

Solar Capital Ltd.  
Form N-2  
January 18, 2008  
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As filed with the Securities and Exchange Commission on January 18, 2008

Securities Act File No. 333-

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# U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM N-2

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

(Check appropriate box or boxes)

Pre-Effective Amendment No.            ..  
Post-Effective Amendment No.           ..

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## SOLAR CAPITAL LTD.

(Exact name of Registrant as specified in charter)

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500 Park Avenue, 5th Floor

New York, NY 10022

(Address of Principal Executive Offices)

Registrant's telephone number, including Area Code: (212) 993-1670

Michael S. Gross

Chief Executive Officer

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Solar Capital Ltd.

500 Park Avenue, 5th Floor

New York, NY 10022

(Name and address of agent for service)

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**Approximate date of proposed public offering:** As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. "

It is proposed that this filing will become effective (check appropriate box):

" when declared effective pursuant to Section 8(c).

**CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933**

	<b>Proposed Maximum</b>	<b>Amount of</b>
	<b>Aggregate</b>	<b>Registration</b>
<b>Title of Securities Being Registered</b>	<b>Offering Price(1)</b>	<b>Fee(1)</b>
Common Stock, \$0.01 par value per share	\$300,000,000	\$11,790.00

(1) Estimated pursuant to Rule 457(o) under the Securities Act of 1933 solely for the purpose of determining the registration fee.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.**

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**The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED \_\_\_\_\_, 2008**

**PRELIMINARY PROSPECTUS**

**Shares**

**Solar Capital Ltd.**

**Common Stock**

**\$ \_\_\_\_\_ per share**

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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. Immediately prior to the closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., an externally managed, non-diversified, closed-end management investment company that intends to elect to be treated as a business development company under the Investment Company Act of 1940, or the 1940 Act, prior to the consummation of this offering. We are managed by Solar Capital Partners, LLC. Solar Capital Management, LLC provides the administrative services necessary for us to operate.

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This is our initial public offering and our shares have no history of public trading. We currently expect that the initial offering price per share of our common stock will be between \$            and \$            . We have applied to have our common stock approved for listing on the New York Stock Exchange under the symbol SLR.

This prospectus contains important information about us that a prospective investor should know before investing in our common stock. Please read this prospectus before investing and keep it for future reference. Upon the completion of this offering, we will file annual, quarterly and current reports, proxy statements and other information about us with the Securities and Exchange Commission. This information will be 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, and you should not consider that information to be part of this prospectus.

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**An investment in our common stock is subject to risks and involves a heightened risk of total loss of investment. Shares of closed-end investment companies, including business development companies, frequently trade at a discount to their net asset value. If our shares trade at a discount to our net asset value, it may increase the risk of loss for purchasers in this offering. In addition, the companies in which we invest are subject to special risks. See Risk Factors beginning on page 16 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 is truthful or complete. Any representation to the contrary is a criminal offense.

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	Per Share	Total(1)
Public Offering Price	\$	\$
Sale Load (Underwriting Discounts and Commissions)	\$	\$
Proceeds to Solar Capital Ltd. (before expenses)(2)	\$	\$

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- (1) We have granted the underwriters a 30-day option, which we refer to as the over-allotment option, to purchase up to an additional shares of our common stock at the public offering price, less underwriting discounts and commissions (sales load). If the over-allotment option is exercised in full, the total public offering price will be \$            and the total underwriting discounts and commissions (sales load) will be \$            . The proceeds to us would be \$            , before deducting expenses payable by us. See Underwriting.
- (2) We estimate that we will incur approximately \$            in offering expenses in connection with this offering. Stockholders will indirectly bear such expenses as investors in Solar Capital Ltd.

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The underwriters expect to deliver the shares on or about            , 2008.

**Citi**

, 2008

**JPMorgan**

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You should rely on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information or to make representations as to matters not stated in this prospectus. If anyone provides you with different or inconsistent information, you should not rely on it. We are offering to sell, and seeking offers to buy, securities only in jurisdictions where offers and sales are permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus. This prospectus will be amended to reflect material changes to the information contained herein.

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Until \_\_\_\_\_, 2008 (25 days after the date of this prospectus), federal securities laws may require all dealers that effect transactions in our common stock, whether or not participating in this offering, to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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**SUMMARY**

*This summary highlights some of the information in this 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 this 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. Immediately prior to the closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., a newly-formed Maryland corporation, which we refer to as the **Solar Merger**. Except where the context suggests otherwise, the terms **we**, **us**, **our** and **Solar Capital** refer to Solar Capital LLC prior to the Solar Merger, and Solar Capital Ltd. after the Solar 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, 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.*

*Unless otherwise noted, the information contained in this prospectus assumes that the underwriters' **over-allotment option** is not exercised.*

**Solar Capital**

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. From time to time, we may also invest in public companies that are thinly traded. We are managed by Solar Capital Partners, LLC. Solar Capital Management, LLC provides the administrative services necessary for us to operate.

As of September 30, 2007, we had approximately \$728 million of long-term investments. As of September 30, 2007, our portfolio was comprised of debt and equity investments in 29 portfolio companies, and our debt investments, including preferred equity investments, had a weighted average annualized yield of approximately 12.4%.

Our portfolio primarily consists of direct investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans made to private leveraged companies organized and located in the United States, including middle-market companies. We also invest in equity securities, such as preferred stock, common stock, warrants and other equity interests received in connection with our debt investments or through direct investments. 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.



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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

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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.

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and on March 13, 2007, we conducted a \$700 million private placement of membership units, or units, in Solar Capital LLC, which we refer to as our initial private placement. Solar Capital Investors, LLC, an entity funded by the management of Solar Capital Partners, invested approximately \$50 million in us in exchange for approximately 3.3 million units in connection with the initial private placement. In addition, in connection with the initial private placement, certain funds managed by Magnetar Financial LLC, which we refer to as Magnetar, and certain entities affiliated therewith (collectively, the Magnetar Entities ), invested an aggregate of approximately \$525 million in us in exchange for approximately 35 million units. We refer to investors in the initial private placement, together with our other equity holders prior to the Solar Merger, as the LLC Holders.

Immediately prior to the closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., a newly-formed Maryland corporation. In connection with the Solar Merger, each of the outstanding units of Solar Capital LLC will be converted into the right to receive one share of common stock of Solar Capital Ltd. An aggregate of approximately 81.7 million shares of common stock will be issued to the LLC Holders in connection with the Solar Merger. In accordance with the limited liability company operating agreement of Solar Capital LLC, no vote of Solar Capital LLC's unitholders is required in order to consummate the Solar Merger.

### **About Solar Capital Partners**

Solar Capital Partners is controlled by Michael S. Gross, our chairman and chief executive officer, and is led by Mr. Gross and Bruce Spohler, our chief operating officer, and is supported by a team of investment professionals, including Brian Gerson, Cedric Henley and David Mait. We refer to Messrs. Gross, Spohler, Gerson, Henley and Mait 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. The investment team led by Messrs. Gross and Spohler has invested in 33 different portfolio companies for Solar Capital, which investments involved an aggregate of more than 30 different financial sponsors. 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.

Mr. Gross, the former chairman and chief executive officer of Apollo Investment Corporation, a publicly traded business development company that he founded, has 20 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. Since July 2006, Mr. Gross has been a co-chairman of the investment committee of Magnetar, a multi-strategy investment manager, which along with its affiliates manages over \$ billion in assets, and a senior partner in Magnetar Capital Partners LP, the sole member of Magnetar. In such capacities, Mr. Gross heads Magnetar's fundamental credit and private equity business.

Mr. Gross is also a founder and a former senior partner of Apollo Management, L.P., a leading private equity firm. During his tenure at Apollo Management, L.P., Mr. Gross was a member of the investment committee that was responsible for overseeing more than \$13 billion of investments in over 150 companies. Between February 2004 and February 2006, Mr. Gross was the president and chief executive officer of Apollo Investment Corporation, a publicly traded business development company that he founded and on whose board of directors and investment committee he served as chairman from February 2004 to July 2006. Under his management, Apollo Investment Corporation raised approximately \$930 million in gross proceeds in an initial public offering in April 2004, built a dedicated investment team and infrastructure and invested approximately \$2.3 billion in over 65 companies in conjunction with 50 different private equity sponsors. Mr. Gross was also



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the managing partner of Apollo Distressed Investment Fund, L.P., an investment fund he founded in 2003 to invest principally in debt and other securities of leveraged companies.

Mr. Gross also currently serves on the boards of directors of five public companies, and in the past has served on the boards of directors of more than 20 public and private companies. As a result, Mr. Gross has developed an extensive network of private equity sponsor relationships as well as relationships with management teams of public and private companies, investment bankers, attorneys and accountants that we believe should provide us with significant business opportunities.

We also rely on the more than 20 years of experience of Mr. Spohler, who serves as our chief operating officer and a partner of our investment adviser. Mr. Spohler joined Magnetar in November 2006. Since that time, he has worked closely with Mr. Gross in the fundamental credit and private equity group. Mr. Spohler joined Magnetar from CIBC World Markets, where he was a managing director and a former co-head of U.S. Leveraged Finance. He held numerous senior roles across the firm, including serving on the U.S. Management Committee, Global Executive Committee and the Deals Committee, which approves all of the firm's U.S. corporate finance debt capital decisions. During Mr. Spohler's tenure, he was responsible for senior loan, high yield and mezzanine origination and execution, as well as the firm's below investment grade loan portfolio. As a co-head of U.S. Leveraged Finance, Mr. Spohler oversaw over 300 capital raising and merger and acquisition transactions, comprising over \$40 billion in market capitalization.

In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment professionals include Messrs. Gerson, Henley and Mait, 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 18 years of experience in the private equity and leveraged lending industries.

### **Market Opportunity**

Solar Capital invests primarily in senior secured loans, mezzanine loans and equity securities of leveraged companies organized and located in the United States. We believe that the size of the leveraged company market, coupled with the demands of these companies for flexible sources of capital at attractive terms and rates, create an attractive investment environment for us.

*Large pool of uninvested private equity capital should continue to drive loan volume.* Since 2006, U.S. leveraged buyouts led by private equity firms have accounted for over \$1 trillion or 30% of the total U.S. mergers and acquisition volume, as compared to only 5% of total U.S. mergers and acquisition volume in 2000. The significant increase in leveraged buyout volume is driven by an increase in the amount of capital raised by private equity firms. Since 2004, U.S. buyout firms have raised approximately \$375 billion. During that same period, middle-market U.S. buyout funds have raised approximately \$95 billion. Industry sources suggest that, as of June 2007, all U.S. buyout firms still had approximately \$100 billion of committed capital available for investment and middle-market U.S. buyout firms still had approximately \$25 billion available for investment. We believe the abundance of uninvested capital and continued increase in fund size should continue to sustain the recent high volume of leveraged buyouts by private equity firms. As a result, loan volumes should remain robust as private equity firms seek to package their equity investments together with senior secured and/or mezzanine loans in leveraged buyouts, which should provide opportunities for us to partner with such firms.

*Recent disruptions within the credit markets generally have led to reduced liquidity and a more lender-friendly environment.* Throughout the first half of 2007, the global debt markets witnessed ever-increasing amounts of liquidity. This translated into highly robust debt capital markets, resulting in more issuer-friendly terms, tighter spreads and higher leverage levels. Collateralized Loan Obligations (CLOs), which represented 60% of the buying power of new loan volume over the twelve-month

period

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beginning October 1, 2006 and ending September 30, 2007, had been a driving force in the increased appetite that existed in the debt capital markets. However, beginning at the end of June 2007, signs of strain emerged as fears of increasing defaults in the subprime mortgage lending market caused credit concerns and a loss of investor confidence in the leveraged loan and high yield markets. Due to credit concerns and the loss of investor confidence, there was a significant decline in CLO issuance leading to a liquidity shortage in the debt markets. We believe that this reduction in liquidity throughout the credit markets has improved the number and quality of investment opportunities available to Solar Capital, as many of the alternative methods of obtaining middle-market debt financing have significantly decreased in scope and availability while demand for financings has remained robust. We believe we will be able to structure investments with lower leverage, better terms, better yields, and longer duration than was typical before the recent market correction. In addition, our permanent capital structure makes us an attractive alternative to other sources of financing for companies.

*Bank consolidation has been high, resulting in fewer key players willing to provide debt financing to the companies we target.* In the last 20 years, the number of U.S. commercial banks has shrunk from over 13,700 in 1987 to approximately 7,300 as of September 2007. As a result, we believe that this trend towards greater concentration of assets in larger banks has reduced the availability of debt capital to the companies we target for such financing sources.

*Commercial and investment banks have been syndicating larger volumes of loans.* To mitigate their exposure to a single credit, commercial and investment banks have been syndicating larger volumes of loans, rather than holding them. The syndication process can be cumbersome for issuers and demonstrates a lack of commitment by the bank to the relationship with the issuer. We believe that this trend should provide more efficient and committed financing sources, like us, with increased investment opportunities. Additionally, many banks have reduced further their credit exposure in response to the credit market turmoil. This pullback is disproportionately impairing middle-market companies' access to loans, as banks allocate their capital to larger clients. The resulting reduction in access to capital for middle-market companies increases the value proposition for alternative financing sources who can underwrite large commitments in place of the banks.

*Less competition and the potential for greater reward for a willingness to accept illiquidity make the middle-market an attractive opportunity.* We believe there is a considerable opportunity in the middle-market sector given the significant number of companies and transactions within this sector. Increasingly, sponsors have been drawn to the segment because of less competition for deals and the segment's growth characteristics, resulting in more than 1,800 acquisitions since 2005 between \$10 million and \$500 million. We expect that private equity firms will continue to be active investors in middle-market companies and that these private equity funds will seek to leverage their equity investments by combining capital with senior secured and/or mezzanine loans from other sources. Solar Capital believes there is a large pool of uninvested private equity capital likely to seek mezzanine capital to support their investments. For the twelve months ended September 30, 2007, leveraged loan volume for companies with EBITDA of less than \$50 million totaled \$32 billion, and we expect this trend to continue.

We believe that the size of the middle-market, coupled with the demands of these companies for flexible sources of capital, creates an attractive investment environment for us. The middle-market has distinct characteristics in terms of risk, capital requirements and rates of return. We believe that the segment's strong growth prospects, combined with the growing demand for capital and the corporate finance and advisory services we offer, enhances our market opportunity.

Therefore, we believe that there is an 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.

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**Competitive Advantages and Strategy**

We believe that we have the following competitive advantages over other providers of financing to leveraged companies:

***Management Expertise***

Mr. Gross has principal management responsibility for Solar Capital Partners as its managing partner. He currently dedicates a significant portion of his time to managing Solar Capital Partners. Mr. Gross has 20 years of experience in leveraged finance, private equity and distressed debt investing. Mr. Spohler, our chief operating officer and a partner of our investment adviser, has over 20 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. We believe that our 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. We believe that our investment team has a proven track record of valuing companies and assets and negotiating transactions.

In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment professionals include Messrs. Gerson, Henley and Mait, 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 18 years of experience in the private equity and leveraged lending industries.

***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 professionals and their ability to draw upon their average of 18 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's U.S. Leveraged Finance Group.

Our investment team's strong relationship network is enhanced by the collaborative role Solar Capital plays in the private equity industry. We offer tailored solutions to our portfolio companies, and we believe that this role provides us with greater deal flow as opposed to being viewed as a competitor bidding for control stakes. Because Solar Capital is not associated with a private equity firm, we are not precluded from partnering with most of the top tier financial sponsors. We believe that our relationship with Magnetar, which does not have a private equity fund that targets control investments, strengthens our ties and industry knowledge without creating competition or significant conflicts of interest.

These direct investments enable us to perform more in-depth due diligence and play an active role in structuring financings. We believe that effectuating the transaction terms and having greater insight into a portfolio company's operations and financial picture assist Solar Capital in minimizing downside potential, while reinforcing Solar Capital as a trusted partner who delivers comprehensive financing solutions. Since our inception, Solar Capital Partners has sourced investments in 33 different portfolio companies for Solar Capital, which investments involved an aggregate of more than 30 different financial sponsors.





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### ***Versatile Transaction Structuring and Flexibility of Capital***

We believe our senior investment professionals' broad expertise and ability to draw upon their 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 will be subject to significant regulation as a business development company, we will not be 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 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. We believe that this approach enables us to procure attractive investment opportunities throughout the economic cycle so that we can make investments consistent with our stated investment objective even during turbulent periods in the capital markets.

### ***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 our investment adviser, conduct a rigorous due diligence process that draws upon investment experience, industry expertise and network of contacts of our senior investment professionals, as well as the other members of our investment team. Among other things, our due diligence is designed to ensure that a prospective portfolio company will be able to meet its debt service obligations.

We have the ability to invest across an issuer's capital structure, which we believe enables us to provide comprehensive financing solutions for our portfolio companies, as well as access the best risk-adjusted opportunities. The overall transaction size and product mix is based upon the needs of the customer, as well as our risk-return hurdles. We also focus on downside protection and preservation of capital throughout the structuring process.

### ***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 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. Solar Capital Partners' investment team also has significant experience in evaluating and making investments in the industries we target. We believe that the in-depth experience of Solar Capital Partners' investment team in investing throughout various stages of the



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economic cycle provides our investment adviser with access to ongoing market insights in addition to a powerful asset for investment sourcing. See Business Investments.

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

Unlike private equity and venture capital funds, we are not 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.

### ***Relationship with Magnetar***

Solar Capital seeks to capitalize upon the synergies enabled by its association with Magnetar, a multi-strategy investment manager with offices in Evanston, Illinois, New York, London and Philadelphia, and which, along with its affiliates, has over \$ billion in assets under management across multiple strategies. We believe that our origination capabilities are further strengthened by leveraging the other investment strategies of Magnetar, which focuses primarily on non-control investments and whose senior management also has developed a strong reputation in the investment management sector, as well as a broad network of contacts within the investment, commercial banking, private equity and investment management communities. We believe that Magnetar has significant depth among its investment professionals across its global equities, reinsurance, fundamental credit and private equity and structured credit groups, as well as among its back-office support staff. We believe that Magnetar's disciplined, institutionalized process and collaborative culture serves as a competitive advantage for us, enabling us to further improve our ability to source investments from non-traditional sources. Our collaboration with Magnetar includes shared research and due diligence, shared industry expertise, shared investment ideas and deal flow. We believe that the ability of Magnetar to co-invest with us increases the size of investment opportunities available to us, allowing us to speak for entire tranches in many middle market financings. We believe this should result in greater influence in negotiating terms and sourcing transactions among prospective portfolio companies.

In connection with the initial private placement, the Magnetar Entities invested an aggregate of approximately \$525 million in us in exchange for approximately 35 million units. The consideration paid by the Magnetar Entities in connection with such transactions consisted of a portfolio of debt and equity investments originated by investment professionals at Magnetar who are currently a part of Solar Capital Partners' investment team, together with accrued and unpaid interest thereon and additional funding commitments in such investments, as well as a cash investment. The Magnetar Entities currently own, either directly or indirectly, approximately 42.8% of our outstanding equity, and are expected to own, either directly or indirectly, approximately % of our outstanding shares of common stock upon the completion of this offering.

Subsequent to the completion of this offering, so long as our relationship with Magnetar exists, we intend to offer certain of the Magnetar Entities the opportunity to invest an amount equal to up to 33% of the total amount available for investment in each investment opportunity identified by Solar Capital Partners that exceeds \$30 million. In addition, there may be circumstances under which Solar Capital Partners determines to offer to Magnetar the ability to participate at amounts greater than 33%, including, for example, circumstances where Solar Capital Partners determines that the investment is too large for us or if we would be prohibited from making such investment because of the restrictions contained in the 1940 Act. Any co-investment by the Magnetar Entities will be made only to the extent permitted by applicable law and interpretive positions of the Securities and Exchange Commission, or SEC, and its staff, and consistent with Solar Capital Partners' allocation procedures. In certain circumstances, negotiated co-investments, either with a Magnetar Entity or another fund



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managed by Solar Capital Partners or its affiliates, may be made only if we receive an order from the SEC permitting us to do so. We intend to seek an order from the SEC to permit the above-referenced co-investments with certain of the Magnetar Entities following consummation of this offering. There can be no assurance when, or if, such an order may be obtained.

### **Risk Factors**

We have a limited operating history and are dependent on our senior investment professionals. We invest primarily in private companies. These activities may involve a high degree of business and financial risk. We are also subject to risks associated with access to additional capital, fluctuating quarterly results and variation in our portfolio value. In addition, if we fail to qualify as a regulated investment company, or RIC, under Subchapter M of the Internal Revenue Code of 1986, as amended, which we refer to as the Code, we could become subject to federal income tax on all of our income, which would have a material adverse effect on our financial performance. See **Risk Factors** beginning on page 16, and the other information included in this prospectus, for a 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 closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., a newly-formed Maryland corporation that is an externally managed, non-diversified, closed-end management investment company that intends to elect to be treated as a business development company under the 1940 Act prior to consummation of this offering. As a business development company, we will be 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 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, including before we have fully invested the proceeds of this offering. In addition, we intend to elect to be treated for federal income tax purposes, and intend to qualify annually thereafter, 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 intends to register under the Investment Advisers Act of 1940, as amended, or the Advisers Act, prior to consummation of this offering. 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 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, 5<sup>th</sup> Floor, New York, New York 10022, and our telephone number is (212) 993-1670.



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**THE OFFERING**

Common Stock Offered by Us	shares, plus shares issuable pursuant to the over-allotment option granted to the underwriters.
Common Stock to be Outstanding After this Offering	Approximately shares (including 81,702,847 shares to be issued to the LLC Holders in connection with the Solar Merger), plus shares issuable pursuant to the over-allotment option granted to the underwriters.
Use of Proceeds	Our net proceeds from this offering will be approximately \$ or, approximately \$ if the underwriters fully exercise their over-allotment option, in each case assuming an initial public offering price of \$ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus). We plan to invest the net proceeds of this offering in portfolio companies in accordance with our investment objective and strategies as described in this prospectus. We will also pay operating expenses, including management and administrative fees, and may pay other expenses such as due diligence expenses of potential new investments, from the net proceeds of this offering. We anticipate that substantially all of the net proceeds of this offering will be used for the above purposes within three to six months from the consummation of this offering, depending on the availability of investment opportunities that are consistent with our investment objective and other market conditions. Pending such investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality debt investments that mature 12 months or less from the date of investment. See Use of Proceeds.
Proposed New York Stock Exchange Symbol	SLR
Distributions	Subsequent to the completion of this offering, and to the extent that we have income available, we intend to distribute quarterly dividends to our stockholders, beginning with our first full quarter after the completion of this offering. 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. In addition, Solar Capital LLC intends to declare a distribution to its unitholders immediately prior to the consummation of this offering and completion of the Solar Merger to offset the tax liabilities that certain investors in Solar Capital LLC may incur. See Solar Merger.
Taxation	We intend to elect to be treated for federal income tax purposes, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code. As a RIC, we generally will not have to pay corporate-level

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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 Distributions and Material U.S. Federal Income Tax Considerations.

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.

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.

Leverage

We may borrow funds to make investments, including before we have fully invested the proceeds of this offering. As a result, we may 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, including any increase in the management fee payable to our investment adviser, Solar Capital Partners, will be borne by our common stockholders.



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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.
Shares Eligible for Resale	In connection with the initial private placement, we entered into a registration rights agreement, pursuant to which we agreed to file a registration statement with the SEC within 270 days of the closing of the initial private placement (December 8, 2007) to register for resale units sold in the initial private placement (or shares of common stock if we have elected to be regulated as a business development company prior to such filing) and to use our best efforts to cause such registration statement to become effective within 730 days of the closing of the initial private placement (March 13, 2009), subject to limited exceptions. Concurrently with our initial private placement, we also entered into a separate registration rights agreement with respect to the units issued to Magnetar that granted Magnetar certain demand, piggy-back and shelf registration rights beginning 365 days after the consummation of an initial public offering. Each of the LLC Holders, including Magnetar, are also subject to certain lock-up provisions with respect to the shares of common stock of Solar Capital Ltd. they will receive as a result of the Solar Merger. See Registration Rights Agreement.
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 common stock, unless you opt out of our dividend reinvestment plan so as to receive cash dividends by delivering a written notice to our dividend paying agent. 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.
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

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opportunity to realize a premium over the market price for our common stock. See Description of Securities.

Available Information

After the completion of this offering, we will be required to file periodic reports, current reports, proxy statements and other information with the SEC. This information will be 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 will also be available free of charge by contacting us at Solar Capital Ltd., 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>.

**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 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 (as a percentage of offering price)	%(1)
Offering expenses borne by us (as a percentage of offering price)	%(2)
Dividend reinvestment plan expenses	None (3)

Total stockholder transaction expenses (as a percentage of offering price)	%
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**Annual expenses (as a percentage of net assets attributable to common stock):**

Base management fee	%(4)
Incentive fees payable under our Investment Advisory and Management Agreement	%(5)
Interest payments on borrowed funds	%(6)
Other expenses (estimated)	%(7)
Total annual expenses (estimated)	%

**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. See Note 6 below for additional information regarding certain assumptions regarding our level of leverage subsequent to this offering.

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

- (1) The underwriting discounts and commissions (the sales load) with respect to shares sold in this offering, which is a one-time fee, is the only sales load paid in connection with this offering.
- (2) Amount reflects estimated offering expenses of approximately \$ .
- (3) The expenses of the dividend reinvestment plan are included in other expenses.
- (4) 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 leverage. See Investment Advisory and Management Agreement.
- (5) The incentive fee consists of two parts:

The first part, which is payable quarterly in arrears beginning with the quarter ended March 31, 2007, 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:

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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

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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).

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), commencing with the year ending December 31, 2007. For a more detailed discussion of the calculation of this fee, see Investment Advisory and Management Agreement.

- (6) We may borrow funds to make investments, including before we have fully invested the proceeds of this offering, to the extent we determine that additional capital would allow us to take advantage of additional investment opportunities, if the market for debt financing presents attractively priced debt financing opportunities, or if our board of directors determines that leveraging our portfolio would be in our best interests and the best interests of our stockholders. We do not currently anticipate issuing any preferred stock. To the extent that we determine it is appropriate to borrow funds to make investments, the costs associated with such borrowing will be indirectly born by our investors. For purposes of this section, we have assumed that we will borrow for investment purposes an amount equal to % of our total assets (including such borrowed funds) and that the annual interest rate on the borrowed amount equals %. As of January 16, 2008, we had \$200 million available to us under our current credit facility (which allows for a commitment increase up to \$600 million) and no borrowings outstanding.
- (7) Other expenses (\$ million, including costs and expenses associated with our formation and organization) are based upon estimates of the first full year of operations.

**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 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. In addition, the example assumes inclusion of the sales load of \$ . 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 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 at and for the period from March 13, 2007 (inception) through September 30, 2007 has been derived from our financial statements that were audited by KPMG LLP ( KPMG ), an independent registered public accounting firm. See Management's Discussion and Analysis of Financial Condition and Results of Operations below for more information.

	Period from March 13, 2007 (inception) through September 30, 2007 (dollars in thousands)
<b>Income statement data:</b>	
Total investment income	\$ 49,751
Total expenses	16,983
Net investment income	32,768
Net realized loss from investments	(4,411)
Net unrealized depreciation on investments	(4,026)
Net increase in net assets resulting from operations	24,331
<b>Other data:</b>	
Weighted average annualized yield on debt investments(1)	12.4%
Number of portfolio companies at period end	29
	As of
	September 30, 2007 (dollars in thousands)
<b>Balance sheet data:</b>	
Total investment portfolio	\$ 728,431
Total cash and cash equivalents	531,399
Total assets	1,276,817
Net assets	1,233,815
<b>Per unit data:</b>	
Net asset value per unit(2)	\$ 15.10

- (1) Weighted average annualized yield on debt investments is calculated based upon the interest or other payments received on our debt investments, including amortization of deferred origination fees and original issue discount, if any, for the period indicated.
- (2) Based on 81,702,847 units of Solar Capital LLC outstanding as of September 30, 2007. Each of the outstanding units of Solar Capital LLC will be converted into the right to receive one share of common stock of Solar Capital Ltd. in connection with the Solar Merger, which is expected to be completed immediately prior to the closing of this offering.

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**RISK FACTORS**

*Before you invest in our common stock, you should be aware of various risks, including those described below. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to make an investment in our common stock. The risks set out below are not the only risks we face. If any of the following events occur, our business, financial condition and results of operations could be materially adversely affected. In such case, our net asset value could decline, and you may lose all or part of your investment.*

**Risks Relating to Our Business and Structure**

*We have a limited operating history.*

We were formed in February 2007 and commenced operations in March 2007. As a result of our limited operating history, we are subject to all of the business risks and uncertainties associated with any new business, including the risk that we will not achieve our investment objective and that the value of your investment could decline substantially. We anticipate that it will take us between three and six months to invest substantially all of the net proceeds of this offering. During this period, we will invest these amounts in temporary investments, such as cash, cash equivalents, U.S. government securities and other short-term high quality debt instruments, which we expect will earn yields substantially lower than the income that we anticipate receiving in respect of investments in senior secured loans, mezzanine loans and equity securities.

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

We depend on the diligence, skill and network of business contacts of Messrs. Gross and Spohler, who serve as the managing member and a partner of Solar Capital Partners, respectively, and who lead Solar Capital Partners' investment team. Messrs. Gross and Spohler, together with the other investment professionals available to Solar Capital Partners, evaluate, negotiate, structure, close and monitor our investments. Our future success will depend on the continued service of Messrs. Gross and Spohler and the other investment professionals available to Solar Capital Partners. We cannot assure you that unforeseen business, medical, personal or other circumstances would not lead any such individual to terminate his employment. The loss of Mr. Gross or Mr. Spohler, or any of the other senior investment professionals who serve on Solar Capital Partners' investment team, could have a material adverse effect on our ability to achieve our investment objective as well as on our financial condition and results of operations. In addition, we can offer no assurance that Solar Capital Partners will remain our investment adviser. We may also depend on Solar Capital Partners' access to the investment information and deal flow generated by Magnetar.

The senior investment professionals of Solar Capital Partners are and may in the future become affiliated with entities engaged in business activities similar to those intended to be conducted by us, and may have conflicts of interest in allocating their time. We expect that Messrs. Gross and Spohler will dedicate a significant portion of their time to the activities of Solar Capital; however, they will be engaged in other business activities which could divert their time and attention in the future.

*Our financial condition and results of operations will depend on our ability to manage future growth effectively.*

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Our ability to achieve our investment objective and to grow depends on Solar Capital Partners' ability to identify, invest in and monitor companies that meet our investment criteria.

Accomplishing this result on a cost-effective basis is largely a function of Solar Capital Partners' structuring of the investment process, its ability to provide competent, attentive and efficient services to us and its ability to access financing for us on acceptable terms. The investment team of Solar Capital Partners has substantial



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responsibilities under the Investment Advisory and Management Agreement, and they may also be called upon to provide managerial assistance to our portfolio companies as the principals of our administrator. Such demands on their time may distract them or slow our rate of investment. In order to grow, we and Solar Capital Partners will need to retain, train, supervise and manage new investment professionals. However, we can offer no assurance that any such investment professionals will contribute effectively to the work of the investment adviser. Any failure to manage our future growth effectively could have a material adverse effect on our business, financial condition and results of operations.

*Any failure on our part to maintain our status as a business development company would reduce our operating flexibility.*

We intend to qualify as a business development company under the 1940 Act. The 1940 Act imposes numerous constraints on the operations of business development companies. For example, business development companies are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly-traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. Furthermore, any failure to comply with the requirements imposed on business development companies by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. In addition, upon approval of a majority of our stockholders, we may elect to withdraw our status as a business development company. If we decide to withdraw our election, or if we otherwise fail to qualify as a business development company, we may be subject to the substantially greater regulation under the 1940 Act as a closed-end investment company. Compliance with such regulations would significantly decrease our operating flexibility, and could significantly increase our costs of doing business.

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

We may issue debt securities or preferred stock and/or borrow money from banks or other financial institutions, which we refer to collectively as senior securities, up to the maximum amount permitted by the 1940 Act. Under the provisions of the 1940 Act, we will be permitted, as a business development company, to issue senior securities in amounts such that our asset coverage ratio, as defined in the 1940 Act, equals at least 200% of gross assets less all liabilities and indebtedness not represented by senior securities, after each issuance of senior securities. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to sell a portion of our investments and, depending on the nature of our leverage, repay a portion of our indebtedness at a time when such sales may be disadvantageous. Also, any amounts that we use to service our indebtedness would not be available for distributions to our common stockholders. Furthermore, as a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. As of January 16, 2008, we had \$200 million available to us under our current credit facility (which allows for a commitment increase up to \$600 million) and no borrowings outstanding. If we issue preferred stock, the preferred stock would rank senior to common stock in our capital structure, preferred stockholders would have separate voting rights and might have rights, preferences, or privileges more favorable than those of our common stockholders, and the issuance of preferred stock could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for holders of our common stock or otherwise be in your best interest.

We are not generally able to issue and sell our common stock at a price below net asset value per share. We may, however, sell our common stock, or warrants, options or rights to acquire our common stock, at a price below the then-current net asset value per share of our common stock if our board of directors determines that such sale is in the best interests of Solar Capital and its stockholders, and our stockholders approve such sale. In any such case, the price at which our securities are to be issued and sold may not be less than a price that, in the determination of our board of directors, closely approximates the market value of such securities (less any distributing commission or discount). If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, then the percentage ownership of our stockholders at that time will decrease, and you might experience dilution.



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*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.*

The use of leverage magnifies the potential for gain or loss on amounts invested and, therefore, increase the risks associated with investing in our securities. We may borrow from and issue senior debt securities to banks, insurance companies and other lenders. Lenders of these senior securities will have fixed dollar claims on our assets that are superior to the claims of our common stockholders and we would expect such lenders to seek recovery against our assets in the event of a default. If the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Such a decline could also negatively affect our ability to make dividend payments on our common stock. Leverage is generally considered a speculative investment technique. Our ability to service any debt that we incur will depend largely on our financial performance and will be subject to prevailing economic conditions and competitive pressures. Moreover, as the management fee payable to our investment adviser, Solar Capital Partners, will be payable based on our gross assets, including those assets acquired through the use of leverage, Solar Capital Partners will have a financial incentive to incur leverage which may not be consistent with our stockholders' interests. In addition, our common stockholders will bear the burden of any increase in our expenses as a result of leverage, including any increase in the management fee payable to Solar Capital Partners.

As a business development company, we generally are required to meet a coverage ratio of total assets to total borrowings and other senior securities, which include all of our borrowings and any preferred stock that we may issue in the future, of at least 200%. If this ratio declines below 200%, we may not be able to incur additional debt and could be required by law to sell a portion of our investments to repay some debt when it is disadvantageous to do so, which could have a material adverse effect on our operations, and we may not be able to make distributions. The amount of leverage that we employ will depend on our investment adviser's and our board of directors' assessment of market and other factors at the time of any proposed borrowing. We cannot assure you that we will be able to obtain credit at all or on terms acceptable to us.

In addition, any debt facility into which we may enter would likely impose financial and operating covenants that 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.

As of January 16, 2008, we had \$200 million available to us under our current credit facility (which allows for a commitment increase up to \$600 million) and no borrowings outstanding.

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

To the extent we borrow money to make investments, our net investment income will depend, in part, upon the difference between the rate at which we borrow funds and the rate at which we invest those funds. As a result, we can offer no assurance that a significant change in market interest rates will not have a material adverse effect on our net investment income in the event we use debt to finance our investments. In periods of rising interest rates, our cost of funds would increase, which could reduce our net investment income. We expect that our long-term fixed-rate investments will be financed primarily with equity and long-term debt. We may use interest rate risk management techniques in an effort to limit our exposure to interest rate fluctuations. Such techniques may include various interest rate hedging activities to the extent permitted by the 1940 Act.

You should also be aware that a rise in the general level of interest rates can be expected to lead to higher interest rates applicable to our debt investments. Accordingly, an increase in interest rates would make it easier for us to meet or exceed the incentive fee hurdle rate and may result in a substantial increase of the amount of incentive fees payable to our investment adviser with respect to our pre-incentive fee net investment

income.

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As of January 16, 2008, we had \$200 million available to us under our current credit facility (which allows for a commitment increase up to \$600 million) and no borrowings outstanding.

### ***There may be uncertainty as to the value of our portfolio investments.***

A large percentage of our portfolio investments are in the form of securities that are not publicly traded. The fair value of securities and other investments that are not publicly traded may not be readily determinable. We value these securities quarterly at fair value as determined in good faith by our board of directors. Our board of directors utilizes the services of several third-party valuation firms to aid it in determining the fair value of these securities. The factors that may be considered in fair value pricing our investments include the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings, the markets in which the portfolio company does business, comparisons to publicly traded companies, discounted cash flow and other relevant factors. Because such valuations, and particularly valuations of private securities and private companies, are inherently uncertain, may fluctuate over short periods of time and may be based on estimates, our determinations of fair value may differ materially from the values that would have been used if a ready market for these securities existed. Our net asset value could be adversely affected if our determinations regarding the fair value of our investments were materially higher than the values that we ultimately realize upon the disposal of such securities.

### ***We may experience fluctuations in our quarterly results.***

We could experience fluctuations in our quarterly operating results due to a number of factors, including the interest rate payable on the debt securities we acquire, the default rate on such securities, the level of our expenses, variations in and the timing of the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets and general economic conditions. As a result of these factors, results for any period should not be relied upon as being indicative of performance in future periods.

### ***There are significant potential conflicts of interest which could impact our investment returns.***

Our executive officers and directors, as well as the current and future partners of our investment adviser, Solar Capital Partners, serve or may serve as officers, directors or principals of entities that operate in the same or a related line of business as we do. Accordingly, they may have obligations to investors in those entities, the fulfillment of which obligations might not be in the best interests of us or our stockholders. We note that any affiliated investment vehicle formed in the future and managed by our investment adviser may, notwithstanding different stated investment objectives, have overlapping investment objectives with our own and, accordingly, may invest in asset classes similar to those targeted by us. As a result, Solar Capital Partners may face conflicts in allocating investment opportunities between us and such other entities. Although Solar Capital Partners will endeavor to allocate investment opportunities in a fair and equitable manner, it is possible that, in the future, we may not be given the opportunity to participate in investments made by investment funds managed by our investment adviser or an investment manager affiliated with our investment adviser. In any such case, when Solar Capital Partners identifies an investment, it will be forced to choose which investment fund should make the investment.

Affiliates of Solar Capital Partners also manage other funds that may have investment mandates that are similar, in whole and in part, with ours, and Solar Capital Partners may choose to do so in the future. Solar Capital Partners and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Solar Capital Partners' allocation procedures.

If our investment adviser forms other affiliates in the future, we may co-invest on a concurrent basis with such other affiliates, subject to compliance with applicable regulations and regulatory guidance and our allocation procedures.

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In the course of our investing activities, we pay management and incentive fees to Solar Capital Partners and reimburse Solar Capital Partners for certain expenses it incurs. As a result, investors in our common stock will invest on a gross basis and receive distributions on a net basis after expenses, resulting in a lower rate of return than an investor might achieve through direct investments. Accordingly, there may be times when the management team of Solar Capital Partners has interests that differ from those of our stockholders, giving rise to a conflict.

We have entered into a royalty-free license agreement with our investment adviser, pursuant to which our investment adviser has granted us a non-exclusive license to use the name Solar Capital. Under the license agreement, we have the right to use the Solar Capital name for so long as Solar Capital Partners or one of its affiliates remains our investment adviser. In addition, we pay Solar Capital Management, an affiliate of Solar Capital Partners, our allocable portion of overhead and other expenses incurred by Solar Capital Management in performing its obligations under the Administration Agreement, including rent, 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. These arrangements create conflicts of interest that our board of directors must monitor.

### ***Our relationship with Magnetar may create conflicts of interest.***

Since July 2006, Mr. Gross has been a co-chairman of the investment committee of Magnetar, a multi-strategy investment manager, which, along with its affiliates, manages over \$ billion in assets, and a senior partner of Magnetar Capital Partners LP, the sole member of Magnetar. In such capacities, Mr. Gross heads Magnetar's fundamental credit and private equity business. In addition, the Magnetar Entities currently own, either directly or indirectly, approximately 42.8% of our outstanding equity, and are expected to own, either directly or indirectly, approximately % of our outstanding shares of common stock upon the completion of this offering. Magnetar also provides certain services to Solar Capital Partners and Solar Capital Management, and is reimbursed by Solar Capital Partners and Solar Capital Management for the expenses it incurs in connection with providing such services.

Subsequent to the completion of this offering, so long as our relationship with Magnetar exists, we intend to offer certain of the Magnetar Entities the opportunity to invest an amount equal to up to 33% of the total amount available for investment in each investment opportunity identified by Solar Capital Partners that exceeds \$30 million. In addition, there may be circumstances under which Solar Capital Partners determines to offer to Magnetar the ability to participate at amounts greater than 33%, including the opportunity to invest an amount equal to up to 100% of total amount available for investment in an investment opportunity, including, for example, circumstances where Solar Capital Partners determines that the investment is too large for us or if we would be prohibited from making such investment because of the restrictions contained in the 1940 Act. Any co-investment by the Magnetar Entities will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff and consistent with Solar Capital Partners' allocation procedures. In certain circumstances, negotiated co-investments may be made only if we receive an order from the SEC permitting us to do so. We intend to seek an order from the SEC to permit the above-referenced co-investments with certain of the Magnetar Entities following consummation of this offering. There can be no assurance when, or if, such an order may be obtained. To the extent we fail to receive an order permitting such co-investments, the size of investments available to us may decrease. In addition, the Magnetar Entities may make investments similar to those targeted by Solar Capital in the future.

### ***Our incentive fee may induce Solar Capital Partners to pursue speculative investments.***

The incentive fee payable by us to Solar Capital Partners may create an incentive for Solar Capital Partners to pursue investments on our behalf that are riskier or more speculative than would be the case in the absence of such compensation arrangement. The incentive fee payable to our investment adviser is calculated based on a percentage of our return on invested capital. This may encourage our investment adviser to use leverage to





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increase the return on our investments. Under certain circumstances, the use of leverage may increase the likelihood of default, which would impair the value of our common stock. In addition, the investment adviser receives the incentive fee based, in part, upon net capital gains realized on our investments. Unlike that portion of the incentive fee based on income, there is no hurdle rate applicable to the portion of the incentive fee based on net capital gains. As a result, the investment adviser may have a tendency to invest more capital in investments that are likely to result in capital gains as compared to income producing securities. Such a practice could result in our investing in more speculative securities than would otherwise be the case, which could result in higher investment losses, particularly during economic downturns.

The incentive fee payable by us to our investment adviser also may induce Solar Capital Partners to invest on our behalf in instruments that have a deferred interest feature, even if such deferred payments would not provide cash necessary to enable us to pay current distributions to our unitholders. Under these investments, we would accrue interest over the life of the investment but would not receive the cash income from the investment until the end of the term. Our net investment income used to calculate the income portion of our investment fee, however, includes accrued interest. Thus, a portion of this incentive fee would be based on income that we have not yet received in cash. In addition, the catch-up portion of the incentive fee may encourage Solar Capital Partners to accelerate or defer interest payable by portfolio companies from one calendar quarter to another, potentially resulting in fluctuations in timing and dividend amounts.

We may invest, to the extent permitted by law, in the securities and instruments of other investment companies, including private funds, and, to the extent we so invest, will bear our ratable share of any such investment company's expenses, including management and performance fees. We will also remain obligated to pay management and incentive fees to Solar Capital Partners with respect to the assets invested in the securities and instruments of other investment companies. With respect to each of these investments, each of our stockholders will bear his or her share of the management and incentive fee of Solar Capital Partners as well as indirectly bearing the management and performance fees and other expenses of any investment companies in which we invest.

*We may fail to realize any benefits from our relationship with Magnetar, and our relationship with Magnetar may end.*

We expect that we will continue to benefit from our investment adviser's access to investment information and deal flow generated by Magnetar, whose senior management has developed a strong reputation in the investment management sector as well as a broad network of contacts within the investment, commercial banking, private equity and investment management communities. We believe that other benefits from our investment adviser's relationship with Magnetar include shared research and due diligence, shared industry expertise, shared investment ideas and deal flow. If any of these benefits fail to materialize or continue, or if our relationship with Magnetar ends, then our business could be adversely affected.

*We will become subject to corporate-level income tax if we are unable to qualify as a regulated investment company under Subchapter M of the Code.*

Although we intend to elect to be treated as a RIC under Subchapter M of the Code for 2008 and succeeding tax years, no assurance can be given that we will be able to qualify for and maintain RIC status. To obtain and maintain RIC tax treatment under the Code, we must meet the following annual distribution, income source and asset diversification requirements.

The annual distribution requirement for a RIC will be satisfied if we distribute to our stockholders on an annual basis at least 90% of our net ordinary income and realized net short-term capital gains in excess of realized net long-term capital losses, if any. Because we may use debt financing, we are subject to certain asset coverage ratio requirements under the 1940 Act and financial covenants under loan and credit agreements that could, under certain circumstances, restrict us from making distributions necessary to satisfy the

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distribution requirement. If we are unable to obtain cash from other sources, we could fail to qualify for RIC tax treatment and thus become subject to corporate-level income tax.

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The income source requirement will be satisfied if we obtain at least 90% of our income for each year from dividends, interest, gains from the sale of stock or securities or similar sources.

The asset diversification requirement will be satisfied if we meet certain asset diversification requirements at the end of each quarter of our taxable year. Failure to meet those requirements may result in our having to dispose of certain investments quickly in order to prevent the loss of RIC status. Because most of our investments will be in private companies, and therefore will be relatively illiquid, any such dispositions could be made at disadvantageous prices and could result in substantial losses.

If we fail to qualify for RIC tax treatment for any reason and remain or become subject to corporate income tax, the resulting corporate taxes could substantially reduce our net assets, the amount of income available for distribution and the amount of our distributions.

***We may have difficulty satisfying the annual distribution requirement in order to qualify and maintain RIC status if we recognize income before or without receiving cash representing such income.***

For federal income tax purposes, we will include in income certain amounts that we have not yet received in cash, such as original issue discount, which may arise if we receive warrants in connection with the making of a loan or possibly in other circumstances, or contracted payment in kind, or PIK, interest, which represents contractual interest added to the loan balance and due at the end of the loan term. We also may be required to include in income certain other amounts that we will not receive in cash.

Because in certain cases we may recognize income before or without receiving cash representing such income, we may have difficulty satisfying the annual distribution requirement applicable to RICs. Accordingly, we may have to sell some of our investments at times we would not consider advantageous, raise additional debt or equity capital or reduce new investments to meet these distribution requirements. If we are not able to obtain cash from other sources, we may fail to qualify for RIC tax treatment and thus be subject to corporate-level income tax.

***Our board of directors is authorized to reclassify any unissued shares of common stock into one or more classes of preferred stock, which could convey special rights and privileges to its owners.***

Under Maryland General Corporation Law, our board of directors is permitted to reclassify any authorized but unissued shares of common stock into one or more classes of preferred stock. If the board of directors undertakes such a reclassification, it is required to file Articles of Incorporation Supplementary, which include, among other things, a description of the stock and a statement that the stock has been reclassified by the board of directors under authority contained in the charter. The board of directors is not required to make a specific finding prior to approving a reclassification, though we would generally expect the board of directors to determine, at a minimum, that any reclassification was in the best interests of Solar Capital. In the event that our board of directors opts to reclassify a portion of our unissued shares of common stock into a class of preferred stock, those preferred shares would have a preference over our common stock with respect to dividends and liquidation, which would reduce the amount distributable to our common stockholders. The cost of any such reclassification would be borne by our existing common stockholders. The class voting rights of any preferred shares we may issue could make it more difficult for us to take some actions that may, in the future, be proposed by the board of directors and/or the holders of our common stock, such as a merger, exchange of securities, liquidation or alteration of the rights of a class of our securities, if these actions were perceived by the holders of preferred shares as not in their best interests. The issuance of preferred shares convertible into shares of common stock might also reduce the net income and net asset value per share of our common stock upon conversion, provided, that we will only be permitted to issue such convertible preferred stock to the extent we comply with the requirements of Section 61 of the 1940 Act, including obtaining common stockholder approval. These effects, among others, could have an adverse effect on your investment in our common stock.



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***Provisions of the Maryland General Corporation Law and of our charter and bylaws could deter takeover attempts and have an adverse impact on the price of our common stock.***

The Maryland General Corporation Law, our charter and bylaws contain provisions that may discourage, delay or make more difficult a change in control of Solar Capital or the removal of our directors. We are subject to the Maryland Business Combination Act, subject to any applicable requirements of the 1940 Act. Our board of directors has adopted a resolution exempting from the Business Combination Act any business combination between us and any other person, subject to prior approval of such business combination by our board, including approval by a majority of our disinterested directors. If the resolution exempting business combinations is repealed or our board does not approve a business combination, the Business Combination Act may discourage third parties from trying to acquire control of us and increase the difficulty of consummating such an offer. Our bylaws exempt from the Maryland Control Share Acquisition Act acquisitions of our stock by any person. If we amend our bylaws to repeal the exemption from the Control Share Acquisition Act, the Control Share Acquisition Act also may make it more difficult for a third party to obtain control of us and increase the difficulty of consummating such a transaction.

We have also adopted measures that may make it difficult for a third party to obtain control of us, including provisions of our charter classifying our board of directors in three classes serving staggered three-year terms, and provisions of our charter authorizing our board of directors to classify or reclassify shares of our stock in one or more classes or series, to cause the issuance of additional shares of our stock, and to amend our charter, without stockholder approval, to increase or decrease the number of shares of stock that we have authority to issue. These provisions, as well as other provisions of our charter and bylaws, may delay, defer or prevent a transaction or a change in control that might otherwise be in the best interests of our stockholders.

***Our board of directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.***

Our board of directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a business development company. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, the effects may adversely affect our business and impact our ability to make distributions.

***Changes in laws or regulations governing our operations may adversely affect our business.***

We and our portfolio companies are subject to regulation by laws at the local, state and federal levels. These laws and regulations, as well as their interpretation, may be changed from time to time. Accordingly, any change in these laws or regulations could have a material adverse affect on our business.

***Our investment adviser can resign on 60 days' notice, and we may not be able to find a suitable replacement within that time, resulting in a disruption in our operations that could adversely affect our financial condition, business and results of operations.***

Our investment adviser has the right, under the Investment Advisory and Management Agreement, to resign at any time upon not less than 60 days' written notice, whether we have found a replacement or not. If our investment adviser resigns, we may not be able to find a new investment adviser or hire internal management with similar expertise and ability to provide the same or equivalent services on acceptable terms.

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within 60 days, or at all. If we are unable to do so quickly, our operations are likely to experience a disruption, our financial condition, business and results of operations as well as our ability to pay distributions are likely to be adversely affected and the market price of our shares may decline. In addition, the coordination of our internal management and investment activities is likely to suffer if we are unable to identify and reach an agreement with a single

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institution or group of executives having the expertise possessed by our investment adviser and its affiliates. Even if we are able to retain comparable management, whether internal or external, the integration of such management and their lack of familiarity with our investment objective may result in additional costs and time delays that may adversely affect our financial condition, business and results of operations.

*We will incur significant costs as a result of being a publicly traded company.*

As a publicly traded company, we will incur legal, accounting and other expenses, including costs associated with the periodic reporting requirements applicable to a company whose securities are registered under the Securities Exchange Act of 1934, as amended, or the Exchange Act, as well as additional corporate governance requirements, including requirements under the Sarbanes-Oxley Act of 2002, and other rules implemented by the SEC. We believe that complying with these rules and regulations will make some activities time-consuming and costly and may divert significant attention of the senior investment professionals from implementing our investment objective to these and related matters.

## **Risks Related to Our Investments**

*We operate in a highly competitive market for investment opportunities.*

A number of entities compete with us to make the types of investments that we target in leveraged companies. We compete with public and private funds, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including making investments in leveraged companies. As a result of these new entrants, competition for investment opportunities at leveraged companies has intensified, and we expect the trend to continue. Many of our potential competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments than we do, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time, and we can offer no assurance that we will be able to identify and make investments that are consistent with our investment objective.

We will not seek to compete primarily based on the interest rates we will offer, and we believe that some of our competitors may make loans with interest rates that will be comparable to or lower than the rates we offer. We may lose investment opportunities if we do not match our competitors' pricing, terms and structure. However, if we match our competitors' pricing, terms and structure, we may experience decreased net interest income and increased risk of credit loss.

*Our investments may be risky, and you could lose all or part of your investment in us.*

We invest primarily in senior secured term loans, mezzanine debt and select equity investments issued by leveraged companies.

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**Senior Secured Loans.** When we make a senior secured term loan investment in a portfolio company, we generally take a security interest in the available assets of the portfolio company, including the equity interests of its subsidiaries, which we expect to help mitigate the risk that we will not be repaid. However, there is a risk that the collateral securing our loans may decrease in value over time, may be difficult to sell in a timely manner, may



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be difficult to appraise and may fluctuate in value based upon the success of the business and market conditions, including as a result of the inability of the portfolio company to raise additional capital, and, in some circumstances, our lien could be subordinated to claims of other creditors. In addition, deterioration in a portfolio company's financial condition and prospects, including its inability to raise additional capital, may be accompanied by deterioration in the value of the collateral for the loan. Consequently, the fact that a loan is secured does not guarantee that we will receive principal and interest payments according to the loan's terms, or at all, or that we will be able to collect on the loan should we be forced to enforce our remedies.

***Mezzanine Loans.*** Our mezzanine debt investments are generally subordinated to senior loans and are generally unsecured. As such, other creditors may rank senior to us in the event of an insolvency. This may result in an above average amount of risk and loss of principal.

***Equity Investments.*** When we invest in senior secured loans or mezzanine loans, we may acquire equity securities as well. In addition, we may invest directly in the equity securities of portfolio companies. Our goal is ultimately to dispose of such equity interests and realize gains upon our disposition of such interests. However, the equity interests we receive may not appreciate in value and, in fact, may decline in value. Accordingly, we may not be able to realize gains from our equity interests, and any gains that we do realize on the disposition of any equity interests may not be sufficient to offset any other losses we experience.

In addition, investing in middle-market companies involves a number of significant risks, including:

these companies may have limited financial resources and may be unable to meet their obligations under their debt securities that we hold, which may be accompanied by a deterioration in the value of any collateral and a reduction in the likelihood of us realizing any guarantees we may have obtained in connection with our investment;

they typically have shorter operating histories, narrower product lines and smaller market shares than larger businesses, which tend to render them more vulnerable to competitors' actions and market conditions, as well as general economic downturns;

they are more likely to depend on the management talents and efforts of a small group of persons; therefore, the death, disability, resignation or termination of one or more of these persons could have a material adverse impact on our portfolio company and, in turn, on us;

they generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence, and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position. In addition, our executive officers, directors and our investment adviser may, in the ordinary course of business, be named as defendants in litigation arising from our investments in the portfolio companies; and

they may have difficulty accessing the capital markets to meet future capital needs, which may limit their ability to grow or to repay their outstanding indebtedness upon maturity.

***The lack of liquidity in our investments may adversely affect our business.***

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We generally make investments in private companies. Substantially all of these securities are subject to legal and other restrictions on resale or will otherwise be less liquid than publicly traded securities. The illiquidity of our investments may make it difficult for us to sell such investments if the need arises. In addition, if we are required to liquidate all or a portion of our portfolio quickly, we may realize significantly less than the value at which we have previously recorded our investments. In addition, we may face other restrictions on our ability to liquidate an investment in a portfolio company to the extent that we have material non-public information regarding such portfolio company.

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*We have not yet identified all of the portfolio company investments we will acquire using the proceeds of this offering.*

While currently holding a portfolio of investments, we have not yet identified all of the additional potential investments for our portfolio we will acquire with the proceeds of this offering. As a result, you will be unable to evaluate any future portfolio company investments prior to purchasing our shares. Additionally, our investment adviser will select our investments subsequent to the closing of this offering, and our stockholders will have no input with respect to such investment decisions. These factors increase the uncertainty, and thus the risk, of investing in our common stock.

*Our portfolio may be concentrated in a limited number of portfolio companies and industries, which will subject us to a risk of significant loss if any of these companies defaults on its obligations under any of its debt instruments or if there is a downturn in a particular industry.*

Our portfolio may be concentrated in a limited number of portfolio companies and industries. Beyond the asset diversification requirements associated with our qualification as a RIC under the Code, we do not have fixed guidelines for diversification, and while we are not targeting any specific industries, our investments may be concentrated in relatively few industries. As a result, the aggregate returns we realize may be significantly adversely affected if a small number of investments perform poorly or if we need to write down the value of any one investment. Additionally, a downturn in any particular industry in which we are invested could also significantly impact the aggregate returns we realize.

*Economic recessions or downturns could impair our portfolio companies and harm our operating results.*

Many of our portfolio companies may be susceptible to economic slowdowns or recessions and may be unable to repay our loans during these periods. Therefore, our non-performing assets are likely to increase and the value of our portfolio is likely to decrease during these periods. Adverse economic conditions also may decrease the value of collateral securing some of our loans and the value of our equity investments. Economic slowdowns or recessions could lead to financial losses in our portfolio and a decrease in revenues, net income and the value of our assets. Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing investments and harm our operating results.

A portfolio company's failure to satisfy financial or operating covenants imposed by us or other lenders could lead to defaults and, potentially, termination of its loans and foreclosure on its secured assets, which could trigger cross-defaults under other agreements and jeopardize our portfolio company's ability to meet its obligations under the debt securities that we hold. We may incur expenses to the extent necessary to seek recovery upon default or to negotiate new terms with a defaulting portfolio company. In addition, if one of our portfolio companies were to go bankrupt, even though we may have structured our interest as senior debt, depending on the facts and circumstances, including the extent to which we actually provided managerial assistance to that portfolio company, a bankruptcy court might recharacterize our debt holding and subordinate all or a portion of our claim to that of other creditors.

*Our failure to make follow-on investments in our portfolio companies could impair the value of our portfolio.*

Following an initial investment in a portfolio company, we may make additional investments in that portfolio company as follow-on investments, in order to: (i) increase or maintain in whole or in part our equity ownership percentage; (ii) exercise warrants, options or convertible securities that were acquired in the original or subsequent financing; or (iii) attempt to preserve or enhance the value of our investment. We may elect not to make follow-on investments or otherwise lack sufficient funds to make those investments. We will have the

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discretion to make any follow-on investments, subject to the availability of capital resources. The failure to make follow-on investments may, in some circumstances, jeopardize the continued viability of a portfolio company and our initial investment, or may result in a missed opportunity for us to increase our participation in a

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successful operation. Even if we have sufficient capital to make a desired follow-on investment, we may elect not to make a follow-on investment because we may not want to increase our concentration of risk, either because we prefer other opportunities or because we are subject to business development company requirements that would prevent such follow-on investments or the desire to maintain our RIC tax status.

***Because we generally do not hold controlling equity interests in our portfolio companies, we may not be in a position to exercise control over our portfolio companies or to prevent decisions by management of our portfolio companies that could decrease the value of our investments.***

Although we may do so in the future, we do not currently hold controlling equity positions in our portfolio companies. As a result, we are subject to the risk that a portfolio company may make business decisions with which we disagree, and that the management and/or stockholders of a portfolio company may take risks or otherwise act in ways that are adverse to our interests. Due to the lack of liquidity of the debt and equity investments that we typically hold in our portfolio companies, we may not be able to dispose of our investments in the event we disagree with the actions of a portfolio company and may therefore suffer a decrease in the value of our investments.

***An investment strategy focused primarily on privately held companies presents certain challenges, including the lack of available information about these companies, a dependence on the talents and efforts of only a few key portfolio company personnel and a greater vulnerability to economic downturns.***

We invest primarily in privately held companies. Generally, little public information exists about these companies, and we are required to rely on the ability of Solar Capital Partners' investment professionals to obtain adequate information to evaluate the potential returns from investing in these companies. If we are unable to uncover all material information about these companies, we may not make a fully informed investment decision, and we may lose money on our investments. Also, privately held companies frequently have less diverse product lines and smaller market presence than larger competitors. These factors could adversely affect our investment returns as compared to companies investing primarily in the securities of public companies.

***Our portfolio companies may incur debt that ranks equally with, or senior to, our investments in such companies.***

We invest primarily in senior secured loans, mezzanine loans and equity securities issued by our portfolio companies. Our portfolio companies typically have, or may be permitted to incur, other debt that ranks equally with, or senior to, the debt securities in which we invest. By their terms, such debt instruments may provide that the holders are entitled to receive payment of interest or principal on or before the dates on which we are entitled to receive payments in respect of the debt securities in which we invest. Also, in the event of insolvency, liquidation, dissolution, reorganization or bankruptcy of a portfolio company, holders of debt instruments ranking senior to our investment in that portfolio company would typically be entitled to receive payment in full before we receive any distribution in respect of our investment. After repaying such senior creditors, such portfolio company may not have any remaining assets to use for repaying its obligation to us. In the case of debt ranking equally with debt securities in which we invest, we would have to share on an equal basis any distributions with other creditors holding such debt in the event of an insolvency, liquidation, dissolution, reorganization or bankruptcy of the relevant portfolio company.

***Our investments in foreign securities may involve significant risks in addition to the risks inherent in U.S. investments.***

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Our investment strategy contemplates potential investments in debt securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks include changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the

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case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments will be U.S. dollar-denominated, any investments denominated in a foreign currency will be subject to the risk that the value of a particular currency will change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation, and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk, or that if we do, such strategies will be effective.

*We may expose ourselves to risks if we engage in hedging transactions.*

If we engage in hedging transactions, we may expose ourselves to risks associated with such transactions. We may utilize instruments such as forward contracts, currency options and interest rate swaps, caps, collars and floors to seek to hedge against fluctuations in the relative values of our portfolio positions from changes in currency exchange rates and market interest rates. Hedging against a decline in the values of our portfolio positions does not eliminate the possibility of fluctuations in the values of such positions or prevent losses if the values of such positions decline. However, such hedging can establish other positions designed to gain from those same developments, thereby offsetting the decline in the value of such portfolio positions. Such hedging transaction may also limit the opportunity for gain if the values of the underlying portfolio positions should increase. Moreover, it may not be possible to hedge against an exchange rate or interest rate fluctuation that is so generally anticipated that we are not able to enter into a hedging transaction at an acceptable price.

The success of our hedging transactions will depend on our ability to correctly predict movements in currencies and interest rates. Therefore, while we may enter into such transactions to seek to reduce currency exchange rate and interest rate risks, unanticipated changes in currency exchange rates or interest rates may result in poorer overall investment performance than if we had not engaged in any such hedging transactions. In addition, the degree of correlation between price movements of the instruments used in a hedging strategy and price movements in the portfolio positions being hedged may vary. Moreover, for a variety of reasons, we may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Any such imperfect correlation may prevent us from achieving the intended hedge and expose us to risk of loss. In addition, it may not be possible to hedge fully or perfectly against currency fluctuations affecting the value of securities denominated in non-U.S. currencies because the value of those securities is likely to fluctuate as a result of factors not related to currency fluctuations.

*Our investment adviser may not be able to achieve the same or similar returns as those achieved by our senior investment professionals while they were employed at prior positions.*

Although in the past Mr. Gross held senior positions at a number of investment firms, including Apollo Investment Corporation and Apollo Management, L.P., Mr. Gross' track record and achievements are not necessarily indicative of future results that will be achieved by our investment adviser. In his role at such other firms, Mr. Gross was part of an investment team, and he was not solely responsible for generating investment ideas. In addition, such investment teams arrived at investment decisions by consensus. Other than Mr. Gross, none of the senior investment professionals from such other firms is employed by our investment adviser.

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### **Risks Relating to This Offering**

*Prior to our initial public offering, there will be no public market for our common stock, and we cannot assure you that the market price of shares of our common stock will not decline following our initial public offering.*

Before our initial public offering, there will be no public trading market for our common stock, and we cannot assure you that one will develop or be sustained after our initial public offering. We cannot predict the prices at which our common stock will trade. The initial public offering price for our common stock will be determined through our negotiations with the underwriters and may not bear any relationship to the market price at which it may trade after our initial public offering. Shares of closed-end management investment companies offered in an initial public offering often trade at a discount to the initial public offering price due to sales loads, including underwriting discounts, and related offering expenses. In addition, shares of closed-end management investment companies have in the past frequently traded at discounts to their net asset values and our stock may also be discounted in the market. This characteristic of closed-end management investment companies is separate and distinct from the risk that our net asset value per share may decline. We cannot predict whether shares of our common stock will trade above, at or below our net asset value. The risk of loss associated with this characteristic of closed-end management investment companies may be greater for investors expecting to sell shares of common stock purchased in the offering soon after the offering. In addition, if our common stock trades below its net asset value, we will generally not be able to sell additional shares of our common stock to the public at its market price without first obtaining the approval of our stockholders (including our unaffiliated stockholders) and our independent directors for such issuance.

*Our common stock price may be volatile and may decrease substantially.*

The trading price of our common stock may fluctuate substantially. The price of our common stock that will prevail in the market after our initial public offering may be higher or lower than the price you pay, depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the following:

price and volume fluctuations in the overall stock market from time to time;

investor demand for our shares;

significant volatility in the market price and trading volume of securities of business development companies or other companies in our sector, which are not necessarily related to the operating performance of these companies;

changes in regulatory policies or tax guidelines with respect to RICs or business development companies;

failure to qualify as a RIC, or the loss of RIC status;

any shortfall in revenue or net income or any increase in losses from levels expected by investors or securities analysts;

changes, or perceived changes, in the value of our portfolio investments;



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departures of Solar Capital Partners' key personnel;

operating performance of companies comparable to us; or

general economic conditions and trends and other external factors.

In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been brought against that company. Due to the potential volatility of our stock price once a market for our stock is established, we may become the target of securities litigation in the future.

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Securities litigation could result in substantial costs and divert management's attention and resources from our business.

*We cannot assure you that we will be able to successfully deploy the proceeds of our initial public offering within the timeframe we have contemplated.*

We currently anticipate that substantially all of the net proceeds of our initial public offering will be invested in accordance with our investment objective within three to six months after the completion of our initial public offering. We cannot assure you, however, that we will be able to locate a sufficient number of suitable investment opportunities to allow us to successfully deploy substantially all of the net proceeds of our initial public offering in that timeframe. To the extent we are unable to invest substantially all of the net proceeds of our initial public offering within our contemplated timeframe after the completion of our initial public offering, our investment income, and in turn our results of operations, will likely be materially adversely affected.

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

We intend to make distributions on a quarterly basis to our stockholders. We cannot assure you that we will achieve investment results that will allow us to make a specified level of cash distributions or year-to-year increases in cash distributions. In addition, due to the asset coverage test applicable to us as a business development company, we may be limited in our ability to make distributions.

*We will have broad discretion over the use of proceeds of our initial public offering and will use proceeds in part to satisfy operating expenses.*

We will have significant flexibility in applying the proceeds of our initial public offering and may use the net proceeds from our initial public offering in ways with which you may not agree, or for purposes other than those contemplated at the time of our initial public offering. We will also pay operating expenses, and may pay other expenses such as due diligence expenses of potential new investments, from net proceeds. Our ability to achieve our investment objective may be limited to the extent that net proceeds of our initial public offering, pending full investment, are used to pay operating expenses.

*Investors in our initial public offering will incur dilution.*

Assuming an initial offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus), the net cash proceeds that we receive from this offering will be net of the underwriting discount of \$ \_\_\_\_\_ per share as well as other offering and organizational expenses of approximately \$ \_\_\_\_\_ per share. As a result, our net asset value per share immediately after the completion of this offering is estimated to be approximately \$ \_\_\_\_\_ per share, compared to an estimated offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus). Accordingly, assuming an initial offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus) investors purchasing shares in this offering will pay a price per share of common stock that exceeds the net asset value per share of common stock after this offering by \$ \_\_\_\_\_ and will bear the costs of the underwriting discount and, indirectly, other offering expenses. See Dilution.



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*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.*

As a result of agreements we previously entered into with the LLC Holders who purchased units in the initial private placement, we are contractually obligated to register for resale an aggregate of approximately 46.7 million shares that will be held by such LLC Holders subsequent to consummation of this offering and the completion of the Solar Merger. Upon registration and the expiration of any applicable lock-up periods, such shares will generally be freely tradable in the public market, subject to certain contractual transfer restrictions applicable immediately following this offering. Concurrently with our initial private placement, we also entered into a separate registration rights agreement with respect to the 35,000,000 units issued to Magnetar that granted Magnetar certain demand, piggy-back and shelf registration rights beginning 365 days after the consummation of an initial public offering. Sales of substantial amounts of our common stock, or the availability of such common stock for sale, could adversely affect the prevailing market prices for our common stock. If this occurs and continues, it could impair our ability to raise additional capital through the sale of securities should we desire to do so.

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**FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

This prospectus 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, estimate, should, targets, projects, and variations of these words and similar expressions are intended to identify forward-looking statements. 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 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. 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 this prospectus. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this prospectus. The forward-looking statements and projections contained in this prospectus are excluded from the safe harbor protection provided by Section 27A of the Securities Act of 1933, as amended, or the Securities Act.

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**USE OF PROCEEDS**

We estimate that the net proceeds we will receive from the sale of \_\_\_\_\_ shares of our common stock in this offering will be approximately \$ \_\_\_\_\_, or approximately \$ \_\_\_\_\_ if the underwriters fully exercise their over-allotment option, in each case assuming an initial public offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus), after deducting the underwriting discounts and commissions and estimated organization and offering expenses of approximately \$ \_\_\_\_\_ payable by us.

We plan to invest the net proceeds of this offering in portfolio companies in accordance with our investment objective and strategies described in this offering memorandum. We anticipate that substantially all of the net proceeds of this offering will be used for the above purposes within three to six months, depending on the availability of appropriate investment opportunities consistent with our investment objective and market conditions. We cannot assure you we will achieve our targeted investment pace.

Pending such investments, we will invest the net proceeds primarily in cash, cash equivalents, U.S. government securities and other high-quality investments that mature in one year or less from the date of investment. The management fee payable by us will not be reduced while our assets are invested in such securities. See Regulation as a Business Development Company Temporary Investments for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

**DISTRIBUTIONS**

To the extent that we have income available, we intend to distribute quarterly dividends to our stockholders, beginning with our first full quarter after the completion of this offering. Our quarterly 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.

We intend to elect to be treated, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code, beginning with our 2008 taxable year. To obtain and maintain RIC tax treatment, we must, among other things, 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. In order to avoid certain excise taxes imposed on RICs, we currently intend to distribute during each calendar year an amount at least equal to the sum of: (1) 98% of our ordinary income for the calendar year; (2) 98% of our capital gains in excess of capital losses for the one-year period ending on October 31 of the calendar year; and, (3) any ordinary income and net capital gains for preceding years that were not distributed during such years and on which we paid no federal income tax. 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, we may in the future decide to retain such capital gains for investment and elect to treat such gains as deemed distributions to you. If this happens, you will be treated as if you had received an actual distribution of the capital gains we retain and reinvested the net after tax proceeds in us. In this situation, you would be eligible to claim a tax credit (or, in certain circumstances, a tax refund) equal to your allocable share of the tax we paid on the capital gains deemed distributed to you. See Material U.S. Federal Income Tax Considerations. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, to the extent that we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Our current intention is to make any distributions in additional shares of our common stock under our dividend reinvestment plan out of assets legally available therefor, unless you elect to receive your dividends and/or long-term capital gains distributions in cash. See Dividend Reinvestment Plan. If you hold shares in the



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name of a broker or financial intermediary, you should contact the broker or financial intermediary regarding your election to receive distributions in cash. We can offer no assurance that we will achieve results that will permit the payment of any cash distributions and, if we issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.



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The following table sets forth:

the actual capitalization of Solar Capital LLC at September 30, 2007; and

the pro forma capitalization of Solar Capital Ltd. as adjusted to reflect (a) the sale of \_\_\_\_\_ shares of our common stock in this offering at an assumed public offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus) after deducting the underwriting discounts and commissions and estimated organization and offering expenses of approximately \$ \_\_\_\_\_ payable by us; and (b) completion of the Solar Merger, including the conversion of the outstanding units of Solar Capital LLC into shares of common stock of Solar Capital Ltd. in connection therewith.

	As of September 30, 2007	
	Solar Capital LLC Actual (in thousands)	Solar Capital Ltd. Pro Forma As Adjusted (in thousands)
<b>Assets:</b>		
Cash	\$ 531,399	\$
Investments	\$ 728,431	\$
Other assets	\$ 16,987	\$
<b>Total assets</b>	<b>\$ 1,276,817</b>	<b>\$</b>
<b>Unitholders equity:</b>		
Net assets	\$ 1,233,815	
<b>Stockholders equity:</b>		
Common stock, par value \$0.01 per share; 200,000,000 shares authorized, shares outstanding, pro forma, as adjusted		\$
Capital in excess of par value		\$
<b>Total stockholders equity</b>		<b>\$</b>

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**DILUTION**

The dilution to investors in this offering is represented by the difference between the offering price per share and the pro forma net asset value per share after (a) the completion of this offering; and (b) the conversion of the outstanding units of Solar Capital LLC into shares of common stock of Solar Capital Ltd. in connection with the Solar Merger. Net asset value per share is determined by dividing our net asset value, which is our total assets less total liabilities, by the number of outstanding shares.

Immediately prior to this offering, the net asset value of Solar Capital Ltd. will be \$ \_\_\_\_\_, or approximately \$ \_\_\_\_\_ per share. After giving effect to (a) the sale of \_\_\_\_\_ shares of our common stock in this offering at an assumed public offering price of \$ \_\_\_\_\_ per share (the mid-point of the estimated initial public offering price range set forth on the cover page of this prospectus) after deducting the underwriting discounts and commissions and estimated organization and offering expenses of approximately \$ \_\_\_\_\_ payable by us, and (b) completion of Solar Merger, including the conversion of the outstanding units of Solar Capital LLC into shares of common stock of Solar Capital Ltd. in connection therewith, the pro forma net asset value of Solar Capital Ltd. is expected to be approximately \$ \_\_\_\_\_, or approximately \$ \_\_\_\_\_ per share, representing an immediate decrease in net asset value of \$ \_\_\_\_\_ per share, or \_\_\_\_\_%, to shares sold in this offering. The foregoing assumes no exercise of the underwriters' over-allotment option. If the underwriters' over-allotment option is exercised in full, there would be an immediate decrease in net asset value of \$ \_\_\_\_\_ per share, or \_\_\_\_\_%, to shares sold in this offering.

The following table illustrates the dilution to the shares on a per share basis, taking into account the assumptions set forth above:

Offering price per share	\$
Net asset value before this offering	\$
Decrease attributable to stockholders	\$
Pro forma net asset value after this offering and completion of the Solar Merger	\$
Dilution to stockholders (without exercise of the over-allotment option)	\$

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**SOLAR MERGER**

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and commenced operations in March 2007. Immediately prior to the closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., a newly-formed Maryland corporation. In connection with the Solar Merger, each of the outstanding units of Solar Capital LLC will be converted into the right to receive one share of common stock of Solar Capital Ltd. An aggregate of approximately 81.7 million shares of common stock will be issued to the LLC Holders in connection with the Solar Merger. In accordance with the limited liability company operating agreement of Solar Capital LLC, no vote of Solar Capital LLC's unitholders is required in order to consummate the Solar Merger.

Prior to the Solar Merger, certain of the LLC Holders held their interests in Solar Capital LLC indirectly through one or more offshore entities, or Feeder Corporations. In connection with the Solar Merger, these Feeder Corporations will be dissolved and the interests in these Feeder Corporations will be converted into direct interests in Solar Capital LLC. Pursuant to certain agreements Solar Capital LLC entered into in connection with its initial private placement, Solar Capital LLC will declare a dividend on the outstanding units of Solar Capital LLC immediately prior to completion of the Solar Merger in the aggregate amount of approximately \$ \_\_\_\_\_, which is designed to approximate certain tax liabilities incurred by the LLC Holders who hold their interests in Solar Capital LLC indirectly through such Feeder Corporations. All of the LLC Holders, including those holding a direct interest in Solar Capital LLC, are entitled to the above-referenced dividend.

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**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.*

**Overview**

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. From time to time, we may also invest in public companies that are thinly traded. We are managed by Solar Capital Partners, LLC. Solar Capital Management, LLC provides the administrative services necessary for us to operate.

As of September 30, 2007, we had approximately \$728 million of long-term investments. As of September 30, 2007, our portfolio was comprised of debt and equity investments in 29 portfolio companies, and our debt investments, including preferred equity investments, had a weighted average annualized yield of approximately 12.4%.

Our portfolio primarily consists of direct investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans made to private leveraged companies organized and located in the United States, including middle-market companies. We also invest in equity securities, such as preferred stock, common stock, warrants and other equity interests received in connection with our debt investments or through direct investments. 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.

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.

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company. Immediately prior to the closing of this offering, Solar Capital LLC will be merged with and into Solar Capital Ltd., a newly-formed Maryland corporation that is an externally managed, non-diversified, closed-end management investment company that intends to elect to be treated as a business development company under the 1940 Act prior to consummation of this offering. In addition, we intend to elect to be treated for federal income tax purposes, and intend to qualify annually thereafter, as a RIC under Subchapter M of the Code.

**Critical Accounting Policies**

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

### *Valuation of Portfolio Investments*

Investments for which market quotations are readily available are valued at such market quotations. We may also obtain indicative prices with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. Debt and equity securities that are not publicly traded or whose

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market prices are not readily available are valued at fair value as determined in good faith by our board of directors. We expect that there will not be a readily available market value for many of the investments in our portfolio. We expect to value such investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. With respect to certain of our debt and equity securities, each investment will be valued by independent third party valuation firms, pricing services or quotations from brokers or dealers. Third party valuation firms use methods that may, among other measures and as applicable, include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will consider the pricing indicated by the external event to corroborate our private equity valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our 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.

Our board of directors is ultimately and solely responsible for determining the fair value of our portfolio investments that are not publicly traded or whose market prices are not readily available on a quarterly basis in good faith.

With respect to investments for which market quotations are not readily available or for which we have not received indicative prices from pricing services or brokers or dealers, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment.

Preliminary valuation conclusions are then documented and discussed with our senior management.

Third-party valuation firms engaged by, or on behalf of, our board of directors conduct independent reviews and consider management's preliminary valuations and make their own independent assessment.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair values involves subjective judgments and estimates. Accordingly, these 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.

## ***Revenue Recognition***

We calculate gains or losses on the sale of investments by using the specific identification method. We record Interest income, adjusted for amortization of premium and accretion of discount, 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, we record any prepayment penalties and unamortized loan origination, closing and commitment fees part of interest income. We may enter into forward exchange contracts in order to economically hedge against foreign currency risk. These contracts are marked-to-market by recognizing the difference between the contract exchange rate and the current market rate as unrealized appreciation or depreciation. Realized gains or losses are recognized when contracts are settled. We place loans on non-accrual status when principal or interest

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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. We may recognize as income,

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or apply to principal, interest payments received on non-accrual loans, depending upon management's judgment. We restore non-accrual loans to accrual status when past due principal and interest is paid and, in management's judgment, are likely to remain current.

**Portfolio Composition and Investment Activity**

The total portfolio value of our investments was approximately \$728 million at September 30, 2007. From March 13, 2007 (inception) through September 30, 2007, we originated approximately \$333 million of new investments in 14 portfolio companies, all of which represented investments in new portfolio companies. The foregoing amounts are in addition to the approximately \$501.1 million of portfolio investments originated by investment professionals at Magnetar who are currently a part of Solar Capital Partners' investment team that we acquired from the Magnetar Entities prior to and immediately following the initial private placement.

In certain instances, we receive payments on our debt investments based on scheduled amortization of the outstanding balances. In addition, we receive repayments of some of our debt investments prior to their scheduled maturity date. The frequency or volume of these repayments may fluctuate significantly from period to period. From March 13, 2007 (inception) through September 30, 2007, we had approximately \$75 million of debt repayments in 4 portfolio companies.

Portfolio activity also reflects sales of securities of 1 portfolio company in the amount of approximately \$6 million for the period from March 13, 2007 (inception) through September 30, 2007. In addition, during such period we had unrealized appreciation on 19 portfolio company investments totaling approximately \$14 million, which was more than offset by unrealized depreciation on 14 portfolio company investments totaling approximately \$18 million.

At September 30, 2007, we had investments in debt and preferred securities of 24 portfolio companies, totaling approximately \$572 million, and equity investments in 12 portfolio companies, totaling approximately \$156 million. The debt investments include accrued PIK interest which is added to the carrying value of our investments, reduced by repayments of principal.

The following table shows the fair value of our portfolio of investments by asset class as of September 30, 2007:

Asset Class	September 30, 2007	
	Investments at Fair Value (in thousands)	Percentage of Total Portfolio
Bank Debt/Senior Secured Loans	\$ 115,647	15.9%
Subordinated Debt/Corporate Notes	395,239	54.3%
Preferred Equity	61,993	8.5%
Common Equity/Partnership Interests/Warrants	155,552	21.3%
Total	\$ 728,431	100%



**Results of Operations**

We commenced operations on March 13, 2007. Therefore, there is no period with which to compare the results of operations for the period from March 13, 2007 (inception) through September 30, 2007.

***Investment Income***

Investment income for the period from March 13, 2007 (inception) through September 30, 2007 was approximately \$50 million, consisting of approximately \$30 million in interest and dividends from debt and

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preferred investments, and approximately \$20 million in interest from cash and cash equivalents. We received no fees for managerial assistance provided to our portfolio companies during the period from March 13, 2007 (inception) through September 30, 2007.

### ***Operating Expenses***

Operating expenses for the period from March 13, 2007 (inception) through September 30, 2007 were approximately \$17 million. This amount consisted primarily of investment advisory fees, professional fees, compensation expense, and general and administrative expenses.

The investment advisory fee for the period from March 13, 2007 (inception) through September 30, 2007 was approximately \$13 million, representing the base fee for the period as provided for in the Investment Advisory and Management Agreement. At September 30, 2007, approximately \$2 million of investment advisory fees remained payable to Solar Capital Partners.

Professional fees, consisting of legal, valuation, audit and consulting fees, were approximately \$1 million for the period from March 13, 2007 (inception) through September 30, 2007. General and administrative expenses, consisting primarily of directors' fees, insurance, and transfer agent fees, office supplies, facilities costs and other expenses, were approximately \$2 million for the period from March 13, 2007 (inception) through September 30, 2007. Office supplies, facilities costs and other expenses, including our allocable portion of the compensation of any administrative personnel who provide services to us, are allocated to us under the terms of the Administration Agreement with Solar Capital Management. For the period from March 13, 2007 (inception) through September 30, 2007, total reimbursements to Solar Capital Management under our Administration Agreement amounted to approximately \$1 million. At September 30, 2007, approximately \$840,000 remained payable to Solar Capital Management under the terms of our Administration Agreement.

Expenses incurred for the period from March 13, 2007 (inception) through September 30, 2007 are not necessarily indicative of the expenses we will likely incur as a public company subsequent to the completion of this offering.

### ***Realized and Unrealized Gains/Losses on Investments***

For the period from March 13, 2007 (inception) through September 30, 2007, we had net realized losses of approximately \$4 million. We realized gains of approximately \$1 million on 3 portfolio company investments, which were offset by realized losses of approximately \$1 million on 2 portfolio company investments and \$4 million of realized losses on 3 forward contracts.

During the period we also had net unrealized depreciation on investments of approximately \$4 million. We recorded unrealized appreciation of approximately \$14 million on 19 portfolio company investments, which was more than offset by unrealized depreciation of approximately \$18 million on 14 portfolio company investments.

### ***Net Increase in Net Assets Resulting from Operations***

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We had a net increase in net assets resulting from operations of approximately \$24 million for period from March 13, 2007 (inception) through September 30, 2007, which was primarily attributable to investment income realized during the period, offset to some extent by realized losses and unrealized depreciation during the period, as described above.

Based on a weighted-average of 81,702,847 units outstanding (basic and diluted), the net increase in net assets resulting from operations per unit for the period from March 13, 2007 (inception) through September 30, 2007 was approximately \$0.30 for basic and diluted earnings.

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### **Liquidity and Capital Resources**

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and commenced operations in March 2007. On March 13, 2007, we conducted a \$700 million (before offering costs) private placement of units in Solar Capital LLC. Approximately 46.7 million units were issued for cash at a purchase price of \$15.00 per unit in connection with the initial private placement. In addition, in connection with the initial private placement, the Magnetar Entities invested an aggregate of approximately \$525 million in us in exchange for approximately 35 million units. The consideration paid by the Magnetar Entities in connection with such transactions consisted of a portfolio of debt and equity investments, together with accrued and unpaid interest thereon and additional funding commitments in such investments, as well as a cash investment.

At September 30, 2007, we had cash and cash equivalents of approximately \$531 million. Cash used by operating activities for the period from March 13, 2007 (inception) through September 30, 2007 was approximately \$314 million, consisting primarily of the items described in Results of Operations. Net cash provided by financing activities during the period was approximately \$845 million. No dividends were paid during the period from March 13, 2007 (inception) through September 30, 2007.

As a business development company, we will have an ongoing need to raise additional capital for investment purposes. As a result, we expect from time to time to access the debt and/or equity markets when we believe it is necessary and appropriate to do so.

### ***Contractual Obligations***

We have certain obligations with respect to the investment advisory and administration services we receive. See Overview. We incurred approximately \$13 million for investment advisory services and approximately \$1 million for administrative services for the period from March 13, 2007 (inception) through September 30, 2007.

### ***Off-Balance Sheet Arrangements***

We currently have no off-balance sheet arrangements, including any risk management of commodity pricing or other hedging practices.

### ***Borrowings***

We had no outstanding borrowings at September 30, 2007.

### ***Distributions***

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We have paid no dividends or other distributions on our outstanding equity since our inception.

### ***Related Parties***

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

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

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

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

Since July 2006, Mr. Gross, our chairman and chief executive officer, has been a co-chairman of the investment committee of Magnetar, a multi-strategy investment manager, a senior partner in Magnetar Capital Partners LP, the sole member of Magnetar, and the head of Magnetar's fundamental credit and private equity investment business. Mr. Spohler, our chief operating officer together with Solar Capital Partners' other investment professionals, currently manage investments on behalf of Magnetar. As a result of certain transactions prior to and immediately following our initial private placement, the Magnetar Entities currently own, either directly or indirectly, approximately 42.8% of our outstanding equity, and are expected to own, either directly or indirectly, approximately % of our outstanding shares of common stock upon the completion of this offering.

Subsequent to the completion of this offering, so long as our relationship with Magnetar exists, we intend to offer certain of the Magnetar Entities the opportunity to invest an amount equal to up to 33% of the total amount available for investment in each investment opportunity identified by Solar Capital Partners that exceeds \$30 million. In addition, there may be circumstances under which Solar Capital Partners determines to offer to Magnetar the ability to participate at amounts greater than 33%, including, for example, circumstances where Solar Capital Partners determines that the investment is too large for us or, if we would be prohibited from making such investment because of the restrictions contained in the 1940 Act. Any co-investment by the Magnetar Entities will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff and consistent with Solar Capital Partners' allocation procedures. In addition, the Magnetar Entities may make investments similar to those targeted by Solar Capital.

Affiliates of Solar Capital Partners also manage other funds that may have investment mandates that are similar, in whole and in part, with ours, and Solar Capital Partners may choose to do so in the future. Solar Capital Partners and its affiliates may determine that an investment is appropriate for us and for one or more of those other funds. In such event, depending on the availability of such investment and other appropriate factors, Solar Capital Partners or its affiliates may determine that we should invest side-by-side with one or more other funds. Any such investments will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Solar Capital Partners' allocation procedures.

In certain circumstances, negotiated co-investments, either with a Magnetar Entity or another fund managed by Solar Capital Partners or its affiliates, may be made only if we receive an order from the SEC permitting us to do so. We intend to seek an order from the SEC to permit the above-referenced co-investments with certain of the Magnetar Entities following consummation of this offering. There can be no assurance when, or if, such an order may be obtained.

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 fiduciary obligations imposed by both the 1940 Act and applicable state corporate law.

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**Subsequent Events**

On January 11, 2008, we entered into a \$200 million three-year Senior Secured Revolving Credit Facility (the "Credit Facility") with Citibank, N.A. as administrative agent, and various parties serving as lenders. The Credit Facility has a stated maturity date of January 11, 2011, and allows for a commitment increase to \$600 million. At our option, we may draw down amounts at the following interest rates (each varying based on the applicable terms of the Credit Facility): (a) the Alternate Base Rate, which means, for any day, a rate per annum equal to the greater of (i) the prime rate in effect on such day and (ii) the Federal Funds Effective Rate for such day plus 0.5%, (b) LIBOR plus 1.375% per annum, or (c) LIBOR plus 2.00% per annum. A portion of the Credit Facility not in excess of \$25,000,000 shall be available on same day notice ("Swingline loans"). Swingline loans denominated in foreign currencies shall bear interest at a rate per annum agreed between us and the swingline lender at the respective time the swingline loans are made. We have the right to prepay any borrowing under the Credit Facility prior to maturity.

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**BUSINESS**

**Solar Capital**

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. From time to time, we may also invest in public companies that are thinly traded. We are managed by Solar Capital Partners. Solar Capital Management provides the administrative services necessary for us to operate.

As of September 30, 2007, we had approximately \$728 million of long-term investments. As of September 30, 2007, our portfolio was comprised of debt and equity investments in 29 portfolio companies, and our debt investments, including preferred equity investments, had a weighted average annualized yield of approximately 12.4%.

Our portfolio primarily consists of direct investments in long-term subordinated loans, referred to as mezzanine loans, and senior secured loans made to private leveraged companies organized and located in the United States, including middle-market companies. We also invest in equity securities, such as preferred stock, common stock, warrants and other equity interests received in connection with our debt investments or through direct investments. 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.

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.

We were formed in February 2007 as Solar Capital LLC, a Maryland limited liability company, and commenced operations in March 2007. On March 13, 2007, we conducted a \$700 million private placement of membership units, or units, in Solar Capital LLC, which we refer to as our initial private placement. Approximately 46.7 million units were issued for cash at a purchase price of \$15.00 per unit in connection with the initial private placement. Solar Capital Investors, LLC, an entity funded by the management of Solar Capital Partners, invested approximately \$50 million in us in exchange for approximately 3.3 million units in connection with the initial private placement. In addition, in connection with the initial private placement, the Magnetar Entities invested an aggregate of approximately \$525 million in us in exchange for approximately 35 million units. The consideration paid by the Magnetar Entities in connection with such transactions consisted of a portfolio of debt and equity investments, originated by investment professionals at Magnetar who are currently a part of Solar Capital Partners' investment team, having a value of approximately \$478 million (including \$66.4 million paid in cash by Magnetar to fund an existing commitment transferred to Solar), together with accrued and unpaid interest thereon having a value of approximately \$8.5 million, and additional funding commitments in such investments, as well as a cash investment of approximately \$38.4 million. We refer to investors in the initial private placement, together with our other equity holders prior to this offering, as the LLC Holders.

**About Solar Capital Partners**



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Solar Capital Partners is controlled by Michael S. Gross, our chairman and chief executive officer, and is led by Mr. Gross and Bruce Spohler, our chief operating officer, and is supported by a team of investment professionals, including Brian Gerson, Cedric Henley and David Mait. We refer to Messrs. Gross, Spohler, Gerson, Henley and Mait 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. The investment team led by

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Messrs. Gross and Spohler has invested in 33 different portfolio companies for Solar Capital, which investments involved an aggregate of more than 30 different financial sponsors. 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.

Mr. Gross, the former chairman and chief executive officer of Apollo Investment Corporation, a publicly traded business development company that he founded, has 20 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. Since July 2006, Mr. Gross has been a co-chairman of the investment committee of Magnetar, a multi-strategy investment manager, which along with its affiliates manages over \$ billion in assets, and a senior partner in Magnetar Capital Partners LP, the sole member of Magnetar Financial LLC. In such capacities, Mr. Gross heads Magnetar's fundamental credit and private equity business.

Mr. Gross is also a founder and a former senior partner of Apollo Management, L.P., a leading private equity firm. During his tenure at Apollo Management, L.P., Mr. Gross was a member of the investment committee that was responsible for overseeing more than \$13 billion of investments in over 150 companies. Between February 2004 and February 2006, Mr. Gross was the president and chief executive officer of Apollo Investment Corporation, a publicly traded business development company that he founded and on whose board of directors and investment committee he served as chairman from February 2004 to July 2006. Under his management, Apollo Investment Corporation raised approximately \$930 million in gross proceeds in an initial public offering in April 2004, built a dedicated investment team and infrastructure and invested approximately \$2.3 billion in over 65 companies in conjunction with 50 different private equity sponsors. Mr. Gross was also the managing partner of Apollo Distressed Investment Fund, L.P., an investment fund he founded in 2003 to invest principally in debt and other securities of leveraged companies.

Mr. Gross also currently serves on the boards of directors of five public companies, and in the past has served on the boards of directors of more than 20 public and private companies. As a result, Mr. Gross has developed an extensive network of private equity sponsor relationships as well as relationships with management teams of public and private companies, investment bankers, attorneys and accountants that we believe should provide us with significant business opportunities.

We also rely on the more than 20 years of experience of Mr. Spohler, who serves as our chief operating officer and a partner of our investment adviser. Mr. Spohler joined Magnetar in November 2006. Since that time, he has worked closely with Mr. Gross in the fundamental credit and private equity group. Mr. Spohler joined Magnetar from CIBC World Markets, where he was a managing director and a former co-head of U.S. Leveraged Finance. He held numerous senior roles across the firm, including serving on the U.S. Management Committee, Global Executive Committee and the Deals Committee, which approves all of the firm's U.S. corporate finance debt capital decisions. During Mr. Spohler's tenure, he was responsible for senior loan, high yield and mezzanine origination and execution, as well as the firm's below investment grade loan portfolio. As a co-head of U.S. Leveraged Finance, Mr. Spohler oversaw over 300 capital raising and merger and acquisition transactions, comprising over \$40 billion in market capitalization.

In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment professionals include Messrs. Gerson, Henley and Mait, 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 18 years of experience in the private equity and leveraged lending industries.

## **Market Opportunity**

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Solar Capital invests primarily in senior secured loans, mezzanine loans and equity securities of leveraged companies organized and located in the United States. We believe that the size of the leveraged company market,

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coupled with the demands of these companies for flexible sources of capital at attractive terms and rates, create an attractive investment environment for us.

*Large pool of uninvested private equity capital should continue to drive loan volume.* Since 2006, U.S. leveraged buyouts led by private equity firms have accounted for over \$1 trillion or 30% of the total U.S. mergers and acquisition volume, as compared to only 5% of total U.S. mergers and acquisition volume in 2000. The significant increase in leveraged buyout volume is driven by an increase in the amount of capital raised by private equity firms. Since 2004, U.S. buyout firms have raised approximately \$375 billion. During that same period, middle-market U.S. buyout funds have raised approximately \$95 billion. Industry sources suggest that, as of June 2007, all U.S. buyout firms still had approximately \$100 billion of committed capital available for investment and middle-market U.S. buyout firms still had approximately \$25 billion available for investment. We believe the abundance of uninvested capital and continued increase in fund size should continue to sustain the recent high volume of leveraged buyouts by private equity firms. As a result, loan volumes should remain robust as private equity firms seek to package their equity investments together with senior secured and/or mezzanine loans in leveraged buyouts, which should provide opportunities for us to partner with such firms.

*Recent disruptions within the credit markets generally have led to reduced liquidity and a more lender-friendly environment.* Throughout the first half of 2007, the global debt markets witnessed ever-increasing amounts of liquidity. This translated into highly robust debt capital markets, resulting in more issuer-friendly terms, tighter spreads and higher leverage levels. CLOs, which represented 60% of the buying power of new loan volume over the twelve-month period beginning October 1, 2006 and ending September 30, 2007, had been a driving force in the increased appetite that existed in the debt capital markets. However, beginning at the end of June 2007, signs of strain emerged as fears of increasing defaults in the subprime mortgage lending market caused credit concerns and a loss of investor confidence in the leveraged loan and high yield markets. Due to credit concerns and the loss of investor confidence, there was a significant decline in CLO issuance leading to a liquidity shortage in the debt markets. We believe that this reduction in liquidity throughout the credit markets has improved the number and quality of investment opportunities available to Solar Capital, as many of the alternative methods of obtaining middle-market debt financing have significantly decreased in scope and availability while demand for financings has remained robust. We believe we will be able to structure investments with lower leverage, better terms, better yields, and longer duration than was typical before the recent market correction. In addition, our permanent capital structure makes us an attractive alternative to other sources of financing for companies.

*Bank consolidation has been high, resulting in fewer key players willing to provide debt financing to the companies we target.* In the last 20 years, the number of U.S. commercial banks has shrunk from over 13,700 in 1987 to approximately 7,300 as of September, 2007. As a result, we believe that this trend towards greater concentration of assets in larger banks has reduced the availability of debt capital to the companies we target for such financing sources.

*Commercial and investment banks have been syndicating larger volumes of loans.* To mitigate their exposure to a single credit, commercial and investment banks have been syndicating larger volumes of loans, rather than holding them. The syndication process can be cumbersome for issuers and demonstrates a lack of commitment by the bank to the relationship with the issuer. We believe that this trend should provide more efficient and committed financing sources, like us, with increased investment opportunities. Additionally, many banks have reduced further their credit exposure in response to the credit market turmoil. This pullback is disproportionately impairing middle-market companies' access to loans, as banks allocate their capital to larger clients. The resulting reduction in access to capital for middle-market companies increases the value proposition for alternative financing sources who can underwrite large commitments in place of the banks.

*Less competition and the potential for greater reward for a willingness to accept illiquidity make the middle-market an attractive opportunity.* We believe there is a considerable opportunity in the middle-

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market sector given the significant number of companies and transactions within this sector. Increasingly, sponsors have been drawn to the segment because of less competition for deals and the segment's growth characteristics, resulting in more than 1,800 acquisitions since 2005 between \$10 million and \$500 million. We expect that private equity firms will continue to be active investors in middle-market companies and that these private equity funds will seek to leverage their equity investments by combining capital with senior secured and/or mezzanine loans from other sources. Solar Capital believes there is a large pool of uninvested private equity capital likely to seek mezzanine capital to support their investments. For the twelve months ended September 30, 2007, leveraged loan volume for companies with EBITDA of less than \$50 million totaled \$32 billion, and we expect this trend to continue.

We believe that the size of the middle-market, coupled with the demands of these companies for flexible sources of capital, creates an attractive investment environment for us. The middle-market has distinct characteristics in terms of risk, capital requirements and rates of return. We believe that the segment's strong growth prospects, combined with the growing demand for capital and the corporate finance and advisory services we offer, enhances our market opportunity.

Therefore, we believe that there is an 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:

### ***Management Expertise***

Mr. Gross has principal management responsibility for Solar Capital Partners as its managing partner. He currently dedicates a significant portion of his time to managing Solar Capital Partners. Mr. Gross has 20 years of experience in leveraged finance, private equity and distressed debt investing. Mr. Spohler, our chief operating officer and a partner of our investment adviser, has over 20 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. We believe that our 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. We believe that our investment team has a proven track record of valuing companies and assets and negotiating transactions.

In addition to Messrs. Gross and Spohler, Solar Capital Partners' senior investment professionals include Messrs. Gerson, Henley and Mait, 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 18 years of experience in the private equity and leveraged lending industries.

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

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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 professionals and their ability to draw upon their average of 18 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's U.S. Leveraged Finance Group.

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Our investment team's strong relationship network is enhanced by the collaborative role Solar Capital plays in the private equity industry. We offer tailored solutions to our portfolio companies, and we believe that this role provides us with greater deal flow as opposed to being viewed as a competitor bidding for control stakes. Because Solar Capital is not associated with a private equity firm, we are not precluded from partnering with most of the top tier financial sponsors. We believe that our relationship with Magnetar, which does not have a private equity fund that targets control investments, strengthens our ties and industry knowledge without creating competition or significant conflicts of interest.

These direct investments enable us to perform more in-depth due diligence and play an active role in structuring financings. We believe that effectuating the transaction terms and having greater insight into a portfolio company's operations and financial picture assist Solar Capital in minimizing downside potential, while reinforcing Solar Capital as a trusted partner who delivers comprehensive financing solutions. Since our inception, Solar Capital Partners has sourced investments in 33 different portfolio companies for Solar Capital, which investments involved an aggregate of more than 30 different financial sponsors.

### ***Versatile Transaction Structuring and Flexibility of Capital***

We believe our senior investment professionals' broad expertise and ability to draw upon their 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 will be subject to significant regulation as a business development company, we will not be 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 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. We believe that this approach enables us to procure attractive investment opportunities throughout the economic cycle so that we can make investments consistent with our stated investment objective even during turbulent periods in the capital markets.

### ***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 cross-correlation exposure and 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 our investment adviser, conduct a rigorous due diligence process that draws upon investment experience, industry expertise and network of contacts of our senior investment professionals, as well as the other members of our investment team. Among other things, our due diligence is designed to ensure that a prospective portfolio company will be able to meet its debt service obligations.

We have the ability to invest across an issuer's capital structure, which we believe enables us to provide comprehensive financing solutions for our portfolio companies, as well as access the best risk-adjusted opportunities. The overall transaction size and product mix is based upon the

needs of the customer, as well as



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our risk-return hurdles. We also focus on downside protection and preservation of capital throughout the structuring process.

### ***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 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. Solar Capital Partners' investment team also has significant experience in evaluating and making investments in the industries we target. We believe that the in-depth experience of Solar Capital Partners' investment team in investing throughout various stages of the economic cycle provides our investment adviser with access to ongoing market insights in addition to a powerful asset for investment sourcing. See *Business Investments*.

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

Unlike private equity and venture capital funds, we are not 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.

### ***Relationship with Magnetar***

Solar Capital seeks to capitalize upon the synergies enabled by its association with Magnetar, a multi-strategy investment manager with offices in Evanston, Illinois, New York, London and Philadelphia, and which, along with its affiliates, has over \$ billion in assets under management across multiple strategies. We believe that our origination capabilities are further strengthened by leveraging the other investment strategies of Magnetar, which focuses primarily on non-control investments and whose senior management also has developed a strong reputation in the investment management sector, as well as a broad network of contacts within the investment, commercial banking, private equity and investment management communities. We believe that Magnetar has significant depth among its investment professionals across its global equities, reinsurance, fundamental credit and private equity and structured credit groups, as well as among its back-office support staff. We believe that Magnetar's disciplined, institutionalized process and collaborative culture serves as a competitive advantage for us, enabling us to further improve our ability to source investments from non-traditional sources. Our collaboration with Magnetar includes shared research and due diligence, shared industry expertise, shared investment ideas and deal flow. We believe that the ability of Magnetar to co-invest with us increases the size of investment opportunities available to us, allowing us to speak for entire tranches in many middle market financings. We believe this should result in greater influence in negotiating terms and sourcing transactions among prospective portfolio companies.

In connection with the initial private placement, the Magnetar Entities invested an aggregate of approximately \$525 million in us in exchange for approximately 35 million units. The consideration paid by the Magnetar Entities in connection with such transactions consisted of a portfolio of debt and equity investments originated by investment professionals at Magnetar who are currently a part of Solar Capital Partners' investment team, together with accrued and unpaid interest thereon and additional funding commitments in such investments, as well as a cash investment. The Magnetar Entities currently own, either directly or indirectly, approximately 42.8% of our outstanding equity, and are expected to own, either directly or indirectly, approximately % of our outstanding shares of common stock upon the completion of this offering.



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Subsequent to the completion of this offering, so long as our relationship with Magnetar exists, and subject to the approval of the SEC when required, we intend to offer certain of the Magnetar Entities the opportunity to invest an amount equal to up to 33% of the total amount available for investment in each investment opportunity identified by Solar Capital Partners that exceeds \$30 million. In addition, there may be circumstances under which Solar Capital Partners determines to offer to Magnetar the ability to participate at amounts greater than 33%, including, for example, circumstances where Solar Capital Partners determines that the investment is too large for us or if we would be prohibited from making such investment because of the restrictions contained in the 1940 Act. Any co-investment by the Magnetar Entities will be made only to the extent permitted by applicable law and interpretive positions of the SEC and its staff, and consistent with Solar Capital Partners' allocation procedures. In certain circumstances, negotiated co-investments, either with a Magnetar Entity or another fund managed by Solar Capital Partners or its affiliates, may be made only if we receive an order from the SEC permitting us to do so. We intend to seek an order from the SEC to permit the above-referenced co-investments with certain of the Magnetar Entities following consummation of this offering. There can be no assurance when, or if, such an order may be obtained.

## **Investments**

Solar Capital seeks to create a diverse portfolio that includes senior secured loans, mezzanine loans and equity securities by investing approximately \$20 to \$100 million of capital, on average, in the securities of leveraged companies, including middle-market companies. Our portfolio includes both senior secured loans and mezzanine loans. Structurally, mezzanine loans usually rank subordinate in priority of payment to senior debt, such as senior bank debt, and are often unsecured. As such, other creditors may rank senior to us in the event of an insolvency. However, mezzanine loans rank senior to common and preferred equity in a borrower's capital structure. Typically, mezzanine loans have elements of both debt and equity instruments, offering the fixed returns in the form of interest payments associated with senior debt, while providing lenders an opportunity to participate in the capital appreciation of a borrower, if any, through an equity interest. This equity interest typically takes the form of warrants. Due to its higher risk profile and often less restrictive covenants as compared to senior loans, mezzanine loans generally earn a higher return than senior secured loans. The warrants associated with mezzanine loans are typically detachable, which allows lenders to receive repayment of their principal on an agreed amortization schedule while retaining their equity interest in the borrower. Mezzanine loans also may include a put feature, which permits the holder to sell its equity interest back to the borrower at a price determined through an agreed formula. We believe that mezzanine loans offer an attractive investment opportunity based upon their historic returns and resilience during economic downturns.

In addition to senior secured loans and mezzanine loans, we may invest a portion of our portfolio in opportunistic investments, which are not our primary focus, but are intended to enhance our returns to unitholders. These investments may include similar direct investments in public companies that are not thinly traded and securities of leveraged companies located in select countries outside of the United States.

Additionally, we may in the future seek to securitize our loans to generate cash for funding new investments. To securitize loans, we may create a wholly owned subsidiary and contribute a pool of loans to the subsidiary. This could include the sale of interests in the subsidiary on a non-recourse basis to purchasers who we would expect to be willing to accept a lower interest rate to invest in investment grade loan pools, and we would retain a portion of the equity in the securitized pool of loans.

Moreover, we may acquire investments in the secondary market and, in analyzing such investments, we will employ the same analytical process as we use for our primary investments.

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Our principal focus is to provide senior secured loans and mezzanine loans to leveraged companies in a variety of industries. We generally seek to target companies that generate positive cash flows. We generally seek to invest in companies from the broad variety of industries in which our investment adviser has direct expertise. The following is a representative list of the industries in which we may invest.

Aerospace and defense	Food and beverage
Beverage, food and tobacco	Financial services
Broadcasting and entertainment	Healthcare, education and childcare
Business services	Hotels, motels, inns and gaming
Cable television	Industrial
Cargo transport	Infrastructure
Consumer products	Insurance
Consumer finance	Leisure, motion pictures and entertainment
Consumer services	Logistics
Containers	Machinery
Direct marketing	Media
Distribution	Oil and gas
Diversified/conglomerate manufacturing	Printing, publishing and broadcasting
Diversified services	Real estate
Education	Retail
Electronics	Specialty finance
Energy/utilities	Technology
Equipment rental	Telecommunications

We may invest in other industries if we are presented with attractive opportunities.

Set forth below is a list of our ten largest portfolio company investments as of September 30, 2007, as well as the top ten industries in which we were invested as of September 30, 2007, in each case calculated as a percentage of our total assets as of such date.

**Portfolio Company**

**% of Total Assets**

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The Reader's Digest Association, Inc.	5.5%
Asurion Corporation	3.9%
Fleetpride Corporation	3.4%
Questex Media Group	3.3%
Station Casino, Inc.	3.1%
Advanstar Communications Inc.	2.9%
Wire Rope Corporation (nka WireCo World Group)	2.8%
NXP Semiconductors Netherlands B.V.	2.7%
Greatwide Logistics Services, Inc.	2.6%
Ark Real Estate Partners LP	2.1%
<b>Industry</b>	<b>% of Total Assets</b>
Printing, Publishing, Broadcasting	6.9%
Diversified Services	6.2%
Cargo Transport	5.1%
Insurance	3.9%
Diversified/Conglomerate Manufacturing	3.8%
Broadcasting & Entertainment	3.7%
Beverage, Food, and Tobacco	3.5%
Aerospace & Defense	3.4%
Hotels, Motels, Inns & Gaming	3.1%
Technology	2.7%

### Investment Selection

Solar Capital Partners utilizes the same value oriented investment philosophy used by the professionals of our investment adviser in their work with previous funds they have managed and commits resources to managing downside exposure.

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### ***Portfolio Company Characteristics***

We have identified several criteria that we believe are important in identifying and investing in prospective portfolio companies. These criteria provide general guidelines for our investment decisions; however, not all of these criteria will be met by each prospective portfolio company in which we choose to invest. Generally, Solar Capital Partners seeks to utilize its access to information generated by our investment professionals, including through their relationship with Magnetar, to identify investment candidates and to structure investments quickly and effectively.

***Value Orientation/Positive Cash Flow.*** Our investment philosophy places a premium on fundamental analysis from an investor's perspective and has a distinct value orientation. We focus on companies in which we can invest at relatively low multiples of operating cash flow and that are profitable at the time of investment on an operating cash flow basis. Additionally, we look for companies with a demonstrated ability to de-lever. Typically, we would not invest in start-up companies or companies having speculative business plans.

***Growth.*** We invest primarily in companies with strong prospects for growth. These companies are usually in high-growth industries or have a competitive advantage that creates the potential to increase market share.

***Strong Competitive Position in Industry.*** We seek to invest in target companies that have developed leading market positions within their respective markets and are well positioned to capitalize on growth opportunities. We seek companies that demonstrate significant competitive advantages versus their competitors, which we believe should help to protect their market position and profitability.

***Diversified Customer and Supplier Base.*** We seek to acquire businesses that have a diversified customer and supplier base. We believe that companies with a diversified customer and supplier base are generally better able to endure economic downturns, industry consolidation, changing business preferences and other factors that may negatively impact their customers, suppliers and competitors.

***Exit Strategy.*** We predominantly invest in companies which provide multiple alternatives for an eventual exit. We look for opportunities that provide an exit typically within three years of the initial capital commitment.

We seek companies that we believe will provide a steady stream of cash flow to repay our loans and reinvest in their respective businesses. We believe that such internally generated cash flow, leading to the payment of interest on, and the repayment of the principal of, our investments in portfolio companies represents a key means by which we will be able to exit from our investments over time.

In addition, we also seek to invest in companies whose business models and expected future cash flows offer attractive exit possibilities. These companies include candidates for strategic acquisition by other industry participants and companies that may repay our investments through an initial public offering of common stock or another capital market transaction.

***Liquidation Value of Assets.*** The prospective liquidation value of the assets, if any, collateralizing loans in which we invest is an important factor in our credit analysis. Our analysis emphasizes both tangible assets, such as accounts receivable, inventory, equipment and real estate, and intangible assets, such as intellectual property, customer lists, networks and databases.

***Experienced and Committed Management.*** We generally require that portfolio companies have an experienced management team. We also require portfolio companies have in place proper incentives to induce management to succeed and to act in concert with our interests as investors, including having significant equity interests.

***Strong Sponsorship.*** We aim to invest alongside other sophisticated investors. We seek to partner with successful financial sponsors who have historically generated high returns. We believe that investing in these sponsors' portfolio companies enables us to benefit from their direct involvement and due diligence.

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### ***Due Diligence***

Our investment adviser conducts diligence on prospective portfolio companies consistent with the approach adopted by the investment professionals of our investment adviser in their work with other funds they have managed. We believe that these investment professionals have a reputation for conducting extensive due diligence investigations in their investment activities. We also seek to leverage our relationship with Magnetar to deepen our expertise across industries. In conducting due diligence, our investment adviser uses publicly available information as well as information from its relationships with former and current management teams, consultants, competitors and investment bankers.

Our due diligence typically includes:

review of historical and prospective financial information;

research relating to the company's management, industry, markets, products and services and competitors;

on-site visits;

interviews with management, employees, customers and vendors of the potential portfolio company;

review of senior loan documents; and

background checks.

Upon the completion of due diligence and a decision to proceed with an investment in a company, the investment professionals leading the investment present the investment opportunity to our investment adviser's investment committee, which then determines whether to pursue the potential investment. Additional due diligence with respect to any investment may be conducted on our behalf by attorneys and independent accountants prior to the closing of the investment, as well as other outside advisers, as appropriate.

### ***The Investment Committee***

All new investments are required to be approved by a consensus of the investment committee of our investment adviser, which is led by Messrs. Gross and Spohler. The members of Solar Capital Partners' investment committee receive no compensation from us. Such members may be employees or partners of our investment adviser and may receive compensation or profit distributions from our investment adviser. See Portfolio Management.

### ***Investment Structure***



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Once we determine that a prospective portfolio company is suitable for investment, we work with the management of that company and its other capital providers, including senior, junior and equity capital providers, to structure an investment. We negotiate among these parties to agree on how our investment is expected to perform relative to the other capital in the portfolio company's capital structure.

We structure our mezzanine investments primarily as unsecured, subordinated loans that provide for relatively high, fixed interest rates that provide us with significant current interest income. These loans typically have interest-only payments in the early years, with amortization of principal deferred to the later years of the mezzanine loans. In some cases, we may enter into loans that, by their terms, convert into equity or additional debt securities or defer payments of interest for the first few years after our investment. Also, in some cases our mezzanine loans may be collateralized by a subordinated lien on some or all of the assets of the borrower. Typically, our mezzanine loans have maturities of five to ten years.

We also invest in portfolio companies in the form of senior secured loans. These senior secured loans typically provide for deferred interest payments in the first few years of the term of the loan. We generally obtain

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security interests in the assets of our portfolio companies that serve as collateral in support of the repayment of these loans. This collateral may take the form of first or second priority liens on the assets of a portfolio company.

Typically, our mezzanine and senior secured loans have final maturities of five to ten years. However, we expect that our portfolio companies often may repay these loans early, generally within three years from the date of initial investment. To preserve an acceptable return on investment, we seek to structure these loans with prepayment premiums.

In the case of our mezzanine loan and senior secured loan investments, we tailor the terms of the investment to the facts and circumstances of the transaction and the prospective portfolio company, negotiating a structure that protects our rights and manages our risk while creating incentives for the portfolio company to achieve its business plan and improve its profitability. For example, in addition to seeking a senior position in the capital structure of our portfolio companies, we will seek to limit the downside potential of our investments by:

requiring a total return on our investments (including both interest and potential capital appreciation) that compensates us for credit risk;

incorporating put rights and call protection into the investment structure; and

negotiating covenants in connection with our investments that afford our portfolio companies as much flexibility in managing their businesses as possible, consistent with preservation of our capital. Such restrictions may include affirmative and negative covenants, default penalties, lien protection, change of control provisions and board rights, including either observation or participation rights.

Our investments may include equity features, such as warrants or options to buy a minority interest in the portfolio company. Any warrants we receive with our debt securities generally require only a nominal cost to exercise, and thus, as a portfolio company appreciates in value, we may achieve additional investment return from this equity interest. We may structure the warrants to provide provisions protecting our rights as a minority-interest holder, as well as puts, or rights to sell such securities back to the company, upon the occurrence of specified events. In many cases, we also obtain registration rights in connection with these equity securities, which may include demand and piggyback registration rights. In addition, we may from time to time make direct equity investments in portfolio companies.

We seek to hold most of our investments to maturity or repayment, but will sell our investments earlier if a liquidity event takes place, such as the sale or recapitalization of a portfolio company.

### ***Managerial Assistance***

As a business development company, we offer, and must provide upon request, managerial assistance to our portfolio companies. This assistance could involve, among other things, monitoring the operations of our portfolio companies, participating in board and management meetings, consulting with and advising officers of portfolio companies and providing other organizational and financial guidance. We may also receive fees for these services. Solar Capital Management will provide such managerial assistance on our behalf to portfolio companies that request this assistance.

*Ongoing Relationships with Portfolio Companies*

**Monitoring.** Solar Capital Partners monitors our portfolio companies on an ongoing basis. Solar Capital Partners monitors the financial trends of each portfolio company to determine if it is meeting its business plan and to assess the appropriate course of action for each company.

Solar Capital Partners has several methods of evaluating and monitoring the performance and fair value of our investments, which include the following:

Assessment of success in adhering to each portfolio company's business plan and compliance with covenants;

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Periodic and regular contact with portfolio company management and, if appropriate, the financial or strategic sponsor, to discuss financial position, requirements and accomplishments;

Comparisons to other Solar Capital portfolio companies in the industry, if any;

Attendance at and participation in board meetings; and

Review of monthly and quarterly financial statements and financial projections for portfolio companies.

In addition to various risk management and monitoring tools, Solar Capital Partners also uses an investment rating system to characterize and monitor our expected level of returns on each investment in our portfolio.

We use an investment rating scale of 1 to 5. The following is a description of the conditions associated with each investment rating:

**Investment**

<b>Rating</b>	<b>Summary Description</b>
1	Capital gain expected
2	Full return of principal and interest or dividend expected, with the portfolio company performing in accordance with our analysis of its business
3	Full return of principal and interest or dividend expected, but the portfolio company requires closer monitoring
4	Some loss of interest, dividend or capital appreciation expected, but still expecting an overall positive internal rate of return on the investment
5	Loss of interest or dividend and some loss of principal investment expected, which would result in an overall negative internal rate of return on the investment

Solar Capital Partners monitors and, when appropriate, changes the investment ratings assigned to each investment in our portfolio. In connection with our valuation process, Solar Capital Partners reviews these investment ratings on a quarterly basis, and our board of directors affirms such ratings.

**Valuation Process.** The following is a description of the steps we take each quarter to determine the value of our portfolio. Investments for which market quotations are readily available are valued at such market quotations. We may also obtain indicative prices with respect to certain of our investments from pricing services or brokers or dealers in order to value such investments. Debt and equity securities that are not publicly traded or whose market prices are not readily available are valued at fair value as determined in good faith by our board of directors. We expect that there will not be a readily available market value for many of the investments in our portfolio. We expect to value such investments at fair value as determined in good faith by our board of directors using a documented valuation policy and a consistently applied valuation process. With respect to certain of our debt and equity securities, each investment will be valued by independent third party valuation firms, pricing services or quotations from brokers or dealers. Third party valuation firms use methods that may, among other measures and as applicable, include comparisons of financial ratios of the portfolio companies that issued such private equity securities to peer companies that are public. When an external event such as a purchase transaction, public offering or subsequent equity sale occurs, we will consider the pricing indicated by the external event to corroborate our private equity valuation. Due to the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our 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.

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Our board of directors is ultimately and solely responsible for determining the fair value of our portfolio investments that are not publicly traded or whose market prices are not readily available on a quarterly basis in good faith.

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With respect to our investments for which market quotations are not readily available or for which we have not received indicative prices from pricing services or brokers or dealers, our board of directors undertakes a multi-step valuation process each quarter, as described below:

Our quarterly valuation process begins with each portfolio company or investment being initially valued by the investment professionals responsible for the portfolio investment.

Preliminary valuation conclusions are then documented and discussed with our senior management.

Third-party valuation firms engaged by, or on behalf of, our board of directors conduct independent reviews and consider management's preliminary valuations and make their own independent assessment.

The types of factors that we may take into account in fair value pricing our investments include, as relevant, the nature and realizable value of any collateral, the portfolio company's ability to make payments and its earnings and discounted cash flow, the markets in which the portfolio company does business, comparison to publicly traded securities and other relevant factors.

Determination of fair values involves subjective judgments and estimates. Accordingly, these 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.

## **Competition**

Our primary competitors to provide financing to leveraged companies include public and private funds, commercial and investment banks, commercial financing companies and, to the extent they provide an alternative form of financing, private equity funds. Additionally, because competition for investment opportunities generally has increased among alternative investment vehicles, such as hedge funds, those entities have begun to invest in areas they have not traditionally invested in, including making investments in leveraged companies. As a result of these new entrants, competition for investment opportunities at leveraged companies has intensified, and we expect the trend to continue. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. For example, some competitors may have a lower cost of funds and access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships than us. Furthermore, many of our competitors are not subject to the regulatory restrictions that the 1940 Act will impose on us as a business development company. We use the industry information available to Mr. Gross and the other investment professionals of our investment adviser to assess investment risks and determine appropriate pricing for our investments in portfolio companies. In addition, we believe that the relationships of Mr. Gross and the other investment professionals of our investment adviser enable us to learn about, and compete effectively for, financing opportunities with attractive leveraged companies in the industries in which we seek to invest. For additional information concerning the competitive risks we face, see [Risk Factors](#) [Risks Related to Our Investments](#). We operate in a highly competitive market for investment opportunities.

## **Staffing**

We do not currently have any employees. Mr. Gross, our chief executive officer, and Mr. Spohler, our chief operating officer, currently serve as the managing member and a partner, respectively, of our investment adviser, Solar Capital Partners. [Mr. Spohler](#), our chief financial officer, is an employee of Solar Capital Management, and performs his functions as chief financial officer and interim chief compliance officer under the

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terms of our Administration Agreement. Subsequent to the completion of this offering, our board of directors may, at its discretion, choose to retain \_\_\_\_\_ as our permanent chief compliance officer, appoint a new individual to serve as our permanent chief compliance officer, or retain a third-party compliance firm to perform such functions on our behalf. To the extent we retain a new individual to serve as our permanent chief compliance officer, such person would be an employee of Solar Capital Management and would perform his functions as

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chief compliance officer under the terms of our Administration Agreement. Similarly, any third-party compliance firm would be retained by Solar Capital Management and would perform its compliance functions under the terms of our Administration Agreement. Our day-to-day investment operations will be managed by our investment adviser. See Investment Advisory and Management Agreement. Solar Capital Partners investment personnel currently consists of its senior investment professionals, Messrs. Gross, Spohler, Gerson, Henley and Mait, and a team of additional experienced investment professionals. Solar Capital Partners may hire additional investment professionals, based upon its needs, subsequent to the completion of this offering. In addition, we will reimburse Solar Capital Management for the allocable portion of overhead and other expenses incurred by it in performing its obligations under the Administration Agreement, including rent, the fees and expenses associated with performing compliance functions, and the compensation of our chief financial officer and any administrative support staff. See Administration Agreement.

## **Properties**

Our executive offices are located at 500 Park Avenue, 5<sup>th</sup> Floor, New York, New York 10022, and are provided by Solar Capital Management in accordance with the terms of the Administration Agreement. We believe that our office facilities are suitable and adequate for our business as it is contemplated to be conducted.

## **Legal Proceedings**

None of us, our investment adviser or administrator, is currently subject to any material legal proceedings, nor, to our knowledge, is any material legal proceeding threatened against us, or against our investment adviser or administrator. From time to time, we, our investment adviser or administrator, may be a party to certain legal proceedings in the ordinary course of business, including proceedings relating to the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.



**Table of Contents****PORTFOLIO COMPANIES**

The following table sets forth certain information as of September 30, 2007 for each portfolio company in which we had a debt or equity investment. The general terms of our debt and equity investments are described in Business Investments. Other than these investments, our only formal relationships with our portfolio companies are the managerial assistance we may provide upon request and the board observer or participation rights we may receive in connection with our investment. Other than Alternative Asset Management Acquisition Corp., Ark Real Estate Partners LP, National Interest Security Corporation and National Specialty Alloys, LLC, we do not control and are not an affiliate of any of our portfolio companies, each as defined in the 1940 Act. In general, under the 1940 Act, we would control a portfolio company if we owned more than 25% of its voting securities and would be an affiliate of a portfolio company if we owned more than 5% of its voting securities.

Name and Address of					% of Class Held(2)	Fair Value (in thousands)
Portfolio Company	Nature of Business	Type of Investment	Interest(1)	Maturity		
Advanstar Communications Inc.	Diversified Services	Senior secured loan	10.229% (L+500/Q)	12/01/2015		\$ 14,400
641 Lexington Ave., 8 <sup>th</sup> Floor		Subordinated notes	12.229% (L+700/Q)	12/01/2015		18,747(3)
New York, NY 10022		Common stock			1.03%	3,701
Affinity Group, Inc.	Printing, Publishing, Broadcasting	Subordinated notes	10.875%	2/16/2012		18,198
2575 Vista Del Mar						
Ventura, CA 93001						
Alternative Asset Management Acquisition Corp.	Specialty Finance	Common stock			13.89%	3
590 Madison Ave., 35 <sup>th</sup> Floor		Warrants to purchase common stock			15.39%	641
New York, NY 10022						
AMC Entertainment Holdings, Inc.	Leisure, Motion Pictures, Entertainment	Subordinated notes	10.229% (L+500/Q)	6/13/2012		20,022(3)
920 Main Street						
Kansas City, MO 64105						
Ark Real Estate Partners LP	Real Estate	Partnership interests			24.80%	27,094
505 Park Ave., 21 <sup>st</sup> Floor						
New York, NY 10022						
Asurion Corporation	Insurance	Senior secured loan	10.875% (L+650)	7/03/2015		49,125
648 Grassmere Park, Suite 300 Nashville, TN 37211						
Casema B. V.	Telecommunications	Subordinated notes	14.009% (E+925/S)	11/17/2016		7,299(3)

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Spaarneplein 2		Subordinated notes	14.009% (E+925/S)	11/17/2016		7,837(3)
Postbus 16192						
2500 BD Den Haag						
The Netherlands						
Emdeon Business Services LLC	Healthcare, Education, and Childcare	Senior secured loan	10.229% (L+500/Q)	5/19/2014		14,925
26 Century Blvd.						
Nashville, TN 37214						
Fleetpride Corporation	Cargo Transport	Subordinated notes	11.500%	10/01/2014		43,430
8708 Technology Forest Place						
Suite 125						
The Woodlands, TX 77381						
Generac Power Systems, Inc.	Machinery	Senior secured loan	11.229% (L+600/Q)	5/10/2014		5,197
Highway 59 & Hillside Rd.						
P.O. Box 8						
Waukesha, WI 53187						
Grakon, LLC	Cargo Transport	Subordinated notes LLC interests	12.000%	6/19/2013	2.50%	20,000
1911 S. 218 <sup>th</sup> St.						1,714
P.O. Box 98984						
Seattle, WA 98198						

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Name and Address of					% of	Fair Value
Portfolio Company	Nature of Business	Type of Investment	Interest(1)	Maturity	Class Held(2)	(in thousands)
Greatwide Logistics Services, Inc.	Logistics/Distribution	Senior secured loan	11.633% (L+650/S)	6/19/2014		22,100
12404 Park Central Dr.						
Suite 300 South		Subordinated notes	13.500%	12/19/2014		10,493(3)
Dallas, TX 75251						
Iglo Birds Eye Group Limited	Beverage, Food, and Tobacco	Subordinated notes	12.759% (E+800/S)	12/08/2016		4,715(3)(4)
5, New Square						
Bedfont Lakes Business Park Feltham, Middlesex TW 14 8HA United Kingdom		Subordinated notes	14.250% (L+800/S)	12/08/2016		14,168(3)(4)
Jonathan Engineering Solutions Corp.	Diversified/Conglomerate Manufacturing	Subordinated notes	13.000%	6/29/2014		10,141(3)
410 Exchange, Suite 200						
Irvine, CA 92602		Subordinated notes	16.500%	6/29/2014		3,163(3)
National Interest Security Corporation	Aerospace & Defense	Subordinated notes	14.500%	1/20/2013	12.65%	20,000(3)
18757 North Frederick Rd.						
Gaithersburg, MD 20879		Common stock				1,265
National Specialty Alloys, LLC	Industrial	Preferred LLC interests			49.50%	8,500
18250 Kieth Harrow Blvd.						
Houston, TX 77084		LLC interests			42.13%	10,000(5)
NXP Semiconductors	Technology	Common stock			0.70%	33,838(6)
Netherlands B.V.						
High Tech Campus 60						
5656 AG Eindhoven						
The Netherlands						
Pacific Crane Maintenance Company, L.P.	Machinery	Subordinated notes	13.000%	2/15/2014	1.10%	9,000
225 N.E. Mizner Blvd., Suite 700						
Boca Raton, FL 33432		Partnership interests				1,000
ProSieben Sat.1 Media AG	Broadcasting & Entertainment	Subordinated notes	11.592% (E+350/Q)	6/03/2017		20,783(3)(4)

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Medienallee 7

85774 Unterfohring

Germany

Questex Media Group. 275 Grove St., Suite 2-130 Newton, MA 02466	Diversified Services	Senior secured loan	11.633% (L+650/S)	11/04/2014	9,900
		Subordinated notes	14.500%	11/04/2014	31,838(3)
Riverdeep Interactive Learning Ltd.	Healthcare, Education, and Childcare	Subordinated notes	12.429% (L+720/Q)	12/21/2007	13,696

Styne House, 3<sup>rd</sup> Floor

Upper Hatch Street

Dublin 2

Ireland

Sandridge Energy, Inc. 1601 NW Expressway, Suite 1600 Oklahoma City, OK 73118	Oil & Gas	Common stock		0.13%	3,885
		Common stock		0.40%	11,667
Seven Media Group Pty Limited 38-42 Pirrama Road Pymont, New South Wales 2009	Broadcasting & Entertainment	Subordinated notes	10.160%	12/12/2013	17,964
		Subordinated notes	12.000%	12/12/2013	4,847(3)
		Common stock			4,138(7)
Station Casino, Inc. 2411 West Sahara Ave. Las Vegas, NV 89102	Hotels, Motels, Inns & Gaming	Common stock		1.10%	40,000(8)
The Reader s Digest Association, Inc.	Printing, Publishing, Broadcasting	Preferred stock			53,493
		Common stock		2.80%	16,606
Reader s Digest Road Pleasantville, NY 10570					
Tri-Star Electronics International, Inc. 2201 Rosencrans Ave. El Segundo, CA 90245	Aerospace & Defense	Subordinated notes	13.500%	8/02/2013	22,500(3)

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Name and Address of					% of Class Held(2)	Fair Value (in thousands)
Portfolio Company	Nature of Business	Type of Investment	Interest(1)	Maturity		
Wastequip, Inc. 25800 Science Park Dr., Suite 140 Beachwood, OH 44122	Containers	Subordinated notes	12.000%	2/05/2015		14,797(3)
Weetabix Group Burton Latimer Kettering Northants NN 15 5JR United Kingdom	Beverage, Food, and Tobacco	Subordinated notes	15.250% (L+900/S)	5/07/2017		25,901(3)
Wire Rope Corporation (nka WireCo World Group) 12200 NW Ambassador Drive Kansas City, MO 64163	Diversified/ Conglomerate Manufacturing	Subordinated notes	11.000%	2/08/2015		35,700
<b>Total</b>						<b>\$ 728,431</b>

- (1) All interest is payable in cash unless otherwise indicated. 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 (Q) or semi-annually (S). For each debt investment we have provided the current interest rate in effect as of September 30, 2007.
- (2) Percentages shown for warrants or convertible preferred stock represent the percentages of outstanding common stock, assuming we exercise our warrants or convert our preferred stock into common stock.
- (3) Fair value includes accrual of PIK interest on debt investment.
- (4) Solar's investment in Iglo Birds Eye Group Limited and ProSieben Sat.1 Media AG are held through its wholly-owned subsidiary Solar Capital Luxembourg I S.a.r.l.
- (5) Solar's LLC interests in National Specialty Alloys, LLC are held indirectly through its investment in membership interests of Post Oak NSA, LLC.
- (6) Solar's holdings in NXP Semiconductors Netherlands B.V. are held indirectly through its investment in limited partnership interests of NXP C