net gain during the six months ended June 30, 2012, was mostly attributable to an increase in the fair value of our portfolio during the period due to improved market trends and realization above prior period marks. The net gain during the first six months of 2011 was primarily due to general credit improvement in the portfolio. We analyze this section on a combined basis because offsets may exist in the individual line items due to foreign exchange fluctuations and movements from unrealized to realized, which may have impacted income in prior periods.

Our investments denominated in Euro, British Pounds and Australian dollars are converted into U.S. dollars at the balance sheet date, and as such, we are exposed to movements in exchange rates. To limit our exposure to movements in foreign currency exchange rates we enter into foreign exchange forward contracts or borrow in foreign currencies under our multi-currency revolving credit facility. For the first half of 2012, the total net change in realized and unrealized gain on forward contracts was a loss of approximately \$0.4 million compared to a loss of \$7.8 million in 2011.

To partially mitigate this risk of rising interest rates on our floating rate debt exposure, we purchased two interest rate derivative contracts during 2011, which effectively cap the London Interbank Borrowing Rate (LIBOR) at 1.00% on \$100 million of notional amount through January 2014 and \$50 million of notional amount through May 2014. The interest rate caps were purchased for \$2.9 million and were valued at \$0.1 million and \$0.5 million on June 30, 2012 and December 31, 2011, respectively.

**Liquidity and Capital Resources**



## Edgar Filing: Solar Capital Ltd. - Form 497

The Company's liquidity and capital resources are generated and generally available through its \$485 million credit facility maturing in July 2016 (the \$485 Million Facility) and a \$100 million credit facility maturing in December 2015 (the \$100 Million Facility) and together with the \$485 Million Facility, collectively the Credit Facilities), through cash flows from operations, investment sales, repayments of senior and subordinated loans, income earned on investments and cash equivalents, and we expect through periodic follow-on equity and/or debt offerings. We may from time to time issue such securities in either public or private offerings. The issuance of debt or equity 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.

S-29

**Table of Contents**

The primary use 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.

At June 30, 2012 and December 31, 2011, we had cash and cash equivalents of approximately \$12.0 million and \$11.8 million, respectively. Cash provided by operating activities for the six months ended June 30, 2012 and 2011 was approximately \$25.8 million and \$104.9 million, respectively. We expect that all current liquidity needs will be met with cash flows from operations and other activities.

**Credit Facilities and Senior Secured Notes** On June 29, 2012, Solar Capital Ltd. entered into a \$485 million Senior Secured Credit Facility comprised of \$450 million of multi-currency revolving credit and a \$35 million term loan. Borrowings bear interest at a rate per annum equal to the base rate plus 2.50% or the alternate base rate plus 1.50% and has no LIBOR floor requirement. The \$485 Million Facility matures in July 2016 and includes a ratable amortization in the fourth year. With additional new lenders or the increase in commitments of current lenders, the \$485 Million Facility may be increased up to \$800 million. The \$485 Million Facility contains certain customary affirmative and negative covenants and events of default. In addition, the \$485 Million 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 will also pay the issuer of the term loan 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 \$485 Million Facility, a predecessor facility and term loan were retired.

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

On December 17, 2010, we established the \$100 Million Facility with Wells Fargo Securities, LLC acting as administrative agent. In connection with the \$100 Million Facility, our wholly-owned financing subsidiary, Solar Capital Funding II, LLC ( SC Funding ), as borrower, entered into a Loan and Servicing Agreement whereby we transferred certain loans we have originated or acquired or will originate or acquire from time to time to SC Funding via a Purchase and Sale Agreement. The \$100 Million Facility, as amended, among other things, matures on December 17, 2015 and generally bears interest based on LIBOR plus 2.75%. The \$100 Million Facility is secured by all of the assets held by SC Funding. Under the \$100 Million Facility, Solar and SC Funding, as applicable, have made certain customary representations and warranties, and are required to comply with various covenants, reporting requirements and other customary requirements for similar credit facilities. The \$100 Million Facility includes usual and customary events of default for credit facilities of this nature.

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

***Contractual Obligations***

A summary of our significant contractual payment obligations is as follows as of June 30, 2012:

(in millions)	Total	Payments Due by Period	
		1-3 Years	3-5 Years

Edgar Filing: Solar Capital Ltd. - Form 497

		<b>Less than 1 Year</b>			<b>More Than 5 Years</b>	
Senior secured revolving credit facilities(1)	\$ 119.9	\$	\$	\$ 119.9	\$	\$
Senior Secured Notes	\$ 75.0	\$	\$	\$ 75.0	\$	\$
Term Loan	\$ 35.0	\$	\$	\$ 35.0	\$	\$

S-30

**Table of Contents**

(1) As of June 30, 2012, we had approximately \$430.1 million of unused borrowing capacity under our credit facilities.

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

***Off-Balance Sheet Arrangements***

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

***Borrowings***

We had borrowings of approximately \$154.9 million outstanding as of June 30, 2012 under the Credit Facilities. As of June 30, 2012, we also had a \$75 million borrowing under our Private Notes.

We had borrowings of approximately \$201.4 million outstanding as of December 31, 2011 under credit facilities existing at that time. We also had \$35 million outstanding under a retired term loan agreement.

See *Credit Facilities and Other Borrowings* for a further description of the Credit Facilities and the Private Notes.

***Distributions and Dividends***

The following table reflects the cash distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock since our initial public offering:

<b>Date Declared</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Amount</b>
<b>Fiscal 2012</b>			
<b>July 31, 2012</b>	September 20, 2012	October 2, 2012	\$ 0.60

Edgar Filing: Solar Capital Ltd. - Form 497

<b>May 1, 2012</b>	June 19, 2012	July 3, 2012	0.60
<b>February 22, 2012</b>	March 20, 2012	April 3, 2012	0.60
<b>Total 2012</b>			<b>\$ 1.80</b>
<b>Fiscal 2011</b>			
<b>November 1, 2011</b>	December 15, 2011	December 29, 2011	\$ 0.60
<b>August 2, 2011</b>	September 20, 2011	October 4, 2011	0.60
<b>May 2, 2011</b>	June 17, 2011	July 5, 2011	0.60
<b>March 1, 2011</b>	March 17, 2011	April 4, 2011	0.60
<b>Total 2011</b>			<b>\$ 2.40</b>

S-31

**Table of Contents**

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

\* Partial period dividend of \$0.60 per share prorated for the number of days that remained in the quarter after our initial public offering.

Tax characteristics of all dividends will be reported to shareholders on Form 1099 after the end of the calendar year. Future quarterly dividends, if any, will be determined by our board of directors.

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 net realized capital gains (net long-term capital gains in excess of short-term capital losses), if any, at least annually, out of the assets legally available for such distributions, we may in the future decide to retain such capital gains for investment.

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

**Related Parties**

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

We have entered into an Investment Advisory and Management Agreement with Solar Capital Partners, LLC. Mr. Gross, our chairman and chief executive officer, is the managing member and a senior investment professional of, and has financial and controlling interests in, Solar Capital Partners, LLC. In addition, Mr. Spohler, our chief operating officer is a partner and a senior investment professional of, and has financial interests in, Solar Capital Partners, LLC.

Solar Capital Management, LLC provides us with the office facilities and administrative services necessary to conduct day-to-day operations pursuant to our Administration Agreement. We reimburse Solar Capital Management, LLC for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief compliance officer, our chief financial officer and any administrative support staff. Solar Capital Partners, LLC, our Investment Adviser, is the sole member of and controls Solar Capital Management, LLC.

## Edgar Filing: Solar Capital Ltd. - Form 497

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

Solar Capital Partners, LLC 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, Solar Capital Partners, LLC 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, unitranche and second lien debt instruments. In addition, Michael S. Gross, our chairman and chief executive officer, Bruce Spohler, our chief operating officer, and Richard Peteka, our chief financial officer, serve in similar capacities for Solar Senior Capital Ltd.

S-32

**Table of Contents**

Solar Capital Partners, LLC and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners, LLC or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Solar Capital Partners, LLC'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.

S-33



**Table of Contents**

**PLAN OF DISTRIBUTION**

We are selling the shares of our common stock under this prospectus supplement directly to certain institutional investors in a negotiated transaction in which no party is acting as an underwriter, dealer or agent. Subject to the terms of the subscription agreement with these investors, we have agreed to sell 2,000,000 shares of our common stock at a price of \$22.51 per share in cash. We determined the per share price through negotiations with the investors.

We expect to have our transfer agent deliver the shares of our common stock after we receive the payment of the total purchase price therefor in immediately available funds.

Our common stock is listed on the Nasdaq Global Market under the symbol SLRC.

We will bear all of the expenses that we incur in connection with the offering of our shares of common stock under this prospectus supplement. We estimate the total expenses payable by us in connection with the offering will be immaterial.

S-34

**Table of Contents**

**AVAILABLE INFORMATION**

We have filed with the SEC a registration statement on Form N-2, together with all amendments and related exhibits, under the Securities Act, with respect to our shares of common stock offered by this prospectus supplement and the accompanying prospectus. The registration statement contains additional information about us and our shares of common stock being offered by this prospectus supplement and the accompanying prospectus.

We are required to file with or submit to the SEC annual, quarterly and current periodic reports, proxy statements and other information meeting the informational requirements of the Exchange Act. You may inspect and copy these reports, proxy statements and other information, as well as the registration statement and related exhibits and schedules, at the Public Reference Room of the SEC at 100 F Street, NE, Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements and other information filed electronically by us with the SEC which are available on the SEC's website at <http://www.sec.gov>. Copies of these reports, proxy and information statements and other information may be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing to the SEC's Public Reference Section, Washington, D.C. 20549. This information will also be available free of charge by contacting us at Solar Capital Ltd., 500 Park Avenue, New York, NY 10022, by telephone at (212) 993-1670, or on our website at <http://www.solarcapltd.com>.

---

**Table of Contents**

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

	<b>Page</b>
<u>Consolidated Statements of Assets and Liabilities as of June 30, 2012 (unaudited) and December 31, 2011</u>	F-2
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2012 (unaudited) and June 30, 2011 (unaudited)</u>	F-3
<u>Consolidated Statements of Changes in Net Assets for the six months ended June 30, 2012 (unaudited) and the year ended December 31, 2011</u>	F-4
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2012 (unaudited) and June 30, 2011 (unaudited)</u>	F-5
<u>Consolidated Schedule of Investments as of June 30, 2012 (unaudited)</u>	F-6
<u>Consolidated Schedule of Investments as of December 31, 2011</u>	F-10
<u>Notes to Consolidated Financial Statements (unaudited)</u>	F-14

F-1

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES**

(in thousands, except shares)

	<b>June 30,</b>	<b>December 31,</b>
	<b>2012</b>	<b>2011</b>
	<b>(unaudited)</b>	
<b>Assets</b>		
Investments at value:		
Companies less than 5% owned (cost: \$983,442 and \$1,062,844 respectively)	\$ 920,580	\$ 955,769
Companies 5% to 25% owned (cost: \$220,411 and \$41,819, respectively)	212,384	35,820
Companies more than 25% owned (cost: \$59,158 and \$47,910, respectively)	60,638	53,454
<b>Total investments (cost: \$1,263,011 and \$1,152,573, respectively)</b>	<b>1,193,602</b>	<b>1,045,043</b>
Cash and cash equivalents	12,019	11,787
Interest and dividends receivable	11,417	9,763
Deferred credit facility costs	1,172	3,635
Deferred offering costs	659	469
Receivable for investments sold	630	3,225
Fee revenue receivable		4,379
Unrealized appreciation on interest rate caps and foreign exchange contracts	94	649
Prepaid expenses and other receivables	290	481
<b>Total Assets</b>	<b>1,219,883</b>	<b>1,079,431</b>
<b>Liabilities</b>		
Payable for investments purchased	124,653	22,443
Revolving credit facilities	119,860	201,355
Senior secured notes	75,000	
Term loan	35,000	35,000
Dividend payable	21,984	
Investment advisory and management fee payable	5,673	5,277
Performance-based incentive fee payable	3,591	5,203
Interest payable	1,323	1,063
Income taxes payable	1,035	720
Administrative services fee payable	1,022	1,069
Unrealized depreciation on foreign exchange contracts	721	
Deferred fee revenue		318
Other accrued expenses and payables	5,098	1,042
<b>Total Liabilities</b>	<b>394,960</b>	<b>273,490</b>
<b>Net Assets</b>		
Common stock, par value \$0.01 per share 36,640,094 and 36,608,038 shares issued and outstanding, 200,000,000 authorized	366	366
Paid-in capital in excess of par	928,891	928,180
Undistributed net investment income		2,245
Distributions in excess of net investment income	(6,236)	
Accumulated net realized losses	(28,368)	(18,379)
Net unrealized depreciation	(69,730)	(106,471)

Edgar Filing: Solar Capital Ltd. - Form 497

<b>Total Net Assets</b>	\$ 824,923	\$ 805,941
Number of shares outstanding	36,640,094	36,608,038
<b>Net Asset Value Per Share</b>	\$ 22.51	\$ 22.02

See notes to consolidated financial statements.

F-2

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

(in thousands, except shares)

	Three months ended June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
<b>INVESTMENT INCOME:</b>				
Interest and dividends:				
Other interest and dividend income	\$ 27,819	\$ 34,530	\$ 63,046	\$ 66,129
Companies 5% to 25% owned	5,652		5,652	
Companies more than 25% owned	1,362	753	2,444	1,448
<b>Total investment income</b>	34,833	35,283	71,142	67,577
<b>EXPENSES:</b>				
Interest and other credit facility expenses	9,051	1,895	11,746	3,932
Investment advisory and management fees	5,673	5,096	10,951	10,083
Performance-based incentive fees	3,591	5,269	8,866	10,057
Other general and administrative expenses	995	1,376	2,004	2,270
Administrative services fees	1,128	279	1,824	717
<b>Total operating expenses</b>	20,438	13,915	35,391	27,059
<b>Net investment income before income tax expense</b>	14,395	21,368	35,751	40,518
Income tax expense	26		283	
<b>Net investment income</b>	14,369	21,368	35,468	40,518
<b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS, DERIVATIVES AND FOREIGN CURRENCIES:</b>				
Net realized loss:				
Investments:				
Companies more than 25% owned	(687)		10,315	
Companies less than 5% owned	(19,635)	2,304	(20,360)	5,106
Net realized gain (loss) on investments	(20,322)	2,304	(10,045)	5,106
Derivatives	1,730	(4,872)	786	(9,235)
Foreign currencies	(563)	(242)	55	(314)
Net realized loss before income taxes	(19,155)	(2,810)	(9,204)	(4,443)
Income tax expense			785	
<b>Net realized loss</b>	(19,155)	(2,810)	(9,989)	(4,443)
Net change in unrealized gain (loss):				
Investments:				
Companies less than 5% owned	17,646	(8,478)	44,210	22,389

Edgar Filing: Solar Capital Ltd. - Form 497

Companies more than 25% owned	1,508	1,478	(4,063)	3,103
Companies 5% to 25% owned	132	(430)	(2,027)	(690)
<b>Net change in unrealized gain (loss) on investments</b>	<b>19,286</b>	<b>(7,430)</b>	<b>38,120</b>	<b>24,802</b>
Derivatives	159	473	(1,276)	214
Foreign currencies	1,403	783	(103)	311
<b>Net change in unrealized gain (loss) on investments</b>	<b>20,848</b>	<b>(6,174)</b>	<b>36,741</b>	<b>25,327</b>
<b>Net realized and unrealized gain (loss) on investments, derivatives and foreign currencies</b>	<b>1,693</b>	<b>(8,984)</b>	<b>26,752</b>	<b>20,884</b>
<b>Net Increase in Net Assets Resulting From Operations</b>	<b>\$ 16,062</b>	<b>\$ 12,384</b>	<b>\$ 62,220</b>	<b>\$ 61,402</b>
<b>EARNINGS PER SHARE</b>	<b>\$ 0.44</b>	<b>\$ 0.34</b>	<b>\$ 1.70</b>	<b>\$ 1.69</b>

See notes to consolidated financial statements.

F-3

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

(in thousands, except shares)

	Six months ended June 30, 2012 (unaudited)	Year ended December 31, 2011
<b>Increase in net assets resulting from operations:</b>		
Net investment income	\$ 35,468	\$ 81,904
Net realized loss	(9,989)	(2,393)
Net change in unrealized gain (loss)	36,741	(18,196)
<b>Net increase in net assets resulting from operations</b>	<b>62,220</b>	<b>61,315</b>
<b>Dividends and distributions to shareholders:</b>	<b>(43,949)</b>	<b>(87,532)</b>
<b>Capital share transactions:</b>		
Reinvestment of dividends	711	5,164
<b>Net increase (decrease) in net assets</b>	<b>18,982</b>	<b>(21,053)</b>
Net assets at beginning of period	805,941	826,994
Net assets at end of period	\$ 824,923	\$ 805,941

See notes to consolidated financial statements.



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

(in thousands except shares)

	Six months ended June 30, 2012	Six months ended June 30, 2011
<b>Cash Flows from Operating Activities:</b>		
<b>Net increase in net assets from operations</b>	\$ 62,220	\$ 61,402
<b>Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:</b>		
Net realized (gain) loss from investments	10,045	(5,106)
Net realized (gain) loss from foreign currency exchange	(55)	314
Net change in unrealized (gain) on investments	(38,120)	(24,802)
Net change in (gain) loss on derivatives	1,276	(214)
<b>(Increase) decrease in operating assets:</b>		
Purchase of investment securities	(362,575)	(221,329)
Proceeds from disposition of investment securities	251,877	232,757
Capitalization of payment-in-kind interest	(16,776)	(13,710)
Collections of payment-in-kind interest	7,141	3,602
Interest and dividends receivable	(1,654)	(1,474)
Purchase of interest rate cap		(2,938)
Fee revenue receivable	4,379	(126)
Receivable for investments sold	2,595	8,119
Prepaid expenses and other receivables	191	(94)
<b>Increase (decrease) in operating liabilities:</b>		
Payable for investments purchased	102,210	68,005
Investment advisory and management fee payable	396	204
Performance-based incentive fee payable	(1,612)	922
Interest payable	260	421
Administrative services fees	(47)	(323)
Income taxes payable	315	142
Deferred fee revenue	(318)	(504)
Other accrued expenses and payables	4,057	(407)
<b>Net Cash Provided by Operating Activities</b>	<b>25,805</b>	<b>104,861</b>
<b>Cash Flows from Financing Activities:</b>		
Cash dividends paid	(21,965)	(20,268)
Deferred offering costs	(190)	(367)
Deferred credit facility costs	2,463	1,136
Proceeds from borrowings on senior secured notes	75,000	
Proceeds from borrowings on revolving/term credit facilities	292,590	767,611
Repayments of borrowings on revolving/term credit facilities	(373,471)	(767,255)
<b>Net Cash Used in Financing Activities</b>	<b>(25,573)</b>	<b>(19,143)</b>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>232</b>	<b>85,718</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<b>11,787</b>	<b>288,732</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 12,019</b>	<b>\$ 374,450</b>

Edgar Filing: Solar Capital Ltd. - Form 497

**Supplemental disclosure of cash flow information:**

Cash paid for interest	\$	4,150	\$	1,681
Cash paid for income taxes	\$	727	\$	312
<b>Non-cash financing activity:</b>				
Dividends reinvestment	\$	711	\$	1,562

See notes to consolidated financial statements.

F-5

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited)****June 30, 2012****(in thousands, except shares)**

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans-62.0%</b>						
Asurion Corporation	Insurance	9.00%	5/24/2019	\$ 40,000	\$ 39,821	\$ 40,900
Airvana Network Solutions Inc.	Telecommunications	10.00%	3/25/2015	4,071	4,033	3,990
AREP Fifty-Seventh LLC(10)(26)	Buildings & Real Estate	14.00%	8/1/2013	19,768	19,373	19,373
ARK Real Estate Partners II LP(10)(26)	Buildings & Real Estate	14.00%	8/1/2013	8,027	7,866	7,866
AviatorCap SII, LLC I(9)	Aerospace & Defense	12.00%	12/31/2014	3,402	3,365	3,400
AviatorCap SII, LLC II(9)	Aerospace & Defense	11.00%	12/31/2014	5,070	5,008	5,070
AviatorCap SII, LLC III(9)	Aerospace & Defense	13.00%	12/31/2014	6,320	6,214	6,320
Direct Buy Inc.(18)	Home, Office Furnishing & Durable Consumer Prds	12.00%	2/1/2017	25,000	24,332	5,875
DS Waters of America, Inc.(10)(22)	Beverage, Food & Tobacco	15% (11% Cash & 4% PIK)(7)	2/28/2018	30,292	29,278	30,292
Fulton Holding Corp(17)	Retail Stores	13.37%	5/28/2016	35,000	34,251	35,000
Grakon, LLC(11)	Machinery	12.00%	12/31/2015	9,524	7,616	9,429
Good Sam Enterprise, LLC	Insurance	11.50%	12/1/2016	7,000	6,570	7,289
Grocery Outlet Inc.(16)	Grocery	10.50%	12/15/2017	33,264	32,329	33,264
Isotoner Corporation	Personal & Nondurable Consumer Products	10.75%	1/8/2018	39,000	37,963	38,610
Interactive Health Solutions, Inc.(16)(17)	Healthcare, Education & Childcare	11.50%	10/4/2016	19,894	19,488	20,013
MYI Acquiror Corporation(4)(8)(19)	Insurance	13% (12% Cash & 1% PIK)(7)	3/13/2017	31,643	31,073	31,801
SMG	Personal, Food & Misc. Services	10.75%	12/7/2018	25,000	24,503	24,875
Southern Auto Finance Company(19)	Banking	13.50%	10/19/2017	25,000	24,485	24,750
SOINT, LLC(9)(23)	Aerospace & Defense	15.00%	6/30/2016	16,667	16,333	16,333
Spencer Spirit Holdings, Inc.	Retail Stores	11.00%	5/1/2017	10,000	10,000	10,300
Transplace Texas, LP(16)	Cargo Transport	11.00%	4/12/2017	20,000	19,576	19,700
Trident USA Health Services, LLC	Healthcare, Education & Childcare	11.75%	10/30/2017	38,000	37,253	37,240
USAW 767(9)	Aerospace & Defense	14.50%	6/30/2014	3,986	3,961	3,986
ViaWest Inc(16)	Personal, Food & Misc. Services	13.5% (12% Cash & 1.5% PIK)(7)	5/20/2018	40,538	39,492	40,132
Vision Holding Corp.(16)	Healthcare, Education & Childcare	12.00%	11/23/2016	35,300	34,822	35,300
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 531,766</b>	<b>\$ 519,005</b>	<b>\$ 511,107</b>
<b>Subordinated Debt/Corporate Notes 59.0%</b>						
Adams Outdoor Advertising	Diversified/Conglomerate Service	18.00%	12/8/2015	\$ 42,500	\$ 41,827	\$ 42,500

## Edgar Filing: Solar Capital Ltd. - Form 497

Asurion Holdco(21)	Insurance	11.00%(7)	3/2/2019	12,000	11,652	12,480
CIBT Solutions	Leisure, Amusement, Entertainment	13.50%	6/15/2018	36,200	35,429	36,200
Crosman Corporation	Leisure, Amusement, Entertainment	13% (11% Cash & 2% PIK)(7)	10/15/2016	15,219	14,837	14,914
Earthbound Farm(16)	Farming & Agriculture	14.25%	6/21/2017	58,947	57,874	57,474
Grakon Holdings LLC Sr(11)	Machinery	14% PIK(7)	12/31/2015	1,701	1,701	1,684
Grakon Holdings LLC Jr(11)	Machinery	12% PIK(7)	12/31/2015	16,039	13,273	11,227
Granite Global Solutions Corp.(3)(18)(19)	Insurance	13.50%	5/31/2016	17,859	18,493	15,180
Midcap Financial Intermediate Holdings, LLC(16)(19)	Banking	13.00%	7/9/2015	85,000	83,676	85,000
ProSieben Sat.1 Media AG(3)(6)(19)	Broadcasting & Entertainment	8.43% (4.93% Cash & 3.5% PIK)(7)	3/6/2017	21,029	20,657	13,368
Richelieu Foods, Inc.(15)	Beverage, Food & Tobacco	14.25% (12% Cash & 2.25% PIK)(7)	5/18/2016	22,831	22,346	21,918
Rug Doctor L.P.(20)	Personal, Food & Misc. Services	15.50% to 20.00% (wtd. avg. 17.54%)(7)	10/31/2014	52,570	49,875	47,313
Weetabix Group(3)(5)(19)	Beverage, Food & Tobacco	9.13% PIK(7)	9/14/2016	16,862	19,353	16,525
Weetabix Group(3)(5)(19)	Beverage, Food & Tobacco	10.29% PIK(7)	5/3/2017	36,359	43,561	35,632
WireCo. Worldgroup Inc.(24)	Building Products	11.75%	5/15/2017	48,000	47,520	47,520
FIS Healthcare Holdings, LLC(25)	Healthcare Technology	12.00%	2/28/2019	28,200	27,566	27,566
<b>Total Subordinated Debt/Corporate Notes</b>				<b>\$ 511,316</b>	<b>\$ 509,640</b>	<b>\$ 486,501</b>

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Preferred Equity 17.6%</b>						
Senior Preferred 15% Units of DSW Group						
Holdings LLC(10)	Beverage, Food & Tobacco	15% PIK(7)		1,395,230	\$ 119,196	\$ 119,990
SODO Corp.(9)(12)	Aerospace & Defense	8.43% PIK(7)	6/30/2018	2,084	2,084	2,251
SOCAY Limited(9)(12)(19)	Aerospace & Defense	8.59% PIK(7)	6/30/2018	13,526	13,526	14,611
SOINT, LLC(9)(1)(19)(23)	Aerospace & Defense	15.00%(7)	6/30/2018	86,667	8,667	8,667
Wyle Laboratories	Aerospace & Defense	8.00%	7/17/2015	387	39	49
<b>Total Preferred Equity</b>					<b>\$ 143,512</b>	<b>\$ 145,568</b>
<b>Common Equity / Partnership Interests / Warrants 6.1%</b>						
Ark Real Estate Partners LP(10)(11) Participating Preferred Units of DSW Group						
Holdings LLC(10)	Beverage, Food & Tobacco			1,296,078		
Grakon, LLC(11)	Machinery			1,714,286	1,714	
Grakon, LLC Warrants(11)	Machinery			3,518,001		
Great American Group Inc.(13)(19)	Personal, Food & Misc. Services			572,800	2,681	189
Great American Group Inc.(14)(19)	Personal, Food & Misc. Services			187,500	3	62
Nuveen Investments, Inc.	Finance			3,486,444	30,876	7,322
NXP Semiconductors Netherlands B.V.(3)(19)						
	Electronics			310,271	8,458	7,208
Seven West Media Limited(3)(19)	Broadcasting & Entertainment			437,687	2,424	781
<b>Total Common Equity/Partnerships Interests / Warrants</b>					<b>\$ 90,854</b>	<b>\$ 50,426</b>
<b>Total Investments (144.7%)</b>					<b>\$ 1,263,011</b>	<b>\$ 1,193,602</b>
<b>Liabilities in Excess of Other Assets (44.7%)</b>						<b>(368,679)</b>
<b>Net Assets 100.0%</b>						<b>\$ 824,923</b>

- (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, 2012.
- (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: Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; Granite Global Solutions Corp. in Canada; and Seven Media Group Limited in Australia. NXP Semiconductors Netherlands B.V. is domiciled in the Netherlands and is denominated in U.S. dollars. All other investments are domiciled in the United States.

## Edgar Filing: Solar Capital Ltd. - Form 497

- (4) Solar Capital Ltd. s foreign domiciled portion of MYI Aquiror Corporation is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.ar.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 investment in ProSieben Sat. 1 Media AG is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (7) Coupon is payable in cash and/or in kind (PIK).
- (8) Includes an unfunded commitment of \$6,000.
- (9) 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.
- (10) 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.
- (11) Investments are held in taxable subsidiaries through Solar Capital Ltd. Investment in Ark Real Estate Partners LP is held through SLRC ADI Corp and equity investment in Grakon LLC are held through Grakon TL Holding, Inc.
- (12) Solar Capital Ltd. s investments in SODO Corp. and SOCA Y Corp. each include a one dollar investment in common shares.
- (13) Founders Shares.
- (14) Contingent Founders Shares.
- (15) Indicates an investment held by Solar Capital Ltd. through its wholly-owned subsidiary Solar Capital Funding II LLC ( SC Funding ). Such investments are pledged as collateral under the Senior Secured Loan Facility (see Note 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, 2012, all other investments were pledged as collateral for the Senior Secured Credit Facility, Term Loan and Senior Secured Notes (see Note 6 to the consolidated financial statements).
- (16) Indicates an investment partially held by Solar Capital Ltd. through its wholly-owned subsidiary SC Funding. (See note 15 above for further explanation.) Par amounts held through SC Funding include: Asurion Corp \$20,224; Earthbound Farm \$23,500; Fulton Holding Corp. \$19,800; Grocery Outlet Inc. \$19,900; Interactive Health Solutions, Inc. \$14,569; Midcap Financial Intermediate Holdings, LLC \$23,500; Rug Doctor L.P. \$9,669; Transplace Texas, LP \$18,800; ViaWest Inc. \$15,354; and Vision Holding Corp \$20,569. Remaining par balances are held directly by Solar Capital Ltd.

F-7

**Table of Contents**

**SOLAR CAPITAL LTD.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

- (17) Includes an unfunded commitment of \$1,250.
- (18) Investments on non-accrual status.
- (19) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.
- (20) Includes PIK payable on \$12,732 of par at 4.50% PIK, \$14,769 of par at 5.25% PIK, \$15,400 of par at 8.00% PIK, and \$9,669 of par at 3.50% PIK.
- (21) Asurion Holdco has the option to pay interest in kind at L+10.25% if certain specified conditions are met.
- (22) In March 2012, Solar Capital Ltd. purchased \$36,991 and participated \$7,000 to a third party with no recourse to the Company.
- (23) Includes an unfunded commitment of secured debt \$14,979 and equity \$7,789.
- (24) Includes an unfunded commitment of \$48,000
- (25) Includes an unfunded commitment of \$28,200
- (26) Includes an unfunded commitment of \$20,177

See notes to consolidated financial statements.

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (unaudited) (continued)****June 30, 2012**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of June 30, 2012</b>
Beverage, Food & Tobacco	19%
Insurance	9%
Banking	9%
Personal, Food & Misc. Services	9%
Healthcare, Education & Childcare	8%
Buildings & Real Estate	5%
Farming & Agriculture	5%
Aerospace & Defense	5%
Building Products	4%
Leisure, Amusement, Entertainment	4%
Retail Stores	4%
Diversified/Conglomerate Service	4%
Personal & Nondurable Consumer Products	3%
Grocery	3%
Healthcare Technology	2%
Machinery	2%
Cargo Transport	2%
Broadcasting & Entertainment	1%
Finance	1%
Electronics	1%
Telecommunications	> 1%
Home, Office Furnishing & Durable Consumer Prds	> 1%
	100%

See notes to consolidated financial statements.



**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS****December 31, 2011****(in thousands, except shares)**

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Bank Debt/Senior Secured Loans 39.46%</b>						
Asurion Corporation(18)	Insurance	9.00%	5/24/2019	\$ 40,000	\$ 39,811	\$ 39,517
Airvana Network Solutions Inc.	Telecommunications	10.00%	3/25/2015	8,324	8,186	8,324
AviatorCap SII, LLC I(10)	Aerospace & Defense	12.00%	12/31/2014	3,728	3,678	3,671
AviatorCap SII, LLC II(10)	Aerospace & Defense	11.00%	12/31/2014	5,697	5,618	5,611
AviatorCap SII, LLC III(10)	Aerospace & Defense	13.00%	12/31/2014	8,856	8,696	8,724
Direct Buy Inc.(20)	Home, Office Furnishing & Durable Consumer Prds	12.00%	2/1/2017	25,000	24,332	5,875
Fulton Holding Corp(18)	Retail Stores	13.74%	5/28/2016	35,000	34,155	35,000
Grakon, LLC	Machinery	12.00%	12/31/2015	9,524	7,610	9,286
Good Sam Enterprise, LLC	Insurance	11.50%	12/1/2016	7,000	6,523	6,860
Grocery Outlet Inc.	Grocery	10.50%	12/15/2017	33,600	32,599	32,592
Isotoner Corporation	Personal & Nondurable Consumer Products	10.75%	1/8/2018	39,000	37,895	37,830
Interactive Health Solutions, Inc.(18)(19)	Healthcare, Education & Childcare	11.50%	10/4/2016	20,131	19,691	19,930
MYI Acquiror Corporation(3)(4)(8)(21)	Insurance	13% (12% Cash & 1% PIK)( 7)	3/13/2017	31,500	30,899	31,500
Roundy s Supermarkets, Inc. 2nd Lien(18)	Grocery	10.00%	4/16/2016	22,000	21,685	22,069
Southern Auto Finance Company(21)	Banking	13.50%	10/19/2017	25,000	24,453	24,437
Spencer Spirit Holdings, Inc.	Retail Stores	11.00%	5/1/2017	10,000	10,000	10,000
Transplace Texas, LP(18)	Cargo Transport	11.00%	4/12/2017	20,000	19,533	19,500
USAW 767(10)	Aerospace & Defense	14.50%	12/31/2012	4,904	4,850	4,831
ViaWest Inc(18)	Personal, Food & Misc. Services	13.5% (12% Cash & 1.5% PIK)(7)	5/20/2016	33,255	32,520	32,756
Vision Holding Corp.(18)	Healthcare, Education & Childcare	12.00%	11/23/2016	37,500	36,869	37,125
VPSI, Inc.(17)	Personal Transportation	12.00%	12/23/2015	16,958	16,598	16,958
<b>Total Bank Debt/Senior Secured Loans</b>				<b>\$ 436,977</b>	<b>\$ 426,201</b>	<b>\$ 412,396</b>
<b>Subordinated Debt/Corporate Notes 52.33%</b>						
Adams Outdoor Advertising	Diversified/Conglomerate Service	18.00%	12/8/2015	\$ 42,500	\$ 41,878	\$ 42,075
AMC Entertainment Holdings, Inc.	Leisure, Amusement, Entertainment	5.55% PIK	6/13/2012	27,141	27,086	26,462
CIBT Solutions	Leisure, Amusement, Entertainment	13.50%	6/15/2018	36,200	35,389	35,386
Crosman Corporation	Leisure, Amusement, Entertainment	13% (11% Cash & 2% PIK)(7)	10/15/2016	15,219	14,808	14,762
DSW Group, Inc.	Beverage, Food & Tobacco	15% PIK	4/24/2012	125,106	124,972	106,340
Earthbound Farm(18)	Farming & Agriculture	14.25%	6/21/2017	58,947	57,739	56,590
Grakon Holdings LLC Sr	Machinery	14% PIK	12/31/2015	1,588	1,588	1,469
Grakon Holdings LLC Jr	Machinery	12% PIK	12/31/2015	15,118	12,344	7,710

## Edgar Filing: Solar Capital Ltd. - Form 497

Granite Global Solutions Corp.(3)(16)(21)	Insurance	13.50%	5/31/2016	29,983	30,234	29,121
Magnolia River, LLC	Hotels, Motels, Inns and Gaming	14.00%	4/28/2014	19,064	18,664	19,064
Midcap Financial Intermediate Holdings, LLC(18)	Banking	14.25%	7/9/2015	75,000	73,542	75,000
ProSieben Sat.1 Media AG(3)(6)(21)	Broadcasting & Entertainment	8.83%(5.3% Cash & 3.5% PIK)(7)	3/6/2017	21,125	20,261	10,508
Richelieu Foods, Inc.(17)	Beverage, Food & Tobacco	13.75%	5/18/2016	22,500	21,972	21,150
		15.50% to 20.00%(7)				
Rug Doctor L.P.(18)(22)	Personal, Food & Misc. Services	(wtd. avg. 17.54%)	10/31/2014	51,225	48,034	47,383
Shoes For Crews, LLC (17)	Textiles & Leather	13.75%(7)	7/23/2016	15,650	15,318	15,650
Weetabix Group(3)(5)(21)	Beverage, Food & Tobacco	9.22% PIK	9/14/2016	15,986	18,589	12,469
Weetabix Group(3)(5)(21)	Beverage, Food & Tobacco	10.03%PIK	5/3/2017	34,294	41,739	25,720
<b>Total Subordinated Debt/Corporate Notes</b>				<b>\$ 606,646</b>	<b>\$ 604,157</b>	<b>\$ 546,859</b>

F-10

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)****December 31, 2011****(in thousands, except shares)**

Description(1)	Industry	Interest(2)	Maturity	Par Amount/ Shares	Cost	Fair Value
<b>Preferred Equity 1.40%</b>						
SODO Corp.(10)(13)	Aerospace & Defense	8.43% PIK		1,912	\$ 2,009	\$ 1,949
SOCAY Limited(10)(13)	Aerospace & Defense	8.59% PIK		12,357	13,059	12,668
Wyle Laboratories	Aerospace & Defense	8.00%	7/17/2015	387	39	47
<b>Total Preferred Equity</b>					<b>\$ 15,107</b>	<b>\$ 14,664</b>
<b>Common Equity / Partnership Interests / Warrants 6.81%</b>						
Ark Real Estate Partners LP(9)(11)(12)	Buildings & Real Estate			41,818,834	\$ 41,819	\$ 35,820
Grakon, LLC	Machinery			1,714,286	1,714	
Grakon, LLC Warrants	Machinery			3,518,001		
Great American Group Inc.(14)	Personal, Food & Misc. Services			572,800	2,681	69
Great American Group Inc.(15)	Personal, Food & Misc. Services			187,500	3	23
National Specialty Alloys, LLC(10)	Mining, Steel, Iron & Nonprecious Metals			1,000,000	10,000	16,000
Nuveen Investments, Inc.	Finance			3,486,444	30,875	7,844
NXP Semiconductors Netherlands B.V.(3)	Electronics			645,292	17,592	9,918
Seven West Media Limited	Broadcasting & Entertainment			437,687	2,424	1,450
<b>Total Common Equity/Partnerships Interests / Warrants</b>					<b>\$ 107,108</b>	<b>\$ 71,124</b>
<b>Total Investments</b>					<b>\$ 1,152,573</b>	<b>\$ 1,045,043</b>

- (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) For each debt investment we have provided the current interest rate in effect as of December 31, 2011. Variable rate debt investments generally bear interest at a rate that may be determined by reference to LIBOR or EURIBOR, and which may reset daily, quarterly or semi-annually.
- (3) The following entities are domiciled outside the United States and the investments are denominated in British Pounds, Euro, Canadian Dollars or Australian Dollars: Weetabix Group in the United Kingdom; ProSieben Sat.1 Media AG in Germany; Granite Global Solutions Corp. in Canada; and Seven West Media Group Pty Limited in Australia. NXP Semiconductors Netherlands B.V. is domiciled in the Netherlands and \$14,750 of MYI Aquiror Corporation is domiciled in the United Kingdom, but these assets are denominated in US Dollars. All other investments are domiciled in the United States.
- (4) Solar Capital Ltd.'s foreign domiciled portion of MYI Aquiror Corporation is held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (5) Solar Capital Ltd.'s 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) Coupon is payable in cash and/or in kind (PIK).
- (8) Includes an unfunded commitment of \$6,000.
- (9) Solar Capital Ltd. has an unfunded commitment of \$2,879.
- (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

## Edgar Filing: Solar Capital Ltd. - Form 497

than 25% of the voting securities of such company.

- (12) Solar Capital Ltd. s investment in Ark Real Estate Partners LP is held through its taxable subsidiary SLRC ADI Corp.
- (13) SODO Corp. and SOCAPY Corp. own equity interests that represent a majority of the equity ownership in Aviator Cap SII, LLC and USAW 767. Solar Capital Ltd. s investments in SODO Corp. and SOCAPY 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 \$15,313 U.S Dollars as of December 31, 2011.
- (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, 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).
- (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; Interactive Health Solutions, Inc. \$10,236; Roundy s Supermarkets Inc. \$10,000; Transplace Texas, LP \$18,800; ViaWest Inc. \$15,239; Vision Holding Corp \$13,883; Earthbound \$23,500; Midcap Financial Intermediate Holdings, LLC \$23,500; and Rug Doctor L.P. \$9,515. Remaining par balances are held directly by Solar Capital Ltd.
- (19) Includes an unfunded commitment of \$1,250.

F-11

**Table of Contents**

**SOLAR CAPITAL LTD.**

**CONSOLIDATED SCHEDULE OF INVESTMENTS (continued)**

**December 31, 2011**

**(in thousands, except shares)**

(20) Investment is on non-accrual status.

(21) Indicates assets that the Company believes do not represent qualifying assets under Section 55(a) of the Investment Company Act of 1940, as amended. Qualifying assets must represent at least 70% of the Company's total assets at the time of acquisition of any additional non-qualifying assets.

(22) Includes PIK payable on \$12,466 of par at 4.50% PIK, \$14,405 of par at 5.25% PIK, \$14,839 of par at 8.00% PIK, and \$9,515 of par at 3.50% PIK. See notes to consolidated financial statements.

F-12

**Table of Contents****SOLAR CAPITAL LTD.****CONSOLIDATED SCHEDULE OF INVESTMENTS (Continued)****December 31, 2011**

<b>Industry Classification</b>	<b>Percentage of Total Investments (at fair value) as of December 31, 2011</b>
Beverage, Food & Tobacco	16%
Insurance	10%
Banking	10%
Personal, Food & Misc. Services	8%
Leisure, Amusement, Entertainment	7%
Healthcare, Education & Childcare	5%
Farming & Agriculture	5%
Grocery	5%
Retail Stores	4%
Diversified/Conglomerate Service	4%
Personal & Nondurable Consumer Products	4%
Aerospace & Defense	4%
Buildings & Real Estate	3%
Cargo Transport	2%
Hotels, Motels, Inns and Gaming	2%
Machinery	2%
Personal Transportation	2%
Mining, Steel, Iron & Nonprecious Metals	1%
Textiles & Leather	1%
Broadcasting & Entertainment	1%
Electronics	1%
Telecommunications	1%
Finance	1%
Home, Office Furnishing & Durable Consumer Prds	1%
	100%

See notes to consolidated financial statements.

---

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**

**June 30, 2012**

**(in thousands, except shares)**

**Note 1. Organization**

Solar Capital Ltd. ( Solar Capital , we , or the Company ), a Maryland corporation formed in November 2007, is a closed-end, externally managed, non-diversified management investment company that has elected to be treated as a business development company ( BDC ) under the Investment Company Act of 1940, as amended (the 1940 Act ). In addition, for tax purposes the Company has elected to be treated as a regulated investment company ( RIC ) under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ). In February 2010, Solar Capital Ltd. completed its initial public offering.

The Company s 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. Our business model is focused primarily on the direct origination of investments through portfolio companies or their financial sponsors. Our investments generally range between \$20 million and \$100 million each, although we expect that this investment size will vary proportionately with the size of our capital base.

**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 ), a Delaware limited liability company formed on December 8, 2010. The consolidated financial statements reflect all adjustments and reclassifications which, in the opinion of management, are necessary for the fair presentation of the results of the operations and financial condition for the periods presented. All significant intercompany balances and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to current year presentation.

Interim financial statements are prepared in accordance with GAAP for interim financial information and pursuant to the requirements for reporting on Form 10-Q and Articles 6 or 10 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, 2012.

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

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

- 1) The quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment;
- 2) Preliminary valuation conclusions are then documented and discussed with senior management;





**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

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 securities to peer companies that are public, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flows, the markets in which the portfolio company does business, and other relevant factors.

When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, the Company will consider the pricing indicated by the external event to corroborate the 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.

**Credit Facilities** The Company has made an irrevocable election to apply the fair value option of accounting to the certain credit facilities and senior secured notes (see Note 6), in accordance with Accounting Standards Codification (ASC) 825-10. The Company uses an independent third-party valuation firm to measure their fair values.

**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.

*Dividend Income:* Dividend income on preferred equity securities is recorded as dividend income on an accrual basis to the extent that such amounts are payable by the portfolio company and are expected to be collected. Dividend income on common equity securities is recorded on the record date for private portfolio companies or on the ex-dividend date for publicly traded portfolio companies.

*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

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

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 has elected 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. 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 dividend distributions into the next tax year and pay a 4% excise tax on such income, as required. To the extent that the Company determines that its estimated current year annual taxable income will be in excess of estimated current year dividend distributions, the Company accrues excise tax, if any, on estimated excess taxable income as taxable income is earned. For the six months ended June 30, 2012, \$985 was recorded for U.S. Federal excise tax. No Federal excise tax was recorded for the three months ended June 30, 2011.

Although the Company files federal and state tax returns, its major tax jurisdiction is federal. The Company's 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 has formed and used certain taxable subsidiaries to be taxed as a corporation for federal income tax purposes. These taxable subsidiaries allow the Company to hold portfolio companies organized as pass-through entities and still satisfy certain RIC income requirements. The Company does not consolidate the taxable subsidiaries for income tax purposes but recognizes the results of these subsidiaries for financial reporting purposes.

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. The Company did not have any uncertain tax positions that met the recognition or measurement criteria of ASC 740-10-25 nor did it have any unrecognized tax benefits as of the periods presented herein.

**Capital Accounts** Certain capital accounts including under (over) distributed net investment income, accumulated net realized gain or loss, net unrealized depreciation, and paid-in capital in excess of par, are

---

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

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.

During 2011, as a result of permanent book-to-tax differences, the Company decreased under (over) distributed net investment income by \$4,582, decreased accumulated net realized loss by \$8,555, and decreased paid-in capital in excess of par value by \$3,973. Aggregate stockholders' equity was not affected by this reclassification.

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

**Foreign Currency Translation** The accounting records of the Company are maintained in U.S. dollars. 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 realized and unrealized gains or losses on investments that result from changes in market prices of investments from those that result from fluctuations in foreign exchange rates. Net realized foreign currency gains or losses arise from sales or repayments of foreign denominated investments (recorded in realized gain/loss on investments), maturities or terminations of foreign currency derivatives (recorded in realized gain/loss on derivatives), repayments of foreign denominated liabilities and other transactional gain or loss resulting from fluctuations in foreign exchange rates on amounts received or paid (recorded in realized gain/loss on foreign exchange). Net unrealized foreign exchange gains and losses arise from valuation changes in foreign denominated assets and liabilities, resulting from changes in exchange rates, including unrealized foreign exchange gains and losses on investments (recorded in unrealized gain/loss on investments), foreign currency derivatives (recorded in unrealized gain/loss on derivatives), and all other assets and liabilities (recorded in unrealized gain/loss on foreign exchange).

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.



---

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

**Derivative Instruments and Hedging Activity** The Company recognizes derivatives as either assets or liabilities at fair value on its Consolidated Statements of Assets and Liabilities with valuation changes recorded as realized or unrealized gains and losses. The Company currently does not have any formally documented hedges that qualify for hedge accounting treatment.

The Company generally uses foreign exchange forward contracts and/or borrowings on its multicurrency revolving credit facility to minimize foreign currency exchange risks. Changes in the values of the Company's foreign denominated assets are recorded in current earnings as realized and unrealized gains and losses (see above); likewise, realized and unrealized gains and losses from derivatives and foreign denominated debt are also recorded in current earnings. 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. Fluctuations in market values of assets and liabilities denominated in the same foreign currency offset in earnings, providing a natural foreign currency hedge.

The Company generally uses interest rate caps to create a synthetic ceiling on its borrowing rates. An interest rate cap is a derivative in which the buyer receives payments at the end of each period in which the interest rate exceeds an agreed cap rate. Interest payments on the Company's credit facilities are primarily LIBOR based. By purchasing caps on LIBOR, if LIBOR exceeds the cap rate, the Company will pay a higher interest rate on its credit facilities but receive an offsetting payment from the cap counterparty on the notional amount above the cap rate. Caps have an initial cost. The fair value of interest rate caps is determined using option pricing models that use readily available market inputs.

**Deferred Offering Costs** The Company records expenses related to shelf registration statement filings and other applicable offering costs as prepaid assets. These expenses are charged to capital upon utilization, in accordance with the ASC 946-20-25.

**Receivable for Investments Sold** Receivable for investments sold represents a receivable for investments that have been sold but the proceeds have not been received.

**Payable for Investments Purchased** Payable for investments purchased represents a liability for investments that have been purchased but the proceeds have not been paid and any unfunded loan commitments.

**Deferred Credit Facility Costs** Deferred credit facility costs are amortized over the life of the related credit facility unless the fair value option was elected in accordance with ASC 825-10.

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

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

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)****Note 3. Investments**

Investments consisted of the following as of June 30, 2012 and December 31, 2011:

	June 30, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Bank Debt/Senior Secured Loans	\$ 519,005	\$ 511,107	\$ 426,201	\$ 412,396
Subordinated Debt/Corporate Notes	509,640	486,501	604,157	546,859
Preferred Equity	143,512	145,568	15,107	14,664
Common Equity/Partnership Interests/Warrants	90,854	50,426	107,108	71,124
<b>Total</b>	<b>\$ 1,263,011</b>	<b>\$ 1,193,602</b>	<b>\$ 1,152,573</b>	<b>\$ 1,045,043</b>

As of June 30, 2012, the Company had two non-accrual assets with a total market value of \$21,055. As of December 31, 2011, there was one non-accrual asset with a market value of \$5,875.

**Note 4. Agreements**

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



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

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 adviser. For financial statement presentation purposes, a fee is accrued to include unrealized capital appreciation. No accrual was required for the capital gains based incentive fee for the six months ended June 30, 2012 or for the year ended December 31, 2011.

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

**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 following table highlights the outstanding interest rate caps:

Index Rate	Cap Rate	Notional Amount	Expiration	Cost	June 30, 2012		December 31, 2011		Counterparty
					Fair Value	Unrealized Depreciation	Fair Value	Unrealized Depreciation	
3 Month Libor	1.0%	\$ 100,000	1/13/2014	\$ 1,950	\$ 52	\$ (1,898)	\$ 279	\$ (1,671)	Wells Fargo
3 Month Libor	1.0%	50,000	5/4/2014	988	42	(946)	190	(798)	Wells Fargo
		\$ 150,000		\$ 2,938	\$ 94	\$ (2,844)	\$ 469	\$ (2,469)	

The Company is also exposed to foreign exchange risk through its investments denominated in foreign currencies. The Company attempts to mitigate 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 may serve as an economic hedge with their realized and unrealized gains and losses also recorded in current earnings. During the quarter ended June 30, 2012, we entered into foreign currency forward contracts with durations of 1 month with average U.S. dollar notional amounts of \$19,305. During the year ended December 31, 2011, we entered into foreign currency forward contracts with durations of 1 month with average U.S. dollar notional amounts of \$30,697.



**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

As of June 30, 2012, there were three open forward foreign currency contracts denominated in Euro, British Pounds and Canadian Dollar, all of which terminated on July 13, 2012. As of December 31, 2011, there were two open forward foreign currency contracts denominated in Euro and British Pounds, both of which terminated on January 10, 2012. At June 30, 2012 and December 31, 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:

SOLD	Foreign Currency	June 30, 2012			December 31, 2011			Counterparty
		USD Value	Unrealized appreciation (depreciation)		USD Value	Unrealized appreciation (depreciation)		
EUR	17,250	\$ 21,830	\$ (191)	SunTrust Bank	966	\$ 1,295	\$ 44	SunTrust Bank
GBP	21,700	33,985	(347)	SunTrust Bank	12,989	20,308	136	SunTrust Bank
CAD	18,900	18,564	(183)	SunTrust Bank				
Total Sold		\$ 74,379	\$ (721)			\$ 21,602	\$ 180	

The Company had no derivatives designated as hedging instruments at June 30, 2012 and December 31, 2011.

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, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments(a)				
Foreign exchange contracts	Derivative assets	\$	Derivative assets	\$ 180
Interest rate caps	Derivative assets	94	Derivative assets	469
Total derivatives not designated as hedging instruments(a)		\$ 94		\$ 649
Total derivative assets		\$ 94		\$ 649

	Derivative Liabilities			
	June 30, 2012		December 31, 2011	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments(a)				
Foreign exchange contracts	Derivative liabilities	\$ 721	Derivative liabilities	\$

Edgar Filing: Solar Capital Ltd. - Form 497

Total derivatives not designated as hedging instruments(a)	\$ 721	\$
Total derivative liabilities	\$ 721	\$

- (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.

F-21

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)****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  Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives			
		Three months ended			
		June 30, 2012	Three months ended June 30, 2011	Six months ended June 30, 2012	Six months ended June 30, 2011
Foreign exchange contracts	Realized gain (loss): Derivatives	\$ 1,730	\$ (4,872)	\$ 786	\$ (9,235)
Foreign exchange contracts	Unrealized gain (loss): Derivatives	(277)	1,876	(901)	1,587
Interest rate caps	Unrealized gain (loss): Derivatives	118	(1,403)	(375)	(1,373)
Total		\$ 1,571	\$ (4,399)	\$ (490)	\$ (9,021)

**Note 6. Borrowing Facilities and Senior Secured Notes**

*Senior Secured Credit Facility* On June 29, 2012, Solar Capital Ltd. entered into a \$485 million Senior Secured Revolving Credit Facility (the \$485 Million Facility ) comprised of \$450 million of revolving credit and a \$35 million term loan. Borrowings bear interest at a rate per annum equal to the base rate plus 2.50% or the alternate base rate plus 1.50% and has no LIBOR floor requirement. For the \$485 Million Facility, Citibank N.A. acted as Administrative Agent, JPMorgan Chase Bank, N.A. acted as Syndication Agent, and SunTrust Bank acted as Documentation Agent. The \$485 Million Facility matures in July 2016 and includes a ratable amortization in the fourth year.

The \$485 Million Facility may be increased up to \$800 million with additional new lenders or the increase in commitments of current lenders. The \$485 Million Facility contains certain customary affirmative and negative covenants and events of default. In addition, the \$485 Million 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.

In conjunction with the establishment of the \$485 Million Facility, the predecessor facility and term loan was retired, resulting in \$2,295 of non-recurring charges to expense unamortized costs. The Company will also pay the issuer of the term loan quarterly in arrears a commitment fee at the rate of 0.25% per annum on the average daily outstanding balance.

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

## Edgar Filing: Solar Capital Ltd. - Form 497

1933, as amended.

*Senior Secured Loan Facility* On December 17, 2010, Solar Capital Ltd. entered into a \$100 million senior secured credit facility (the "\$100 Million 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, pursuant to which Solar Capital will sell to SC Funding 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

F-22

**Table of Contents****SOLAR CAPITAL LTD.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)****June 30, 2012****(in thousands, except shares)**

Servicing Agreement and, together with the Purchase and Sale Agreement, the Agreements ) with SC Funding as borrower; and (iii) various supporting documentation. The \$100 Million Facility is secured by all of the assets held by SC Funding. The \$100 Million Facility, among other things, matures on December 17, 2015 and bears interest based on LIBOR plus 2.75%. Under the Agreements, Solar Capital and SC Funding, 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.

The Company has made an irrevocable election to apply the fair value option of accounting to the \$485 Million Facility and the Private Notes in accordance with ASC 825-10. Accounting for the \$485 Million Facility and the Private Notes at fair value will better align the measurement methodologies of assets and liabilities, which may mitigate certain earnings volatility. As a result of this election, \$3,681 and \$1,128 of costs related to the establishment of the \$485 Million Credit Facility and the Private Notes, respectively, were expensed during the three months ended June 30, 2012, rather than being deferred and amortized over the life of the obligation. ASC 825-10 requires entities to record the fair value of the selected assets and liabilities on the face of the Consolidated Statements of Assets and Liabilities and changes in fair value of the \$485 Million Facility and the Private Notes are reported in the Consolidated Statements of Operations. For the three months ended June 30, 2012, the \$485 Million Facility and the Private Notes had no net change in unrealized (appreciation) depreciation.

The weighted average annualized interest cost for all borrowings for the six months ended June 30, 2012 and 2011 was 4.40% and 3.53%, respectively. These costs are exclusive of commitment fees and for other prepaid expenses, if any, related to establishing the \$485 Million Facility, the Private Notes, and the \$100 Million Credit Facility (collectively the Credit Facilities. ) This weighted average annualized interest cost reflects the average interest cost for all outstanding borrowings. For the six months ended June 30, 2012 and 2011, average debt outstanding was \$170,251 and \$117,092, respectively. The maximum amounts borrowed on the Credit Facilities during the six months ended June 30, 2012 and 2011 was \$236,879 and \$435,356, respectively. There was \$229,860 drawn on the Credit Facilities as of June 30, 2012 and \$236,355 as of December 31, 2011. At June 30, 2012 and December 31, 2011, the Company was in compliance with all financial and operational covenants required by the Credit Facilities.

**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:

**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).

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

**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, 2012 and December 31, 2011:

**Fair Value Measurements**

**As of June 30, 2012**

Edgar Filing: Solar Capital Ltd. - Form 497

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Bank Debt/Senior Secured Loans		48,189	462,919	511,107
Subordinated Debt / Corporate Notes		25,848	460,652	486,501
Preferred Equity			145,568	145,568
Common Equity / Partnership Interests / Warrants	8,240		42,186	50,426
Derivative assets interest rate caps and foreign exchange contracts		94		94
<b>Liabilities:</b>				
Derivative liabilities		721		721
Credit Facilities			131,860	131,860

F-24

**Table of Contents**

**SOLAR CAPITAL LTD.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited) (continued)**

**June 30, 2012**

**(in thousands, except shares)**

**Fair Value Measurements**

**As of December 31, 2011**

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Assets:</b>				